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Grade Point

DeVos dials back consumer protections for student loan borrowers

By Danielle Douglas-Gabriel April 11 at 4:30 PM

Education Secretary Betsy DeVos on Tuesday withdrew a series of policy memos issued by the Obama administration to strengthen consumer protections for student loan borrowers.

The Education Department is in the middle of issuing new contracts to student loan servicing companies that collect payments on behalf of the agency. These middlemen are responsible for placing borrowers in affordable repayment plans and keeping them from defaulting on their loans. But in the face of mounting consumer complaints over poor communication, mismanaged paperwork and delays in processing payments, the previous administration included contract requirements to shore up the quality of servicing. Companies complained that the demands would be expensive and unnecessarily time consuming.

“This process has been subjected to a myriad of moving deadlines, changing requirements and a lack of consistent objectives,” Devos said Tuesday, in a letter addressed to James W. Runcie, who heads the Federal Student Aid office at the department. “We must promptly address not only these shortcomings but also any other issues that may impede our ability to ensure borrowers do not experience deficiencies in service. This must be done with precision, timeliness and transparency.”

DeVos has withdrawn three memos issued by former education secretary John King and his under secretary Ted Mitchell. One of the directives, which was later updated with another memo, called on Runcie to hold companies accountable for borrowers receiving accurate, consistent and timely information about their debt. The 56-page memo called for the creation of financial incentives for targeted outreach to people at great risk of defaulting on their loans, a baseline level of service for all borrowers and a contract flexible enough to penalize servicers for poor service, among other things.

The Obama administration requested routine audits of records, systems, complaints and a compliance-review process. It also directed Runcie’s team to base compensation on response time to answering calls, completing applications for income-driven repayment plans, errors made during communications and the amount of time it takes to process payments. Another memo insisted FSA consider a company’s past performance in divvying up the student loan portfolio.

“In order to have accountability, there must be real consequences when servicers violate the law,” said Alexis Goldstein, senior policy analyst at the progressive Americans for Financial Reform. “DeVos’s actions today moves us away from true accountability, and creates dangers for the very student loan borrowers the department is responsible for protecting.”

The exhaustive list of demands were a direct response to an outpouring of complaints to the Education Department and the Consumer Financial Protection Bureau. The CFPB, in particular, has documented instances of servicing companies providing inconsistent information, misplacing paperwork or charging unexpected fees. Because the federal government pays hundreds of millions of dollars to companies such as Navient, Great Lakes and American Education Services to manage $1.2 trillion in student loans, advocacy groups and lawmakers argue that more should be required of these contractors.

“This action really raises the stakes for the CFPB to clean up problems in the market by developing common sense rules,” said Rohit Chopra, the former student loan ombudsman at the CFPB and a senior fellow at the Consumer Federation of America. “If the Education Department is not going to clean up its own servicers using its buyer power, then regulators will have to step in to create a leveled playing field.”

Critics of servicing companies lay blame at their feet for the continued rise in student loan defaults. A recent analysis by the Consumer Federation of America found that millions of people had not made a payment on $137 billion in federal student loans for at least nine months in 2016, a 14 percent increase in defaults from a year earlier. Though the number of borrowers defaulting for the first time in the direct loan program slowed last year, tens of thousands of people are defaulting for at least a second time, leaving policy analysts to question the effectiveness of loan servicing.

Researchers at the Government Accountability Office found that 70 percent of people in default actually qualified for a lower monthly payment through income-driven plans that cap monthly payments to a percentage of earnings but that servicers failed to provide sufficient information. Even when the companies reach out to delinquent borrowers, the information was often inconsistent, according to the GAO.

But some servicers say that they pour all of their resources into catching borrowers before they default but that all of the mailers, calls and emails often go ignored. They complain that there is too much complexity in the federal student loan program and that this is at the heart of the problems consumers encounter. Servicing companies are eager to work with the Trump administration to fix the current system, said Michele Streeter of the Education Finance Council, a trade group representing nonprofit and state-based student loan servicers.

“Students and families deserve a high-quality loan servicing environment that is consistent, transparent and fair, and that guides them through their repayment period successfully,” she said.

Navient chief executive Jack Remondi, in an interview with The Washington Post earlier this year, said the government has too many inconsistencies in regulations and standards governing servicing companies. His company is battling multiple lawsuits that accuse Navient of steering people into costly payment options, rather than take the time to offer the best solutions — charges that Remondi vehemently denies.

“We’ve argued and begged for clear and consistent rules for loan servicers,” Remondi said. “We’ve asked the department to be able to co-browse with borrowers on the website to assist them in completing the application to make sure they complete it correctly. We’ve asked for the right to do verbal enrollment. We’ve argued extensively for simplification and received zero response or action.”

Navient officials struck a different tone last month in a motion to dismiss one of the lawsuits, stating that “there is no expectation that the servicer will act in the interest of the consumer,” a position that riled consumer advocates and borrowers.

In her letter Tuesday, DeVos said the new contract affords an opportunity to improve outcomes for borrowers and demonstrate “sound fiscal stewardship” of taxpayer dollars.

“We must create a student loan servicing environment that provides the highest quality customer service and increases accountability and transparency for all borrowers, while also limiting the cost to taxpayers,” she said.

Rescinding the memos comes as the department is facing $9 billion in proposed budget cuts from the White House, with the Trump administration redirecting money away from higher education programs toward its school choice agenda.

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Danielle Douglas-Gabriel covers the economics of education, writing about the financial lives of students from when they take out student debt through their experiences in the job market. Before that, she wrote about the banking industry. Follow @DaniDougPost