

Contact us **(855) 411-2372**
[HOME](#) [INSIDE THE CFPB](#) [GET ASSISTANCE](#) [PARTICIPATE](#) [LAW & REGULATION](#) [SUBMIT A COMPLAINT](#)
[HOME](#) > [NEWSROOM](#)

> CFPB FINDS PRIVATE STUDENT LOAN BORROWERS FACE "AUTO-DEFAULT" WHEN CO-SIGNER DIES OR GOES BANKRUPT

APR 22 2014

CFPB Finds Private Student Loan Borrowers Face "Auto-Default" When Co-Signer Dies or Goes Bankrupt

Bureau Publishes Consumer Advisory and Sample Letters to Help Borrowers Release Co-Signer

WASHINGTON, D.C. – Today the Consumer Financial Protection Bureau (CFPB) Student Loan Ombudsman released a report highlighting complaints of "auto-defaults" in private student lending. Borrowers report that some lenders demand immediate full repayment upon the death or bankruptcy of their loan co-signer, even when the loan is current and being paid on time. Borrowers also describe facing bureaucratic barriers to releasing co-signers from their loans, a commonly advertised benefit that could help avoid auto-defaults. To help borrowers overcome obstacles to co-signer release, today the CFPB also issued a consumer advisory and sample letters.

"Students often rely on parents or grandparents to co-sign their private student loans to achieve the dream of higher education. When tragedy triggers an automatic default, responsible borrowers are thrown into financial distress with demands of immediate repayment," said CFPB Director Richard Cordray. "Lenders should have clear and accessible processes in place to enable borrowers to release co-signers from loans. A borrower should not have to go through an obstacle course."

The CFPB Student Loan Ombudsman's Mid-Year Report is available at:
<http://www.consumerfinance.gov/reports/mid-year-report-on-private-student-loans-2014/>

The CFPB has estimated that the combined total for federal and private outstanding student loan debt reached nearly \$1.2 trillion in 2013. The majority of this debt is from federal loans, which borrowers typically take out on their own. In rare cases, a federal student loan borrower is required to have another individual endorse their loan, but the borrower is not placed into default when that person encounters difficulties.

Most private student loans, however, do require a co-signer. In fact, according to a 2012 report on private student loans published by the CFPB and the Department of Education, more than 90 percent of new private student loans are co-signed, often by a parent or grandparent.

Today's report analyzes more than 2,300 private student loan complaints and more than 1,300 debt collection complaints related to student loan debt submitted between October 1, 2013, and March 31, 2014. Co-signer issues have routinely emerged as an area of concern for private student loan borrowers, and the complaints have covered a wide range of private student lenders. Among the issues that consumers face:

- **Auto-defaults when a co-signer dies:** Many consumers assume that the



Receive press releases by email

Email address

SIGN UP

More Information On

Press Release

Loans

Students

Need our logo? You can find it [here](#).

Photos and bios



[Director Rich
Cordray](#)



[Deputy Director
Steven
Antonakes](#)

Press contacts

Jen Howard
 Assistant Director of Communications
 (202) 435-7170
Jennifer.Howard@cfpb.gov

Walter Suskind
 Press Assistant
 (202) 435-9469
Walter.Suskind@cfpb.gov

Mallory McLean
 Regional Spokesperson

death of a co-signer, often a parent or grandparent, will result in the release of the co-signer's obligation to repay. But many private student loan contracts provide the lender with the option to immediately demand the full loan balance upon death of the co-signer. These auto-defaults may be occurring when data from probate and other court record scans are matched with a financial institution's customer database, without regard to whether the borrower is in good standing. These defaults are also typically reported to credit bureaus and negatively impact the credit profile of a borrower.

- **Auto-defaults when a co-signer enters bankruptcy:** Many private student loan contracts also allow the lender to place a loan in default if the borrower's co-signer files for bankruptcy. Even if the loan was in good standing prior to and while the co-signer is in bankruptcy, borrowers submit complaints detailing how they face auto-defaults, including consequences such as credit damage and frequent debt collection calls.
- **Obstacles to releasing co-signers from the loan:** Borrowers face bureaucratic barriers when seeking to release their co-signer, even though this benefit was advertised before the loan was taken out and could help avoid auto-default. Consumers continue to complain that the rigid and opaque standards for co-signer release make for a mysterious process. For example, consumers note that required forms are often not available on websites or in an electronic form. In addition, servicers do not seem to be proactively notifying consumers about the specific requirements to process a release.

Today's report describes steps private student lenders could take before pushing the borrower into default and immediately demanding the entire loan balance upon co-signer death or bankruptcy. For example, lenders or servicers could first determine whether the borrower qualifies for a co-signer release, which would maintain loan repayment on the original terms. If the co-signer cannot be released from the loan, lenders could honor the existing payment schedule for a designated time period so that borrowers can identify a new co-signer or refinance the loan.

Helping Borrowers Release Co-Signers

Today the CFPB issued a consumer advisory to borrowers about how to release their co-signers from their loans. Many lenders advertise that a co-signer may be released from a private student loan after a certain number of consecutive, timely payments and a credit check to determine if the borrower is eligible to repay the loan on their own. But most student loan servicers do not tell consumers when they are eligible to release their co-signer, so consumers need to ask directly for information on how to do this.

To help borrowers release their co-signers, the CFPB has put together instructions that consumers can edit and send to their student loan servicer. They can download sample letters to send by mail, or they can just cut and paste the text when they log into their account on the servicer's website. Sample letters include those from the student who may want to release their co-signer, and those from the co-signer who may want to be released.

The advisory can be found at:

<http://www.consumerfinance.gov/blog/consumer-advisory-co-signers-can-cause-surprise-defaults-on-your-private-student-loans/>

The sample letter on how a borrower can release a co-signer is at:

http://files.consumerfinance.gov/f/201404_cfpb_inquiry-letter_how-to-release-cosigner.doc

The sample letter on how to be released as a co-signer is at:

(202) 435-7955

Mallory.Mclean@cfpb.gov

Michelle Person

Spokesperson

(202) 435-7857

Michelle.Person@cfpb.gov

Sam Gilford

Spokesperson

(202) 435-7673

Samuel.Gilford@cfpb.gov

Stay connected



[Twitter](#)



[Facebook](#)



[Flickr](#)



[Youtube](#)

Archive

▼ 2014

[APRIL 2014](#) (10)

[MARCH 2014](#) (12)

[FEBRUARY 2014](#) (11)

[JANUARY 2014](#) (13)

▶ 2013

▶ 2012

▶ 2011

▶ 2010

http://files.consumerfinance.gov/f/201404_cfpb_inquiry-letter_how-to-be-released-as-cosigner.doc

The Dodd-Frank Wall Street Reform and Consumer Protection Act established an ombudsman for student loans within the CFPB to assist borrowers with student loan complaints. The ombudsman is submitting today's midyear report to the Director of the CFPB, the Secretary of the Treasury, the Secretary of Education, and Congress.

The CFPB began accepting consumer complaints about private student loans in March 2012.

More information is at: consumerfinance.gov/students.

###

The Consumer Financial Protection Bureau is a 21st century agency that helps consumer finance markets work by making rules more effective, by consistently and fairly enforcing those rules, and by empowering consumers to take more control over their economic lives. For more information, visit consumerfinance.gov.



Consumer Financial
Protection Bureau

[Privacy policy and legal notices](#)

[Accessibility](#)

[Plain writing](#)

[No FEAR Act](#)

[FOIA](#)

[USA.gov](#)

[Office of Inspector General](#)

[Ombudsman](#)



Visite nuestro sitio web en español

ESPAÑOL

[Contact us](#) | [Newsroom](#) | [Jobs](#) | [Open government](#)