



CFPB issues rule on student loan servicers

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The federal government for the first time will supervise companies that collect payments on federal student loans as was announced on December 3rd by the Consumer Financial Protection Bureau. This extends federal supervision over companies such as Sallie Mae after years of little oversight by the Department of Education. Servicers don't necessarily make loans, but manage the accounts as they are being paid off.

The new rule permits the CFPB to oversee operations at the largest student loan servicers. The agency will now regularly examine the seven biggest companies, providing insight into practices used by financial groups that collectively service more than 70 percent of unpaid student debt. Borrower advocates hailed the rule. "The CFPB is an agency that is signaling it wants to be rigorous with its oversight. The Department of Education hasn't been" said Deanne Loonin, director of the National Consumer Law Centers student-loan borrower assistance project. "In some of the best news for borrowers, the CFPB has signaled it is interested in this issue, they see a lot of problems in this area, and they're going to shed more light on these problems."

With these new powers the CFPB will be able to proactively handle complaints, review the servicers' books and policies to identify problems for consumers. Some of the biggest problems uncovered is in how servicers process borrowers monthly payments. Servicers routinely misapply monthly payments on private student loans by ignoring requests to apply excess payments to their most expensive debt. The CFPB will now supervise the seven largest student loan servicing companies, who together handle accounts for an estimated 49 million borrowers. The CFPB already supervises large banks that service student loans.

Additionally, the CFPB will be examining the underlying problems in the student loan market that could be holding back the U.S. economy. Outstanding student debt has nearly doubled in recent years to close to \$1.2 trillion, which is the second-largest source of household debt after home mortgages. With that, complaints by borrowers with federal student loans are rising, with defaults at record levels and modifications and re-financings very difficult to obtain. As Director Richard Cordray stated, "As the recession decimated the job market for young graduates, a growing share of student loan borrowers reached out to their servicers for help. The problems they have encountered bear a striking resemblance to the problems faced by homeowners in the run-up to the financial crisis."



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