

By Maura Dundon

May 2015

The Center for Responsible Lending applauds the CFPB for its continued focus on student loan servicing. Good loan servicing benefits both the borrower and the lender by helping borrowers successfully pay down their loans.

As the CFPB holds a field hearing on student loan servicing today in Milwaukee, we offer seven ideas for a fair student loan servicing system:

- 1. Prevent default by identifying at-risk borrowers and taking aggressive steps to enroll them in income-based repayment plans or providing other loan modifications.** Federal student loan income-based repayment programs, and loan modifications offered by private student loan servicers, could help prevent default among some borrowers. The CFPB, Department of Education, lenders, and servicers should explore ways to automate enrollment for borrowers who qualify. For example, federal borrowers should be enrolled automatically in income-based repayment programs if their payments would be zero. Other at-risk borrowers should be identified and aggressively offered enrollment in a repayment plan – for example, if they request a forbearance or deferment.
- 2. Re-enrollment should be as simple as possible.** Once enrolled in a federal income-based repayment program, borrowers should be automatically re-enrolled annually if they remain eligible. Private loan modification re-enrollment should also be as simple as possible.
- 3. Fair allocations of payments, minimization of fees, and prompt payment processing.** Payments above or below the installment amount should be allocated in the way that benefits the consumer. Extra payments intended to reduce principal should be allocated to the highest interest loan. Partial payments should be allocated in a way that minimizes late fees and interest. Servicers must transparently disclose to borrowers how they can minimize interest and avoid late fees. Payments must be promptly processed and credited to accounts.
- 4. Allow borrowers to pay down loans as quickly as possible.** All servicers should make it easy for borrowers who wish to do so to pay down more quickly than their amortization schedule, and their servicing platforms should provide a simple, one-click method to make an extra payment to principal. Servicers should not automatically advance the next loan installment date after a payment to principal – this places a barrier to paying down more quickly. Borrowers should also be able to easily increase their monthly automatic payment online if they want to pay extra every month.
- 5. Servicemember protections.** Servicers should be vigilant in ensuring that servicemembers obtain their interest rate reductions under the Servicemembers Civil Relief Act.
- 6. Swift resolution of errors.** Borrowers should have a right to swift resolution of any errors in their accounts.
- 7. Access to loan documents and loan history.** All servicers should provide a simple, online way to view the original loan documents and entire loan repayment history. This should include any incentives given or removed from accounts (e.g., interest rate deductions for enrollment in ACH payment or a number of on-time payments); available repayment options; and changes to the variable interest rate.