CFPB Warns Student Loan Servicing Problems Can Jeopardize Long-Term Financial Security for Older Borrowers

Growing Concerns as Number of Older Student Loan Borrowers Quadruples, Amount of Debt Per Senior Borrower Doubles in Last Decade

JAN 05, 2017

WASHINGTON, D.C. – Today the Consumer Financial Protection Bureau (CFPB) released a report that examines complaints from older student loan borrowers about servicing practices that can jeopardize their long-term financial security. In the last decade, the number of older student loan borrowers has quadrupled and the amount of debt per older borrower has roughly doubled, as many take out loans for children or grandchildren. According to the report, older borrowers struggling to make payments complain about obstacles to enrolling in income-driven payment plans and accessing their protections as cosigners. In 2015, nearly 40 percent of federal student loan borrowers age 65 and older were in default.

"It is alarming that older Americans are the fastest growing segment of student loan borrowers," said CFPB Director Richard Cordray. "Many of these older Americans are helping to finance their children's or grandchildren's education while living on a fixed income. We are concerned that student loans are contributing to financial insecurity for many older Americans and that student loan servicing problems can add to their distress."

A copy of the report is available at: http://files.consumerfinance.gov/f/documents/201701_cfpb_OA-Student-Loan-Snapshot.pdf

Student loans make up the nation's second largest consumer debt market, and seniors are the fastest growing segment of this market. From 2005 to 2015, the number of Americans age 60 or older with one or more student loans quadrupled from about 700,000 to 2.8 million, and average debt load owed by an older borrower roughly doubled from $12,000 to $23,500. The CFPB's

analysis of survey data shows that about three-in-four older borrowers with student loans used them to finance their children's or grandchildren's college education.

Some older borrowers may struggle to repay their student loans as they juggle other debts and later-life expenses on fixed incomes with little in savings. Older consumers typically experience a decrease in income as they approach or enter retirement. In addition, some older consumers face other challenges, such as an increased incidence of physical and cognitive impairments associated with aging. These challenges may limit the ability to remain in the work force and may be associated with a decline in income. Older student loan borrowers also carry mortgage, credit card, and auto loan debts, according to the Bureau's analysis of recent survey data. Further, the CFPB found older borrowers are more likely than those without outstanding student debt to skip necessary health care expenses, such as prescription medicines or doctor visits because they could not afford it.

Student loan servicers are a critical link between borrowers and lenders. Servicers manage borrowers' accounts, process monthly payments, and communicate directly with borrowers. When borrowers experience a change in financial circumstances, due to a change-in-employment situation, borrowers will need to contact student loan servicers if they desire to enroll in an alternative repayment plan, or request a modification of loan terms.

The CFPB's report takes a closer look at complaints from older consumers with private and federal student loans. Older borrowers state that problems arise from, among other things, co-signing private student loans and difficulties accessing protections guaranteed under federal law for many federal student loan borrowers. Older consumers report problems about industry practices such as:

- **Delaying or prohibiting enrollment in income-driven payment plans:** Some federal student loan borrowers report that servicers are not advising them that they may have their loan payment amounts reassessed under an income-driven plan when their income changes. Instead, some consumers on fixed or reduced incomes report being placed in plans designed for borrowers with growing incomes. Older borrowers in default report that their Social Security benefits are offset to repay a federal student loan—despite their right under federal law to cure their default and seek payment relief under an income-driven plan.
- **Incorrectly applying co-signer payments to other loans owed by the primary borrower:** Generally, servicers apply payments received across all serviced private student loans owed by the primary borrower. Some co-signers complain that their payments appeared short because they were spread out over all of the primary borrower's private student loans. This practice can result in servicers charging co-signers late fees and interest charges, as well as reporting late and missed payments to credit reporting companies.
- **Failing to provide borrowers access to loan information:** Some co-signers complain that they are unable to monitor the student loan that they co-signed because loan servicers did not respond to their requests for help in accessing account information. Others report that by the time the servicer sends the co-signer a notice of missed payments, the amount

due has accrued fees and penalties. Some private student loan borrowers say they did not receive notice prior to a negative report to consumer reporting companies.

- **Threatening to offset private student loan borrowers' federally protected benefits: Certain** federal benefits, like Social Security benefits, are generally protected from collection for defaulted private student loans. Some older borrowers report that when the primary borrower fails to pay, servicers and debt collectors threaten to collect protected benefits.

The Bureau has warned about problems in the student loan servicing market and called for market-wide reforms to halt harmful practices and boost assistance for distressed borrowers. In 2015, the Bureau announced that it prioritized taking action against companies that engage in illegal servicing practices, leading to recent supervisory and enforcement actions in this market. Last year, the Bureau recommended that policymakers overhaul the programs designed to help the most vulnerable federal student loan borrowers get out of default and gain access an affordable student loan payment. These reforms would help address a number of the problems identified in today's report. Today's report urges policymakers to consider how potential policy changes and market shifts, including changes to the availability of borrowing and repayment options, can affect older consumers' long-term financial well-being.

Student loan borrowers can get advice on student loan repayment options by using the CFPB's Repay Student Debt tool. This interactive resource offers a step-by-step guide to navigate borrowers through their repayment options, especially when facing default. Student loan borrowers experiencing problems related to repaying student loans or debt collection can also submit a complaint to the CFPB.

More information is available at: http://www.consumerfinance.gov/students and http://www.consumerfinance.gov/older-americans.

###

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 .