CFPB Director Chopra Statement on Edfinancial and Student Loan Cancellation for Public Service

MAR 30, 2022

Today, the Consumer Financial Protection Bureau (CFPB) has sanctioned Edfinancial for deceiving student loan borrowers about their eligibility for Public Service Loan Forgiveness, and the steps they could have taken to obtain loan cancellation.

In 2008, President George W. Bush signed legislation that established the Public Service Loan Forgiveness (PSLF) program, and it promises cancellation for borrowers with Direct Loans, which are owned by the Department of Education. At the time, many student loan borrowers also had federal loans originated or owned by banks and other private investors through the Federal Family Education Loan Program (FFELP). Borrowers with these bank-based loans could swap their loans for Direct Loans, through a process called “consolidation,” in order to become eligible for cancellation under PSLF.

The program was discontinued in 2010,[1] and new loans have not been originated under it since. However, millions of borrowers continue to make payments on loans that were originated before the program’s end—many of which are now decades old.

Edfinancial made a series of deceptive statements to borrowers about loan cancellation for public service, including by falsely telling borrowers with FFELP loans that they could not qualify for the program. Edfinancial’s deceptive practices violate the Consumer Financial Protection Act. The CFPB’s order requires Edfinancial to reach out to every one of its FFELP borrowers to remedy its deceptive statements and help them consolidate into Direct Loans if they wish. The U.S. Department of Education’s recently-announced fix to the PSLF program means that borrowers who consolidate now will receive credit for payments made on their FFELP loans.

Edfinancial is not a massive servicer, but its deceptive practices can have a massive impact on an individual borrower’s financial future. The CFPB has long been concerned that others in the student loan servicing industry have derailed borrowers from making progress toward loan cancellation.[2] CFPB law enforcement work has identified these problems for years, finding failures at multiple servicers. And PSLF is not the only program vulnerable to illegal conduct by servicers: additional programs like Teacher Loan Forgiveness and Income-Driven Repayment also promise cancellation under existing law.

Millions of borrowers are paying excess fees and interest charges, or extra payments on amounts that should have been canceled through existing cancellation programs, because of misaligned incentives by student loan servicers and bureaucratic red tape. For too long, we have asked millions of student loan borrowers to bear the brunt of this broken system. That must end.

1. The bank-based loan program was largely a failure. Rather than compete aggressively on rates and borrower benefits, private lenders frequently charged the statutory maximum rate and devoted much of their efforts to aggressive marketing. After a slew of scandals involving kickbacks from lenders to schools and school officials, Congress put into place new safeguards to reduce these conflicts of interest.

2. Many servicers manage both Direct and FFELP loans, suggesting that a lack of knowledge about federal benefit programs is not the problem. However, facilitating the consolidation of borrowers' loans from FFELP to Direct can mean that a servicer will lose revenue associated with the consolidated loan.