

Student Loan Problems Mirror Those of Mortgages

Charlene Crowell
NNPA Columnist

An adage counsels, “The more things change, the more they stay the same.” When it comes to consumer debt, that advice is also a truism. After years of mortgage borrowers complaining about servicing – or the lack thereof – it appears that problems student loan borrowers face are remarkably similar.

With student loan debt topping the trillion-dollar mark, another looming credit crisis could emerge just as the housing market is showing signs of recovery. According to the Survey of Consumer Finance, today one in four American households are headed by someone under the age of 35 with student loan debt. Private student loans account for more than \$150 billion of outstanding debt. Moreover, more than 850,000 of these loans are in default and even more are delinquent.

Like the many troubled homeowners who did not understand the terms of their mortgages, student loan borrowers are now having the same difficulty. Servicers, often hired by lenders, often do not share or know the terms of repayment, available options for refinance, or even the total amount owed.

Recently, the Consumer Financial Protection Bureau released a report on the nearly 2,900 private student loan complaints it received since March of this year. Approximately 65 percent of complaints allege problems with servicers regarding fees, billing, fraud and credit reporting. Another 30 percent of borrowers filing complaints with CFPB were concerned with limited repayment options, debt collection practices and problems related to loans in default.

“Student loan borrower stories of detours and dead-ends with their servicers bear an uncanny resemblance to problematic practices uncovered in the mortgage servicing business,” said Rohit Chopra, CFPB’s Student Loan

Ombudsman.

The vast majority of the student loan complaints received by CFPB were about private loans.

Unfortunately, private loans typically do not have the consumer protections built into federal student loans, such as lower interest and fixed rates, income-based repayment plans, military deferments or discharges upon death.

Instead, the typical private student loan servicer actually works for the lender and may not have an incentive to provide a high level of customer service to borrowers. In the

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face of financial hardship, unemployment or underemployment, these student loan borrowers often discover few or no options that can be adapted for their circumstances. In some cases, servicers encouraged borrowers to pay whatever they could, but failed to inform them their loan status would still be on a path towards default.

With fewer options for refinance or forbearance, some private student loan borrowers are also claiming they were never advised of the difference between a federal and private loan either at the time the loan was first originated or

later during repayment. If the original loan was sold or if the servicer changed, many servicers were unable to answer basic questions as to who actually owns the unpaid loan. Depending upon loan terms, it may not be possible to negotiate alternative repayment.

Other complaints filed with CFPB expressed concerns with servicer errors or misinformation. For example, some servicers may take two to four days to process payments – even if the payment was submitted online. As a result, borrowers end up paying interest on a higher outstanding principal in the process. Others complained about faulty record-keeping, lost paperwork and errors that though promised to be quickly corrected were not. Still more complaints charged that even after getting transferred to multiple departments, no one was responsive or empowered to provide a clear answer.

If there is a moral to these unfortunate consumer experiences, it could be summed up with CFPB’s slogan, “Know Before You Owe.” Before any debt is incurred, take the time and necessary persistence to fully learn obligations and responsibilities. Any business or its representative that is unwilling or reluctant to explain their products are probably not a good choice for the consumer.

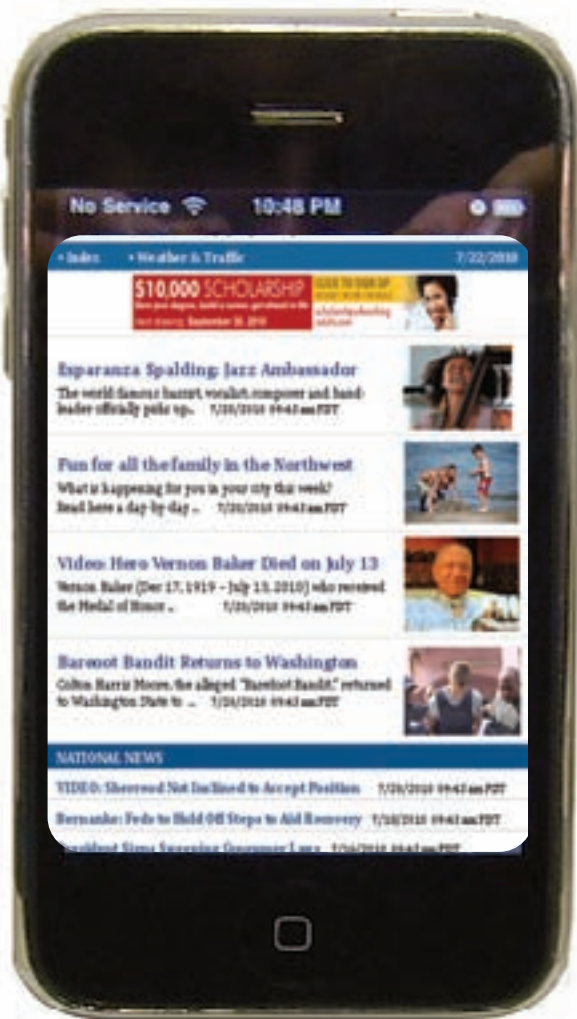
For consumers now considering a private student loan, invest some time to identify and pursue other forms of financial aid such as grants, scholarships, federal student loans, or work-study programs. Need-based grants often offered by state and federal initiatives can help defray college costs without incurring debt. Other programs are available to promote the growth of minorities in specific career paths.

“Know Before You Owe” is good advice. Knowing more about financing a college education is even better.

Charlene Crowell is a communications manager with the Center for Responsible Lending.

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