

# Overseas & Underserved

STUDENT LOAN SERVICING AND THE COST TO OUR MEN AND WOMEN IN UNIFORM

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# 1. Executive summary

Since March 2012, the Bureau has received student loan servicing complaints from servicemembers, veterans and their families that identify a unique set of obstacles they face when attempting to assert protections afforded to them because of their military service. In October 2012, the Bureau published [a report](#) documenting complaints from military borrowers concerning student loan servicing problems and difficulties obtaining the interest rate reduction guaranteed under the Servicemembers Civil Relief Act (SCRA). The Bureau also shared these complaints with other federal regulators, including the U.S. Department of Justice (DOJ) and the Federal Deposit Insurance Corporation (FDIC). In May 2014, the DOJ joined with the FDIC and entered an order providing \$60 million in compensation<sup>1</sup> for more than 77,000 servicemembers<sup>2</sup> in an action against student loan servicers Sallie Mae and Navient (formerly one company) related to their application of benefits under the SCRA to active duty members of the military.

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<sup>1</sup> In addition to the DOJ settlement with Sallie Mae/Navient, the FDIC found violations of a federal law prohibiting unfair and deceptive practices with regard to student loan borrowers through the servicer's following actions: inadequately disclosing its payment allocation methodologies to borrowers while allocating borrowers' underpayments across multiple loans in a manner that maximizes late fees; and misrepresenting and inadequately disclosing in its billing statements how borrowers could avoid late fees. See U.S. Department of Justice, *Justice Department Reaches \$60 million settlement with Sallie Mae* (May 2015), available at <http://www.justice.gov/opa/pr/justice-department-reaches-60-million-settlement-sallie-mae-resolve-allegations-charging>; See also Federal Deposit Insurance Corporation, *FDIC Announces Settlement with Sallie Mae for Unfair and Deceptive Practices and Violations of the Servicemembers Civil Relief Act* (May 2014), available at <https://www.fdic.gov/news/news/press/2014/pr14033.html>.

<sup>2</sup> In May 2014, the Department of Justice estimated that 60,000 servicemembers were harmed by illegal activity covered in this settlement. Earlier this year, the Department of Justice announced that the number of military borrowers receiving compensation under this settlement had increased by 30%, to nearly 78,000 borrowers. See U.S. Department of Justice, *Nearly 78,000 Service Members to Begin Receiving \$60 Million Under Department of Justice Settlement with Navient for Overcharging on Student Loans* (May 28, 2015), available at <http://www.justice.gov/opa/pr/nearly-78000-service-members-begin-receiving-60-million-under-department-justice-settlement>.

Through our monitoring of complaints, the Bureau has continued to hear that inadequate student loan servicing causes substantial hardship for military families. Since we published our last report in October 2012, the Bureau has received more than 1,300 complaints from military borrowers related to the servicing or collection of student loans. Commonly reported servicing problems for servicemembers include:

- Military deferments are denied without adequate explanation, applied in a haphazard way, and, in some cases, are approved verbally but never applied to military borrowers' accounts, resulting in late fees, defaults and debt collection.
- Application of SCRA protections continues to be an unnecessary struggle for servicemembers. Servicers still do not appear to understand the elements of the SCRA.
- Military families struggle with disability discharge, including potential negative credit reporting consequences. They also are unsure whether the benefit is available for private student loans as well as for federal student loans. The uncertainty extends to co-signers looking for the same protections after the disability or death of a primary borrower.
- In addition to the loss of protections specific to military borrowers, complaints also demonstrate how servicing breakdowns can impact financial and military readiness.

## 2. Issues faced by military borrowers

### SOURCES OF INFORMATION

To identify the range of issues faced by student loan borrowers, the report relies primarily on complaints handled by the CFPB. The CFPB has handled more than 1,300 complaints from military borrowers related to the servicing or collection of student loans since the publication of the last report on this topic in October 2012.

We reviewed other information, such as comments submitted by the public in response to requests for information, submissions to the “Tell Your Story” feature on the CFPB’s website, and input from discussions with consumers, regulators and law enforcement agencies, and market participants.<sup>3</sup>

### LIMITATIONS

Readers should note that this report does not suggest the prevalence of the issues described as they relate to the entire student loan market. The information provided by consumers helps to illustrate where there is a mismatch between borrower expectations and actual service delivered. Representatives from industry and from organizations serving members of the military, veterans and their families will likely find the inventory of borrower issues helpful in further understanding the diversity of customer experience in the market.

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<sup>3</sup> See, for example, Consumer Financial Protection Bureau, *Request for Information Regarding an Initiative to Promote Student Loan Affordability*, 78 Fed. Reg. 13327, Docket ID CFPB-2013-0004, (February 27, 2013).

## **2.1 Rights, protections, and programs afforded by military service**

Servicemembers continue to face setbacks when they seek to exercise military protections earned through their service. Military deferment, discharge due to disability, and SCRA interest rate reductions were created with the intention of alleviating some of the student loan burdens faced by servicemembers. The Servicemembers Civil Relief Act provides for interest rate reductions on most pre-service loans, including student loans. Unfortunately, complaints that servicemembers have submitted to the Bureau suggest that the burdens persist. In particular, servicemember complaints suggest that there is an ongoing problem as to how student loan servicers communicate about these programs; it also appears that there are many obstacles put in place by servicers that servicemembers must surmount before they can fully take advantage of a program's benefits.

### **2.1.1 Servicemembers seeking military deferments report running into roadblocks**

Military deferment is an option afforded to some active duty servicemembers that allows for postponement of monthly student loan payments under certain circumstances.<sup>4</sup> As we have noted in a previous report, military deferment may not be appropriate for many borrowers who are also eligible for income-driven payment plans and Public Service Loan Forgiveness. For example, servicemembers pursuing extended military careers and those interested in pursuing public service following their transition to civilian life may be better served by enrolling in an income-driven payment plan.<sup>5</sup>

In some circumstances, certain borrowers seeking short-term flexibility may benefit from military deferment, particularly if their federal student loans are subsidized (subsidized loans are effectively interest-free during periods of military deferment). Although there may be

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<sup>4</sup> In our 2012 report, *The Next Front*, we detailed the potential costs associated with military deferments. For both unsubsidized federal and private loans, interest will continue to accrue on the outstanding debt while monthly payments are postponed. Generally, unpaid interest is capitalized (added to the outstanding principal balance) once a borrower begins to repay his or her loan. See Consumer Financial Protection Bureau, *The Next Front* (October 2012), available at [http://files.consumerfinance.gov/f/201210\\_cfpb\\_servicemember-student-loan-servicing.pdf](http://files.consumerfinance.gov/f/201210_cfpb_servicemember-student-loan-servicing.pdf).

<sup>5</sup> For a further discussion of the trade-offs between various military-specific student loan benefits, See, *The Next Front, supra*.

financial repercussions servicemembers should consider before exercising this short-term option, when they do choose to enroll in a military deferment, military borrowers should be able to expect the process will be clear and free from surprises. We continue to receive complaints from military borrowers describing a range of breakdowns and roadblocks related to this benefit.

**Insufficient communication on military deferment undermines attempts to successfully repay loans.** For federal student loans, a servicer is required by law to provide a military deferment in specific circumstances.<sup>6</sup> For private student loans, no such military deferment is mandated; however, some servicers may provide for these deferments or forbearances as established under the terms set forth in their promissory notes or under arrangements created to aid members of the military. For servicing representatives who may lack sufficient training in these programs, the varied requirements for a military deferment may cause confusion, resulting in incorrect or unresponsive answers for military borrowers.<sup>7</sup> Poor communication and improper processing by student loan servicers may also lead to surprise delinquencies, defaults and collection attempts upon the completion of military service or the return from a deployment.

**Failure to provide necessary information or process paperwork prior to deployment can cause unnecessary stress.** We frequently hear from servicemembers who believe they had successfully enrolled in a military deferment prior to leaving for active duty service or deployment. But they return to discover that their servicer never deferred their loans, and in some cases, placed their loans in default, and sent their accounts to collections.

We have also heard from several servicemembers who state that their servicers: were slow to process required deferment forms; lost necessary paperwork; or failed to provide basic information about application requirements in sufficient time for servicemembers to enroll prior to leaving for active duty or a deployment. For servicemembers who are making

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<sup>6</sup> 34 CFR 674.34(h) states that when the servicemember is called to active duty military service during a war, military operation, or national emergency, a servicemember has a legal entitlement to a military deferment. If the servicemember is already on active duty in connection with such emergency, to be eligible for military deferment she must be then assigned to a duty station at a location other than the location at which the member is normally assigned.

<sup>7</sup> The current statutory definition of military service necessary to qualify for a deferment may cause confusion for both borrowers and market participants. Criteria for the eligibility rely on active duty statuses that do not correspond with traditional Department of Defense distinctions.

arrangements and financial decisions before they leave their homes and families, poor processing related to military deferments can cause significant financial and emotional hardships.

We also received similar complaints from military family members who have the legal authority to act on behalf of a servicemember. Soon after the deployment of a servicemember, these family members report that they begin to receive past due notices and collection calls because the servicemember has not actually been enrolled in a deferment, despite previous verbal assurances to the contrary by their servicer.

**Denial of military deferment may lack clear explanation and may be inaccurate.** We continue to hear from servicemembers who report that loan servicers fail to explain the qualification requirements for deferment in sufficient detail and do not provide a rationale as to why a request for a deferment was denied. For example, we heard from an active duty servicemember who had been deployed to Afghanistan and contacted his servicer to inquire about a military deferment during his deployment. The request was denied. But instead of clearly explaining the reason for the denial, the borrower's servicer merely listed the various criteria used to determine eligibility, without indicating which of the criteria he failed to satisfy. After he submitted a complaint to the CFPB, his servicer re-reviewed his previously submitted application and determined that he did, in fact, qualify for the deferment.

**Application criteria, policies and procedures for military deferment differ between student loan servicers and between loan types, producing additional obstacles.**

Many consumers, including military borrowers, have multiple types of student loans serviced by two or more student loan servicers. We heard from many servicemembers with loans serviced by multiple companies. These borrowers note that when they applied for military deferment with each company, some of their loans were approved for this benefit and others denied. In some cases, this may be due to variation in policies and procedures between companies. In other cases, servicemembers' success or failure may be determined by servicers' differing interpretations of statutory requirements. These inconsistencies create confusion. For example, we heard from one servicemember with federal student loans serviced by two different companies – one of which approved her request, while the other servicer denied it. In this case, the military borrower discovered that her student loan servicers each interpreted her entitlement to this benefit differently, which resulted in contradictory and confusing outcomes.

Many servicemembers have both private and federal loans serviced by a single company. In these cases, military borrowers may find that a requested deferment is applied to one loan type,

but not the other. In cases where divergent outcomes may result from differences between loan types, customer service personnel may contribute to servicemembers' confusion by failing to clearly disclose eligibility criteria or mishandling applications for these benefits. For example, one servicemember explained that of his three student loans, his servicer applied a military deferment to two, but not to the third. His complaint and his servicer's response reveal the depth and breadth of confusion a servicemember may encounter when trying to learn when, and if, they qualify for a deferment. Subsequent to submitting his complaint, the servicer reaffirmed its denial of his deferment request. But then, a short time later and without explanation, the servicer informed him that the deferment had finally been granted. The servicemember wrote to let us know he still does not understand what made his servicer change its mind.

For all military borrowers, including those with multiple loans serviced by a single company or by several companies, clear and accurate communication related to eligibility criteria, as well as the adequate processing of requests, is critical to ensure that these borrowers can continue to manage their student loan debt while serving their country.

### **2.1.2 Loan discharge policies may create hurdles, dead-ends for service-disabled veterans and military families**

Under federal law, veterans with a service-connected disability can seek federal student loan discharge (forgiveness) if they received a 100-percent disability rating from the Department of Veterans Affairs (VA).<sup>8</sup> Federal law also requires that federal student loans be discharged upon the death of a borrower.<sup>9</sup> In contrast, private student lenders are not required by law to offer military borrowers a disability discharge, nor are they required to discharge co-signed loans upon the death of a servicemember. Some companies do grant loan forgiveness on a case-by-case basis and, in some cases, this may be required under the terms of private student loan contracts.<sup>10</sup>

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<sup>8</sup> Federal Student Aid Total and Permanent Discharge 101, available at <http://www.disabilitydischarge.com/TPD-101/>. William D. Ford Federal Direct Loan (Direct Loan) Program loan, Federal Family Education Loan (FFEL) Program loan, and/or Federal Perkins Loan (Perkins Loan) Program. 34 CFR 674.61, 682.402, 685.213.

<sup>9</sup> 34 CFR 682.402(b). 34 CFR 674.61, 34 CFR 685.212.

<sup>10</sup> The CFPB receives many complaints from disabled veterans struggling to discharge their private student loans. Unlike their federal counterparts, private student lenders are not required to discharge a loan even upon a showing

Federal student loan discharge due to Total or Permanent Disability (TPD) is also available to non-veteran borrowers who can demonstrate disability; however, for men and women who are unable to work due to a service-connected disability, the process is expedited and certain documentation requirements are waived.<sup>11</sup>

Military borrowers have submitted complaints documenting problems related to the processing of paperwork required to obtain these benefits, breakdowns related to the furnishing of credit information after obtaining loan discharge and dead-ends for parents managing co-signed loans made to servicemembers killed in action.

**Parents who co-sign on loans made to servicemembers killed in action may be left on the hook and out of options.** Co-signers note that information about discharge or alternative arrangements in the case of death of the primary borrower is not readily available and that decisions are made on a case-by-case basis, giving co-signers little understanding of how the process works or if they will be successful. When servicemembers are killed in combat, military families face similar hurdles. We heard from military families who requested student loans to be forgiven following the death of their child. Borrowers noted that the process of requesting loan forgiveness was not transparent, varied depending on their servicer or the owner of their loan and, when loan forgiveness was denied, that the criteria used for this decision was never disclosed.<sup>12</sup> For families mourning the loss of a child killed in combat, these detours and dead-ends can prolong an already painful process.

**Servicers' furnishing practices related to disability discharge may damage veterans' credit.** When disability discharge is properly awarded, veterans and their spouses report that servicers furnish credit information that does not reflect the discharge accurately. The Bureau has heard from disabled veterans struggling with credit reporting problems. We previously recounted the experience of one service-disabled veteran who went from a nearly

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of total and permanent disability. The Bureau has received numerous complaints requesting this discharge by borrowers incapacitated and unable to work, and has previously highlighted this issue. Hollister K. Petraeus, *Testimony Before the Senate Committee on Veterans' Affairs* (July 3, 2013).

<sup>11</sup> Department of Education Dear Colleague Letter, July 2013, available at

<http://ifap.ed.gov/eannouncements/051713TPDInfoChgestoTPDDischargeRegsJuly2013.html>.

<sup>12</sup> As we have noted in the past, borrowers with loans packaged as securities and sold to investors may face additional barriers when seeking assistance from student loan servicers as a function of the structure of student loan securitizations. For a detailed discussion of these issues, see, Consumer Financial Protection Bureau, *Mid-Year Update on Student Loan Complaints* (2015), available at [www.consumerfinance.gov/reports/2015-mid-year-update-on-student-loan-complaints/](http://www.consumerfinance.gov/reports/2015-mid-year-update-on-student-loan-complaints/).

perfect “super prime” credit score to a much lower score simply because he received total and permanent disability discharge on a federal student loan.<sup>13</sup> In this case, instead of reporting that the borrower no longer owed the debt, his servicer told the credit bureaus that his loan had been “assigned to government,” which is often interpreted as an indication of default. Left uncorrected, such errors can potentially set service-disabled veterans up for financial ruin.

**Co-signers with a service-connected disability may have no recourse when they are unable to repay a private student loan.** While some private student lenders have policies and procedures in place to discharge loans due to permanent disability of the primary borrower, these companies’ responses to veterans’ complaints indicate that the same protections may not be in place for permanently-disabled veteran co-signers. Co-signers generally have a responsibility to ensure a private student loan is repaid. Due to differing personal circumstances, co-signers are often faced with the reality of being the main, or even the only, borrower making monthly payments. We have heard from veteran co-signers who have been determined to be unemployable due to their service-connected disability and are still required to keep up large monthly payments in order to protect their credit.

### **2.1.3 Military borrowers continue to face detours and dead-ends when seeking to invoke their SCRA rights**

In our October 2012 report, we concluded that servicers must ensure strong compliance mechanisms and customer-service standards that work for servicemembers and their families. Nearly three years have passed, yet servicemembers continue to report difficulties obtaining the SCRA interest rate cap of six percent.<sup>14</sup> Complaints suggest servicers continue to improperly process these requests and do not clearly convey information about the application process and other requirements to military borrowers.

Poor communication and inconsistent application of SCRA protections by servicers may exacerbate the stress associated with major events in military life. Servicemembers and their families continue to report about the frustration they experience when their servicers require

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<sup>13</sup> Consumer Financial Protection Bureau, *Veterans: Take advantage of student loan forgiveness, but don’t let it damage your credit* (November 17, 2014), available at <http://www.consumerfinance.gov/blog/veterans-dont-let-student-loan-forgiveness-damage-your-credit/>.

<sup>14</sup> 50 U.S.C. App. § 527.

them to repeatedly assert their SCRA rights, even as they have other pressing concerns that require their attention. Servicemembers emphasize their need to be mission-focused and free of distractions when faced with impending deployments.

One consumer's complaint highlights the stress he experienced when he tried to invoke his SCRA protections. His circumstances are not unique; instead, it captures the experience common to many of the servicemembers submitting complaints to the Bureau. This military borrower's story began in summer 2014, when he submitted his first complaint two weeks before he was scheduled to deploy. In that complaint, the consumer described his frustration and stress:

I have contacted the company trying to get them to apply the mandate of the Servicemember Civil Relief Act. My last communication with them was three days ago during which I was told I'd be receiving a document via email. As of this complaint I have yet to receive it. I fear [their] delay tactic[s] will continue past the time I have stateside... I am on orders to deploy to [location]...this month. I need help. I can't continue to fight this when my attention should be on matters that will literally involve life or death decisions.

His servicer responded to his complaint the day before he was scheduled to deploy. In its response, the servicer assured him that it applied the SCRA protection and it would continue to monitor the Department of Defense's Manpower Database (DMDC) to verify his continued eligibility. Unfortunately, it appears the servicer failed to do so. In winter 2015, while deployed and without further explanation from his servicer, he discovered his interest rate had increased above the six percent cap. The servicemember submitted another complaint. In his second complaint, he stated he provided his servicer with a copy of his orders that had an end date of October 2016.

The issue I have, which I have also addressed with the Consumer Financial Protection Bureau in the past, involved my loan servicing company at the time, arbitrarily increasing my interest rates above the limit of 6%. After my initial complaint they re-adjusted it to comply with the mandate of the SCRA. A few months later they increased it again, this time claiming that I was no longer Active Duty and thus did not meet the requirement for it. I took time out of my schedule; time which could have been better spent preparing for my upcoming deployment and sent them all the documents they required. Instead, I am now here in [deployed] and I have to fight this battle yet again.

In its response to the consumer, his servicer stated his submitted orders were not valid, but provided no explanation. More importantly, after submitting the orders and while preparing for deployment, the servicemember was never told that his servicer deemed his orders unacceptable. Though the servicer eventually applied the interest rate cap, it took seven months of stress and filing complaints to have SCRA protections properly applied.

We also hear from military families that obtaining the SCRA interest rate cap is difficult when they act on behalf of a servicemember. For example, we heard from spouses who described difficulty communicating with student loan servicers. These spouses report that some servicers would not directly communicate with them, nor would they provide an explanation of benefits, despite authorization or power of attorney permitting them to access this information.

Military deferment, discharge due to disability, and SCRA interest rate reductions are vitally important to the financial health of servicemembers and their families. Servicers must make the requirements, application process and communication regarding these programs clear, concise and free of unnecessary roadblocks.

## 2.2 Customer service complications

Servicemembers are often faced with personal and financial circumstances unique to military life. For instance, when deployed, servicemembers may lack access to traditional communication methods or even the ability to communicate at all for extended periods of time. When servicers fail to communicate accurately and provide answers to borrower inquiries in a timely manner, it may distract military borrowers from their missions, forcing them to navigate through red tape and overcome processing obstacles during their active duty service.

Servicemembers have also identified significant payment processing problems related to student loan repayment benefits for members of the military, particularly military borrowers receiving lump-sum payments from the Department of Defense (DoD).<sup>15</sup>

### 2.2.1 Poor customer service hinders successful repayment

Student loan borrowers continue to submit complaints related to the payment processing practices of student loan servicers. Many servicemembers report that their loan servicers may make it difficult to submit accurate payments while they are away from home, particularly when servicers' payment processing and customer service policies require repeated phone calls, substantial paperwork or supplemental written instructions.

Recently, the Bureau and other federal regulators have found that certain payment processing practices violate federal law.<sup>16</sup> For servicemembers, payment processing problems are further complicated by the demands of military life. For example, we heard from deployed servicemembers who were having difficulty obtaining basic account information or making timely payments because of limited access to their online servicing platform. Depending on the location of a military borrowers' deployment, finding an opportunity to transact with the servicer in real-time can be difficult. Even when servicemembers do find an opportunity to contact their servicer, customer service breakdowns can make this process particularly challenging. As is the case for many consumers with student loans, servicemembers reported that customer service lines were staffed with representatives who they perceived as unprofessional, unable to reference prior customer interactions, or provided conflicting information about how to get out of default. Unfortunately for military borrowers, their available time to address processing problems is limited and poor communication practices are particularly difficult to overcome under these circumstances.

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<sup>15</sup> 10 U.S.C. 2171(a)(1), (b), (c). The Department of Defense publishes an application form that provides additional information to servicemembers related to this benefit, which is administered separately by each branch of the armed forces. See U.S. Department of Defense, *DOD Educational Loan Repayment Program (LRP) Annual Application* (January 2014), available at <http://www.dtic.mil/whs/directives/forms/eforms/dd2475.pdf>.

<sup>16</sup> See FDIC Settlement with Sallie Mae for Unfair and Deceptive Practices and Violations of the SCRA, available at <https://www.fdic.gov/news/news/press/2014/pr14033.html>; see also, Consumer Financial Protection Bureau, *Supervisory Highlights: Fall 2014* (2014), available at <http://www.consumerfinance.gov/reports/supervisory-highlights-fall-2014>.

## **2.2.2 Servicers' policies may limit the benefits of the DoD Student Loan Repayment Program**

Servicers may be mismanaging benefits awarded under the Department of Defense Student Loan Repayment Program (SLRP), causing confusion and applying payments in ways that increase costs for military borrowers. Members of the military may qualify for and use SLRP, which provides a cash benefit to servicemembers with student loans. This benefit is paid directly to student loan servicers, frequently in the form of annual lump sum payments made by the (DoD).<sup>17</sup> Servicemembers report a variety of problems they experience when attempting to use this program, including: processing problems when directing funds to specific high-rate loans in military borrowers' accounts; inconsistent information regarding whether payments may be applied to private as well as federal loans; communication breakdowns regarding whether payments made are applied to principal or interest; and confusion among servicing personnel about whether a deferment or forbearance should be in place during periods covered by an SLRP payment.

Military borrowers expect sufficient service when using this award, which for many is a critical part of their compensation for their service to our country. These borrowers should not have to deal with payment processing issues when they inform their student loan servicer of the potential for payment from the DoD. Unfortunately, complaints suggest that servicers may fail to provide consumers with sufficient guidance as to how this benefit is processed. Servicemembers often do not appear to receive adequate information from their loan servicers to successfully use the SLRP program.

**Poor communication by servicing personnel related to how SLRP payments are processed leads to missed payments, late fees and debt collection for military borrowers.** Servicemembers are often not given information about the status of their SLRP payment, which leaves them unsure as to whether or not they should be making additional monthly payments while the lump sum is being processed. Servicemembers told us that they notify their servicer of anticipated SLRP payments from the DoD. Too often, servicemembers receive no communication from their servicer while they await payments from the DoD. If the servicer allows the account to be placed in forbearance or deferment while the DoD is processing the SLRP payment, the servicer should give the servicemember clear instructions for enrollment

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<sup>17</sup> 10 U.S. Code § 2171.

before it's too late. Unfortunately, servicers often fail to provide sufficient guidance to servicemembers who await SLRP payments. One servicemember reported that instead of ensuring his account was properly set up in a deferment or forbearance, his servicer made threatening and harassing phone calls demanding payment. By communicating clear guidance to servicemembers about their payment processing options, loan servicers can avoid causing military borrowers additional stress and unnecessary confusion.

**Military borrowers report problems receiving clear answers even after their servicer accepts payment from the DoD.** Sometimes the problem continues beyond the servicer's receipt of the lump-sum payment. Some servicemembers report that they were required to continue to make monthly payments after their DoD payment was applied. One servicemember specified that his servicer required monthly payments even after a lump-sum payment covered the total amount due over a period of months, instead of sharing information about a military deferment that could suspend his obligation to make payments over this period.<sup>18</sup> According to one military borrower:

I have \$20,000 in student loan repayment through the military, but they only pay once a year. [Company name] has been nothing but rude and unhelpful ever since. They will not work with me on working out a payment process to work with the once a year payment by the Student Loan Repayment Program. I am beyond frustrated.

### 2.2.3 Problems related to servicing transfers impact servicemembers' protections

While on active duty, servicemembers report that if their loans are transferred to a new student loan servicer, it can result in a variety of processing problems that pose unique risks for members of the military. Servicing transfers often create confusion for any student loan borrower. But for members of the military, servicing transfers not only create confusion, they also may hamper a servicemember's ability to receive and retain protections like military deferment and the interest rate cap guaranteed under the SCRA. Deployed servicemembers may be out of reach when a transfer occurs and, therefore, unavailable to proactively monitor their

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<sup>18</sup> See 20 U.S.C. § 1087e (1) (2).

student loan servicer to ensure their military protections are maintained during a servicing transfer.

**Servicing transfers may lead to disruption or discontinuation of military benefits, lost payments and red tape for military borrowers.** Following a servicing transfer, some servicemembers may discover that their military protections, such as military deferment, are no longer applied to their account, causing their account to be treated as past-due. We heard from servicemembers who successfully enrolled in military deferments; however, after their loans were transferred to new servicers, these servicemembers' accounts lost their military deferment status. Some of these servicemembers did not discover the loss of their military deferment until their accounts went into default. We also heard from servicemembers who have had to spend their time while deployed talking to servicers to work out these loan transfer snafus. For example, we heard from a servicemember who had been handed off to several different servicer representatives who each described different repayment standards and requirements.

## 3. Conclusion

In the nearly three years since the Bureau released its first report documenting student loan complaints from military borrowers, we continued listening to servicemembers, veterans and their families as they shared their experiences with student loan servicers. Servicemembers continued to tell us how they are struggling to exercise the rights, protections and programs afforded by their military service. They also described how general servicing issues become even more difficult as a result of the realities of military life.

The Bureau has repeatedly noted that many of the most common breakdowns in student loan servicing bear a strong resemblance to the widespread failures in the mortgage servicing market prior to, during and in the immediate aftermath of the financial crisis. Many military families were victims of predatory mortgage lending and illegal foreclosures throughout this period. Many of the same characteristics that make military families especially vulnerable to predatory practices by bad actors in the mortgage market also create increased risks when they struggle to manage their student loan debt.

Many of the issues detailed above resulted in negative credit reporting. The armed forces consider credit history when evaluating servicemembers' ability to maintain the security clearances required for active duty. Diligently protecting and maintaining one's credit history is a necessity for any consumer. For our overseas military population, their missions often leave them without the luxury to vigorously monitor their credit and make endless calls to resolve errors based on servicing failures. Servicemembers should not have to find themselves distracted from their military assignments by a mishandled payment, an unanswered deferment request, or a botched transfer. Their time should be spent focusing on their mission, with their limited precious free time spent communicating with their families and loved ones, not fixing servicer errors or worrying about the additional repercussions of potential negative credit reporting.

Because of the added pressure for positive credit history due to military employment, the need for servicers to adequately communicate and apply military program options – as well as to deliver adequate service to military borrowers in general – is vitally important.

In contrast to the robust federal protections in place for borrowers with mortgages, there is currently no comprehensive statutory or regulatory framework that provides uniform standards for the servicing of all student loans. As the Bureau continues to receive input from consumers, market participants and other stakeholders on ways to improve the quality of student loan servicing for all consumers, we remain particularly attuned to the serious and significant problems facing servicemembers repaying student debt. Ultimately, servicing failures lead to greater risks for servicemembers and hurt our men and women in uniform.

# 4. Contact Information

To reach the CFPB's Office of Servicemember Affairs or Student Loan Ombudsman:

**By email**

[military@cfpb.gov](mailto:military@cfpb.gov)

[students@cfpb.gov](mailto:students@cfpb.gov)

**By mail**

Consumer Financial Protection Bureau  
1700 G Street NW  
Washington, DC 20552

To submit a complaint:

**Online**

[consumerfinance.gov/complaint](http://consumerfinance.gov/complaint)

**By phone**

Toll-Free: (855) 411-CFPB (2372)

Español : (855) 411-CFPB (2372)

TTY/TDD: (855) 729-CFPB (2372)

**By fax**

(855) 237-2392

**By mail**

US Mail: Consumer Financial Protection Bureau  
PO Box 4503  
Iowa City, Iowa 52244

Press and media requests

**By email**

[press@consumerfinance.gov](mailto:press@consumerfinance.gov)