

# PUBLICATION

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## Student Loans: The Next CFPB Target?

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There is approximately \$1 trillion in total outstanding student loan debt in the United States, according to the Consumer Finance Protection Bureau. With the large amount of student loan debt nationwide as well as on a per-household basis, and with defaults and delinquencies on the rise, many student loan borrowers are looking for relief. In response to the increase in this and related borrower concerns, over the past several months the CFPB has expanded its role in the student loan servicing and lending markets. In October 2013, the Bureau released a report highlighting many of the key problems with the student loan industry. In particular, the report detailed how challenging it can be for borrowers to pay off loans early when lenders apply payments inconsistently, especially when the borrower has several loan accounts with the servicer.

On December 3, 2013, the CFPB announced that it will begin to supervise certain non-bank student loan servicers by gathering reports from and examining the entities. The Bureau will ensure compliance with all relevant federal consumer financial laws and will focus on three primary areas of concern: (1) application of prepayments; (2) application of partial payments; and (3) servicing transfers.

Subsequently, on January 9, 2014, the CFPB held its initial meeting with the nation's largest private student lenders and servicers. The Bureau's primary concern for the meeting was to address complaints related to the lenders' and servicers' failure to modify student loans – especially private student loans. Finally, the CFPB has indicated that it will investigate the use of arbitration agreements in connection with student loans.

Student loan borrowers continue to experience difficulties and pressures with regard to repayment. With the CFPB's increased role in the student loan industry, and with the new rules and regulations that the CFPB will soon promulgate, servicers and lenders will need to carefully review their internal processes to ensure compliance.