CFPB Takes Action Against Wells Fargo for Illegal Student Loan Servicing Practices

Wells Fargo to Pay $3.6 Million Penalty to the Bureau

AUG 22, 2016

Washington, D.C. – The Consumer Financial Protection Bureau (CFPB) today took action against Wells Fargo Bank for illegal private student loan servicing practices that increased costs and unfairly penalized certain student loan borrowers. The Bureau identified breakdowns throughout Wells Fargo's servicing process including failing to provide important payment information to consumers, charging consumers illegal fees, and failing to update inaccurate credit report information. The CFPB's order requires Wells Fargo to improve its consumer billing and student loan payment processing practices. The company must also provide $410,000 in relief to borrowers and pay a $3.6 million civil penalty to the CFPB.

"Wells Fargo hit borrowers with illegal fees and deprived others of critical information needed to effectively manage their student loan accounts," said CFPB Director Richard Cordray. "Consumers should be able to rely on their servicer to process and credit payments correctly and to provide accurate and timely information and we will continue our work to improve the student loan servicing market."

The CFPB's order can be found at: http://files.consumerfinance.gov/f/documents/2016-CFPB-0013Wells_Fargo_Bank_N.A.--_Consent_Order.pdf

Wells Fargo is a national bank headquartered in Sioux Falls, S.D. Education Financial Services is a division of Wells Fargo that is responsible for the bank's student lending operations. Education Financial Services both originates and services private student loans, and currently serves approximately 1.3 million consumers in all 50 states.

Student loans make up the nation's second largest consumer debt market. Today there are more than 40 million federal and private student loan borrowers and collectively these consumers owe roughly $1.3 trillion. Last year, the CFPB found that more than 8 million borrowers are in default on more than $110 billion in student loans, a problem that may be driven by breakdowns in student loan servicing. Private student loans comprise approximately $100 billion of all outstanding student loans. While private student loans are a small portion of the overall market, the Bureau found that they are generally used by borrowers with high levels of debt who also have federal loans.

According to the CFPB's order, Wells Fargo failed to provide the level of student loan servicing that borrowers are entitled to under the law. Because of the breakdowns throughout Wells Fargo's servicing process, thousands of student loan borrowers encountered problems with their loans or received misinformation about their payment options. The CFPB found that the company violated the Dodd-Frank Wall Street Reform and Consumer Protection Act's prohibitions against unfair and deceptive acts and practices, as well as the Fair Credit Reporting Act. Specifically, the CFPB found that the company:

- **Impaired consumers' ability to minimize costs and fees:** Wells Fargo processed payments in a way that maximized fees for many consumers. Specifically, if a borrower made a payment that was not enough to cover the total amount due for all loans in an account, the bank divided that payment across the loans in a way that maximized late fees rather than satisfying payments for some of the loans. The bank failed to adequately disclose to consumers how it allocated payments across multiple loans, and that consumers have the ability to provide instructions for how to allocate payments to the loans in their account. As a result, consumers were unable to effectively manage their student loan accounts and minimize costs and fees.
- **Misrepresented the value of making partial payments:** Wells Fargo's billing statements made misrepresentations to borrowers that could have led to an increase in the cost of the loan. The bank incorrectly told borrowers that paying less than the full amount due in a billing cycle would not satisfy any obligation on an account. In reality, for accounts with multiple loans, partial payments may satisfy at least one loan payment in an account. This misinformation could have deterred borrowers from making partial payments that would have satisfied at least one of the loans in their account, allowing them to avoid certain late fees or delinquency.
- **Charged illegal late fees:** Wells Fargo illegally charged certain consumers late fees even though the consumers had made timely payments. Specifically, the bank charged illegal late fees to certain consumers who made payments on the last day of their grace periods. It also charged illegal late fees to certain students who elected to pay their monthly amount due through multiple partial payments instead of one single payment.
- **Failed to update and correct inaccurate information reported to credit reporting companies:** Wells Fargo failed to update and correct inaccurate, negative information reported to credit reporting companies about certain borrowers who made partial payments or overpayments. These errors could damage a consumer's ability to access credit or make borrowing more expensive.

Enforcement Action

Under the Dodd-Frank Act, the CFPB has the authority to take action against institutions engaging in unfair or deceptive practices. Among the terms of the consent order filed today, Wells Fargo must:

- **Pay $410,000 in consumer refunds:** Wells Fargo must provide at least $410,000 to compensate consumers for illegal late fees. This includes refunding illegal fees due to the bank's failure to disclose its payment allocation practices across multiple loans within a borrower's account as well as the bank's failure to inform consumers that they could instruct the bank to allocate payments in a different way. This also includes refunding illegal fees charged because of the bank's failure to combine partial payments made in the same billing cycle, and fees improperly charged when borrowers made a payment on the last day of the grace period.
- **Improve student loan servicing practices:** Wells Fargo must allocate partial payments made by a borrower in a manner that satisfies the amount due for as many of the loans as possible, unless the borrower directs otherwise. This can help reduce the number of delinquent loans in an account as well as the number of late fees. Last month, the Department of Education, in consultation with the CFPB, released new policy guidance calling for federal student loan servicers to implement a similar standard for handling partial payments.
- **Improve consumer billing disclosures:** Wells Fargo must provide consumers with enhanced disclosures with their billing statements. The disclosures must explain how the bank applies and allocates payments and how borrowers can direct payments to any of the loans in their student loan account.
- **Correct errors on credit reports:** Wells Fargo must remove any negative student loan information that has been inaccurately or incompletely provided to a consumer reporting company.
- **Pay $3.6 million civil penalty:** Wells Fargo will pay $3.6 million to the CFPB's Civil Penalty Fund.

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This order comes as the Bureau takes steps to ensure that all student loan borrowers have access to adequate student loan servicing. Last year, the Bureau released a report outlining widespread servicing failures reported by both federal and private student loan borrowers and published a framework for student loan servicing reforms. As part of this work, the Bureau has continually raised concerns around, as well as taken enforcement and supervisory actions against, illegal student loan servicing practices related to the handling of partial payments. Building on this, earlier this year, the Bureau called for market-wide reforms and announced that it was prioritizing taking action against companies that engage in illegal servicing practices. Today's action is an important part of this ongoing work.

Students and their families can find help on how to tackle their student debt on the CFPB's website.

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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.