VIA ELECTRONIC MAIL

July 13, 2015

Monica Jackson
Office of the Executive Secretary
Consumer Financial Protection Bureau
1700 G Street, NW
Washington, DC 20552
E-mail: FederalRegisterComments@cfpb.gov

RE: CFPB's Request for Information Regarding Student Loan Servicing

To the CFPB:

The National Foundation for Credit Counseling ("NFCC") commends the Consumer Financial Protection Bureau's attention to the difficulties that many student loan borrowers face when interacting with servicers. The Bureau's tireless and incisive attention to this issue has done much to drive policy discussion, and we look forward to learning what the Bureau does with the information gathered through this process. We appreciate the opportunity to provide comments on the issues facing student borrowers, as outlined in the CFPB's recent Request for Information (RFI).

The Supplementary Information included in the RFI does an excellent job of cataloguing many of the issues surrounding the student loan servicing market. It is clear that the Bureau is considering constructive ways to improve the servicing experience for student loan borrowers, and this letter includes some further suggestions. But our experience in the credit card and mortgage servicing markets tells us that there are inherent limits to how far effective servicing can go in helping borrowers to navigate what is ultimately an extremely complex and individualized problem. Borrowers need neutral, third-party advocates who can help them understand their individual repayment situation and options, and empower them to make informed repayment decisions.

The RFI correctly notes that there is no existing, comprehensive statutory or regulatory framework providing uniform standards for the servicing of all student loans. One unfortunate consequence of this lack of unifying regulation is there is no commonly accepted definition of "counseling" in the student loan space. Consequently, we see a wide variety of services that are represented as "counseling" that in fact bear little resemblance to what true, independent, non-profit counselors would describe as counseling services. One example is student loan servicing companies referring to their servicing agents as "counselors." Another example is colleges and universities, and even the department of Education itself, referring to online, non-interactive educational content as "counseling."

The Bureau should strongly consider adopting a uniform definition of counseling so as to ensure that all student borrowers receive a consistently positive experience. The NFCC posits that effective, high-quality counseling has three fundamental aspects: 1) it is delivered by independent, non-profit providers that do not have a financial stake in helping their clients achieve a particular outcome and who put the interest of their clients first; 2) it is an interactive experience in which the objective is to realize goals set by the client; and 3) the providing agencies and counselors must adhere to rigorous 3rd party standards for training, certification, and transparency.

Student Loan Counseling

The NFCC and its Member Agencies are already hard at work developing a comprehensive, National Student Loan Counseling Program to help struggling student loan borrowers evaluate their repayment options within the context of their other financial obligations. Building upon decades of experience in providing industry-leading credit, housing, and bankruptcy counseling services, this new program will work directly with borrowers to explore the short- and long-term implications of their repayment options. Student borrowers who engage with an NFCC certified student loan counselor will know, for example, whether an income-driven plan will cause them to pay more in interest over a standard repayment plan, and how that choice might affect their credit card debt and housing decisions.

Market Data

As the Bureau points out in its RFI, market data for student loan borrowers is quite limited. It is well-documented that the collective student loan market stands at over $1.2 trillion, and that the total outstanding debt has surpassed all other forms of consumer credit save mortgages. At the NFCC, we know that 40% of our existing clients come to us with student debt – with an average balance of nearly $33,000. Moreover, while clients with student debt have substantially similar levels of income and expenses to those without student debt, clients with student debt come to us with substantially lower levels of assets and savings. These clients evidence a clear need for in-depth, personalized service with an emphasis on both short- and long-term outcomes. This is simply a service that traditional loan servicing, with a business model predicated upon low levels of client engagement and short phone calls, cannot deliver.

Indeed, the Bureau's RFI outlines several problems common to student loan servicing. Servicers may fail to fully explain to struggling borrowers that if they select a forbearance option, interest will continue to accrue on their loans, for example. Or, more troublingly, a servicing agent might give a borrower inaccurate or misleading information. NFCC member agency counselors already delivering student loan counseling routinely experience these problems first-hand: in three-way telephone calls involving a student borrower, a counselor, and a servicer, counselors repeatedly experience servicers giving inaccurate information to clients. Often, this is due to inadequate training or experience on the servicer agent's behalf. In any event, it is inexcusable when the consequences to the borrowers can be so large.

To be sure, clients who receive inaccurate or incomplete information from a servicer could resolve the issue by submitting a complaint to the Bureau. However, there are numerous problems with this approach. First of all, many borrowers will not know if they receive inaccurate information from a servicer, and therefore will not know to submit a complaint. Secondly, the complaint resolution process is resource-intensive and takes many months to resolve. Counselors working with clients and servicers can resolve disputes in real-time, reducing the need for a lengthy and painful complaint process.

Student borrowers at risk of delinquency and default need extensive, in-depth service in order to explore their options. Unfortunately, this type of intensive, client-focused service is not encouraged by the student loan servicing business model. As we saw in the housing crisis, effective third-party counseling can substantially reduce delinquency and re-default rates.[1] Moreover, student borrowers at risk of default on their student loans are often facing other financial hardships as well. A student loan servicer is not qualified to address these financial challenges with the borrower, and is not in a position to do so. Indeed, in a study conducted by the STRATMOR group, researchers found that housing counseling combined with comprehensive financial counseling resulted in substantial cash-flow increases for clients, which consequently lead to better housing outcomes.[2]

Paying for Student Loan Counseling

The topic of how to pay for student loan counseling receives substantial discussion, and with good reason: struggling student borrowers are often not in the best position to pay for the cost of counseling. Making matters worse, the headlines are full of examples of the Bureau or state governments going after deceptive for-profit companies that charge substantial fees in return for insubstantial service. Despite the presence of these bad actors, truly objective, high-quality comprehensive student loan counseling remains a valuable service, both for borrowers and for lenders.

To be sure, there are a wide variety of educational resources available online for student borrowers to self-educate about their loans and their repayment options, for free. Both the Bureau and the Department of Education offer some of the best educational resources available anywhere. However, the sheer complexity of the student loan repayment landscape and the interaction of student loan repayment choices with other personal financial obligations mean that many borrowers simply want to talk to an expert about their options. Non-profit student loan counselors can provide this service at the lowest possible cost to the client or to other sponsors, such as the federal government.

Borrowers derive significant value from student loan counseling because they emerge from counseling educated about their options and with the assurance that their selected repayment strategy matches their financial objectives. For example, a borrower who learns that she can save thousands of dollars in interest by selecting a standard repayment plan instead of an income-driven plan while making other budgetary adjustments to cover the increased student loan payment derives a clear financial benefit from counseling. Another borrower who signs up

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[1] Mayer, Neil et al. 2010. National Foreclosure Mitigation Counseling Program Evaluation: Preliminary Analysis of Program Effects. Washington, DC: The Urban Institute; Ding, Lei, Robert G. Quercia, and Janneke Ratcliffe. 2007. "Post-purchase Counseling and Default Resolutions among Low- and Moderate-Income Borrowers." Journal of Real Estate Research, 30(3): 315-344. See also Quercia, Roberto and Spencer M. Cowan. 2008 "The Impacts of Community-based Foreclosure Prevention Programs." Housing Studies, 23(3): 461-483.

[2] The Impact of Credit Counseling on Distressed Mortgage Loan Losses, The STRATMOR Group, November 1, 2011, available at http://www.nfcc.org/newsroom/newsreleases/files11/distressed_mortgage.pdf

for income driven plans might derive substantial value from time saved researching his options on his own and determining which ones made the most sense for his budget.

The federal government, too, would be a significant beneficiary of widespread counseling for student borrowers. The increasingly high levels of delinquency and default among federal student loan borrowers present substantial costs on the federal government.[3] As both the predominant lender in the student loan market and the administrator of servicing and repayment programs, the federal government would benefit substantially from reduced delinquency and default rates, higher levels of borrower engagement, and reduced servicing and collection costs as a result of supporting widespread student loan counseling.

The NFCC therefore will respond to each of the CFPB's requests for information on (1) best practices; (2) existing solutions; and (3) the NFCC's ability to deliver the right services in the most effective manner.

About the NFCC

The NFCC is a 501(c)(3) nonprofit voluntary membership organization representing the largest and longest-standing nonprofit financial counseling and education network in the country. The NFCC's vision is to create a national culture for financial responsibility. The NFCC network's core mission is to promote a national agenda for financially responsible behavior and build capacity for its members to deliver the highest quality financial education and counseling services.

The NFCC was formed 64 years ago and is recognized as the "Gold Standard" of financial education and counseling because of its rigorous Member Quality Standards, Council On Accreditation (COA) requirements, and counselor certification requirements. The NFCC's members currently comprise seventy-seven 501(c)(3) nonprofit organizations with over 600 local offices and 1,500 professionally certified counselors and educators in all 50 states and Puerto Rico. The NFCC and its Member Agencies thus have national reach, with local, community-based service delivery.

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[3] See, e.g. Congressional Budget Office Updated Projections: 2015 to 2025 *available at:* http://www.cbo.gov/sites/default/files/cbofiles/attachments/49973-UpdatedBudgetProjections.pdf (stating that the Congressional Budget Office predicts an additional a $27 billion (or 30 percent) increase in Treasury outlays for student loans for the 2016–2025 period. These projections reflect recent Department of Education data including higher estimates of defaulting loans and increased program administration costs.