



NEW YORK STATE
OFFICE OF THE ATTORNEY GENERAL

Testimony of
Letitia James

New York State Attorney General

Before the
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Subcommittee on Economic Policy

Public Hearing on Protecting Student Loan Borrowers and Upcoming Loan Servicing
Transitions

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Good Afternoon Chair Warren, Ranking Member Kennedy, and members of the committee. My name is Letitia James and I am the Attorney General for the State of New York. Thank you for inviting me here today to discuss the challenges facing student loan borrowers and ways to protect them.

My office has significant experience protecting student loan borrowers based on our enforcement of state and federal consumer protection laws. Since 2019, we have undertaken major investigations and actions against for-profit colleges, student lenders, and student loan servicers. Our work resulted in a \$9 million settlement with federal student loan servicer Conduent, formerly known as ACS, that provided relief to more than 40,000 New York borrowers; \$7.5 million in debt relief to more than 900 New York students at the now-defunct for-profit college ITT Tech; and a settlement with Transworld Systems, a student loan debt collector, which resulted in \$600,000 in restitution and penalties.

Our investigations have revealed that student loan borrowers are being harmed by the misconduct of student loan servicers. In October 2019, my office filed a lawsuit against the

Pennsylvania Higher Education Assistance Agency (PHEAA), one of the nation's largest student loan servicers, for its mismanagement of the Public Service Loan Forgiveness (PSLF) program. This program allows people who work in public service, like teachers, nurses, and members of the armed forces, to have their loans forgiven after making qualifying payments for ten years. Our lawsuit alleges that PHEAA, operating under the name FedLoan Servicing, failed these hardworking people by not accurately counting PSLF-qualifying payments, failing to provide explanations of their determinations, and failing to inform borrowers of their options to challenge FedLoan's mistakes. As set out in our lawsuit, FedLoan's inability to properly administer the PSLF program contributed to the shockingly high rate of rejection of PSLF forgiveness applications. When we filed our lawsuit, more than 98 percent of applications were rejected as ineligible for forgiveness.

PHEAA recently announced that it will not be renewing its contract with the Department of Education. However, state and federal investigations have revealed that servicer misconduct extends beyond a single servicer. The widespread misconduct stems, in part, from the absence of comprehensive federal servicing standards. To prevent misconduct from continuing, the Department should implement such standards, including:

- requiring servicers to provide accurate and timely information about income-driven repayment plans and PSLF eligibility;
- requiring servicers to act in the best interests of borrowers;
- imposing robust quality assurance measures;
- implementing mechanisms for borrowers to appeal servicer actions;
- requiring timely processing of borrower submissions; and
- penalizing servicers who violate state and federal consumer protection laws, including by reallocating the federal student loan portfolio to other servicers.

In addition, the Department should provide relief to borrowers who have been harmed by servicer misconduct, including by retroactively crediting PSLF borrowers with qualifying payments. The Department should also ensure that the onus is on the servicer, not the borrower, to identify and correct servicer errors. In addition, where state and federal investigations reveal systemic errors, the Department should provide broad, across-the-board relief to harmed borrowers.

The Department should also continue its work to reverse former Secretary DeVos's actions to shield federal servicers from state oversight. We applaud the Department for taking steps to restore information-sharing with state attorneys general offices. The Department should also retract Secretary DeVos's March 2018 notice that espoused the position that state consumer protection laws are preempted by federal law with respect to federal loan servicers. Retracting this ill-conceived notice will ensure that states can continue their important work to protect borrowers in our states.

In addition, Congress should expand access to PSLF loan forgiveness to all federal loan borrowers who devote ten years to public service, regardless of the type of federal loan or loan repayment plan. Expanding PSLF eligibility to encompass all such borrowers will provide relief

to many who were victims of servicer error and will result in a fairer, more consistent, and more equitable PSLF program.

Finally, the federal government should take action to cancel a substantial amount of federal student debt. I co-led a multistate coalition of 17 attorneys general urging the adoption of House and Senate resolutions that call for the cancellation of up to \$50,000 in federal student debt for all federal student loan borrowers. Cancelling this debt will help free borrowers burdened by loan payments and allow them to move forward with their lives, as well as help to close the racial and gender wealth gap.

The student debt crisis has been exacerbated by misconduct by student loan servicers. It is imperative that we create safeguards that protect students from servicer misconduct, especially students whose work and commitment to the public good benefit all of us. My office is committed to protecting students and student borrowers in New York State and across the country. Thank you for allowing me the opportunity to testify today.