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OCT 16 2013

# CFPB Report Highlights Private Student Loan Payment Processing Pitfalls

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*CFPB Issues Advisory to Help Consumers Provide Instructions to Servicers on Payments*

**WASHINGTON, D.C.** — Today, the Consumer Financial Protection Bureau (CFPB) Student Loan Ombudsman released a report analyzing complaints the CFPB has received from private student loan borrowers. According to the report, private student loan borrowers face payment processing pitfalls that can lead to increased costs, prolonged repayments, and harm to their credit profiles. The CFPB is also issuing a consumer advisory today to help certain borrowers communicate their payment preferences to servicers, so they can take better control of their student loans.

“Repaying a student loan should be simple,” said CFPB Director Richard Cordray. “When servicers process payments to maximize fees and penalties, they undermine the trust of their customers. Student loan borrowers deserve better; they deserve transparency and accountability.”

“With limited options to refinance, many borrowers want to pay off loans where they are stuck in high rates,” said CFPB Student Loan Ombudsman Rohit Chopra. “But too many borrowers have to run through an obstacle course to get their payments processed properly.”

**The CFPB Student Loan Ombudsman’s Annual Report is available at:**

[http://files.consumerfinance.gov/f/201310\\_cfpb\\_student-loan-ombudsman-annual-report.pdf](http://files.consumerfinance.gov/f/201310_cfpb_student-loan-ombudsman-annual-report.pdf) 

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In recent years, many consumers have borrowed significantly to pay for postsecondary education. Before the financial crisis, the private student loan market boomed. Today, while the private student loan market has declined after the bust, many borrowers are still struggling to pay back their loans. According to a recent CFPB analysis, for borrowers graduating at the time of the financial crisis with more than \$40,000 in student debt, 81 percent used private loans. Unlike federal student loans, these private student loans generally have higher and variable interest rates and may not allow borrowers to easily manage their payments in times of hardship.

Today's report analyzes more than 3,800 private student loan complaints, comments, and other input from borrowers between October 1, 2012 and September 30, 2013. The most common complaints submitted to the CFPB were about payment processing pitfalls when consumers try to take control of their loans, including when borrowers attempt to pay off their loans early or pay them off in a certain sequence. The report highlights:

- **Prepayment Stumbling Blocks:** Since options to refinance high-rate private student loans are limited, many consumers attempt to pay off their loans in order to reduce the amount of interest owed over the life of the loan. But many consumers express confusion about how to pay off their loans early. For example, borrowers complained that payments in excess of the amount due are applied across all their loans, not the highest-interest rate loan that they would prefer to pay off first.
- **Partial Payment Snags:** When borrowers have multiple loans with one servicer and are unable to pay their bill in full, many servicers instruct borrowers to make whatever payment they can afford. Many complaints described how servicers often divide up the partial payment and apply it evenly across all of the loans in their account. This maximizes the late fees charged to the consumer and it can exacerbate the negative credit impact of a single late payment.
- **Servicing Transfer Surprises:** When borrowers' loans are transferred between servicers, borrowers say they experience lost paperwork, processing errors that result in late fees, and interruptions of routine communication, such as billing statements. Consumers complained that payment-processing policies can vary depending on the servicer. And, consumers said when they make decisions on the previous servicer's practices, they can get penalized.

## Consumer Advisory

Today, the CFPB is also issuing a consumer advisory to help borrowers instruct servicers

## Press contacts

Jen Howard

Assistant Director of Communications

(202) 435-7170

[Jennifer.Howard@cfpb.gov](mailto:Jennifer.Howard@cfpb.gov)

Walter Suskind

Press Assistant

(202) 435-9469

[Walter.Suskind@cfpb.gov](mailto:Walter.Suskind@cfpb.gov)

Mallory McLean

Regional Spokesperson

(202) 435-7955

[Mallory.Mclean@cfpb.gov](mailto:Mallory.Mclean@cfpb.gov)

Michelle Person

Spokesperson

(202) 435-7857

[Michelle.Person@cfpb.gov](mailto:Michelle.Person@cfpb.gov)

Sam Gilford

Spokesperson

(202) 435-7673

[Samuel.Gilford@cfpb.gov](mailto:Samuel.Gilford@cfpb.gov)

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on how to process their payments. If a borrower has several loans with the same loan servicer and they do not provide instructions on how to process the money sent in each month, the servicer generally decides how to allocate the payments. Leaving this decision up to the servicer is not always in the consumer's best interest. Today's advisory includes [sample instructions to a servicer](#) telling them to always direct any extra payments toward the highest-rate loan, saving consumers the most money.

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### **The consumer advisory is available at:**

[http://files.consumerfinance.gov/f/201310\\_cfpb\\_consumer\\_advisory\\_student\\_loan\\_r](http://files.consumerfinance.gov/f/201310_cfpb_consumer_advisory_student_loan_r)

The Dodd-Frank Wall Street Reform and Consumer Protection Act established an ombudsman for student loans within the CFPB to assist borrowers with private student loan complaints. Today's report, which was mandated by Congress, is the second issued by the ombudsman and was submitted to the Director of the CFPB, the Secretary of the Treasury, the Secretary of Education, and Congress.

Earlier this year, the CFPB announced that [outstanding student debt totals nearly \\$1.2 trillion](#). The Bureau also estimates that [7 million student loan borrowers](#) are now in default on their debt. In May, the CFPB published a report on [Student Loan Affordability](#) that discussed the potential impacts of high student debt burdens on consumers when it comes to homeownership, retirement security, entrepreneurship, and career choice.

Today's report also follows from CFPB efforts on a number of fronts to help make the student loan market work better for consumers. Student loan borrowers can use [Repay Student Debt](#), an interactive web tool designed to help consumers navigate their repayment options or they can use [Ask CFPB](#) to find answers to common questions. Borrowers that run into trouble when repaying student loans can [file a complaint](#) with the CFPB.

The Bureau currently has the authority to supervise student loan servicing practices at large depository institutions. In March, the CFPB [proposed a rule](#) to define nonbank larger participants in the student loan servicing marketplace that would extend the Bureau's supervisory authority to certain nonbank student loan servicers.

More information is at: [consumerfinance.gov/students](http://consumerfinance.gov/students)

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*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](http://consumerfinance.gov).*



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