



CONSUMER NEWS SAN DIEGO CITY ATTORNEY'S OFFICE

Student Loan Consolidation Scams, Service Problems

November 2015

This newsletter offers information to help consumers understand student loan debt consolidation scams and also student loan servicing problems. Prior newsletters covered application scams: [“Options for Financing your Education” May 2014](#), and [“Education Scams” December 2012](#).



Over 40 million Americans are repaying more than \$1.2 trillion in outstanding student loan debt. If you are paying back student loans, you are not alone! While you pay back your loans watch out for these potential pitfalls:

Private companies are charging borrowers upfront or monthly fees for FREE federal loan benefits. Consolidating federal student loans is FREE and can only be done through the Federal Direct Consolidation Program. A Direct Consolidation Loan will combine multiple federal student loans into one loan, resulting in a single monthly payment.

Most Direct Consolidation Loans will be eligible for alternative payment plans, including income based repayment that can lower monthly payments to income levels. Note that *private* education loans (for instance, loans from your local bank) are not eligible for the Federal Direct Consolidation Program.

The Attorney General's office has received an increased number of complaints regarding student loan debt consolidation scams. Attorney General Kamala D. Harris recently issued a consumer alert about these scams, warning consumers about companies that purport to offer “student debt management” or “student loan consolidation” plans.



These companies *may claim* that they have a special relationship with the Department of Education or that a special government loan program will be ending soon and will urge students to use their services in obtaining student loan consolidation or relief. Many times these companies will charge an initial application fee as well as a monthly service fee.

This is a scam! Do not let yourself or your student get pulled into this scam.

For **real information** about consolidating federal student loans you can contact the Department of Education's Information Call Center: (800) 557-7392 or visit www.studentloans.gov/

- ✓ Do you have a list of all your federal student loans? You can get a complete list [here](#):
- ✓ Eligibility requirements, benefits, and potential warnings *against* federal loan consolidation can be found at the Department of Education Federal Student Aid website:

<https://studentaid.ed.gov/sa/repay-loans/consolidation>

Where can you apply to consolidate your federal student loans? Online! It's Free!

- ✓ Apply for a Direct Consolidation Loan by completing and submitting the FREE Federal Direct Consolidation Loan Application and Promissory Note found here: <https://studentloans.gov/myDirectLoan/consolidationPaper.action>

Are you having trouble making your student loan payments?

If so, you may want to consider an income-based repayment plan such as the Income Based Repayment Plan, Pay As You Earn Plan, Income Contingent Repayment Plan, or the Income Sensitive Repayment Plan: <https://studentaid.ed.gov/sa/repay-loans/understand/plans>.

- ✓ Check out the online [Repayment Estimator](#)



Are you a Current Servicemember with Federal Student Loans?

You may be eligible for special benefits and repayment options for your federal student loans. Get more information on these benefits for servicemembers, click [here](#).

To make a complaint if you have been the target of a student loan debt consolidation scam contact:

- Attorney General’s Public Inquiry Unit: <https://oag.ca.gov/contact/consumer-complaint-against-business-or-company>
- Consumer Financial Protection Bureau: <http://www.consumerfinance.gov/complaint>

STUDENT LOAN SERVICING PROBLEMS:

Stressed much? The Consumer Financial Protection Bureau (CFPB) released a report outlining “roadblocks” and problems student loan borrowers face during repayment such as:

- lost paperwork
- poor customer service,
- routine transfers of student loan servicing from one company to another,



- servicers not providing struggling borrowers adequate information about affordable repayment options.

These practices can drive up student loan default rates. The Wall Street Journal reported that these loan defaults can have a “domino effect” on other parts of our economy. The San Diego Union-Tribune reported that the CFPB concluded that these servicing practices “may be contributing to student debt stress.”

Student loan servicing is an industry comprised of fewer than 10 major firms including banks. In July, the CFPB brought its first public enforcement action against a student loan servicer, Discover Financial Services, Inc.; other firms and banks under investigation include or have included, Citigroup, Inc., (which exited student loan lending by 2012), Navient Corp., and recently Wells Fargo & Co., which is the second largest private student-loan originator by volume.

Student loan servicers provide an important step in this process – and can be an important point of dismay for borrowers as their point of contact for paying back their loans. Servicers receive loan payments and handle repayment problems that arise such as late or delinquent payments.

You can read the report of the Ombudsman and also if you are student loan borrower and have had issues with your loan servicer you can report these issues to the Ombudsman.

Go to the Consumer Financial Protection Bureau website: <http://www.consumerfinance.gov/student/> And to report issues regarding your student loan servicer go to: <https://help.consumerfinance.gov/app/studentloan/ask>

References:

1. Prior Consumer Protection newsletters that covered student loan application scams include: “Options for Financing your Education,” May 2014, and “Education Scams,” December 2012. Available at: <http://www.sandiego.gov/cityattorney/media/newsletters.shtml#cepu>
2. AG Press release, “[Consumer Alert on Student Loan Debt Consolidation Scams](#)” August 19, 2015.
3. “Consumer Regulator Hits the Books on Student-Loan Problems,” The Wall Street Journal, September 29, 2015.
4. “Student Loan Payers Gripe about Servicers – Federal Bureau says thousands report range of problems” Union Tribune, September 30, 2015.
5. Annual Report of the Student Loan Ombudsman 2014 which analyzes complaints submitted by consumers with student loans from October 1, 2014 to September 30, 2015. Available [here](#).

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This newsletter was compiled by Alison Schlick

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The information provided in this newsletter is intended to convey general information and is not intended to be relied upon as legal advice.

To report violations of consumer protection laws, call the City Attorney’s Hotline at **(619) 533-5600**.