



The [Student Loan Borrower Assistance Project \(SLBA\)](#) is a program of the [National Consumer Law Center \(NCLC\)](#).

Stop Collectors from Gouging Student Loan Borrowers on the Taxpayer Dime

So much student loan debt....

There are nearly 39 million borrowers carrying over \$1 trillion in federal student loan debt.ⁱ

So many borrowers who can't pay their student loans through no fault of their own.

About \$120 billion of federal student loan debt was delinquent in 2012-- a 30.5% increase from fiscal year 2011.ⁱⁱ

Most borrowers end up getting behind on student loan payments because they are unable to complete their educations, suffer from serious disabilities, or earn so little money that they cannot afford to repay their loans.

The stakes are high for borrowers due to draconian government collection powers, including seizure of earned income tax credits and Social Security payments.

So much profit for the private debt collectors.

"The student loan market is a \$1 trillion opportunity for the ARM [debt collection] industry that is not going to decline anytime soon." --- Mark Russell, "Student Loans: The ARM Industry's New Oil Well?" Inside ARM (Oct. 20, 2011).

The Department of Education refers every eligible debt to one of 22 collection agencies. According to industry insiders, the Department of Education contract is "...THE most sought after contract within this industry..." because:

- There is so much debt;
- Student loans are very difficult to discharge in bankruptcy; and
- The business volume of federal student loan collections will grow as the government takes over originating student loans and as students take on ever-increasing debt loads to go to college.ⁱⁱⁱ

Outsourcing collection is not cheap. Taxpayers paid about \$1 billion in commissions to student loan debt collectors in 2011.^{iv}

Collection agencies routinely violate consumer protection laws and prioritize profits over borrower rights.

Under the law, student loan borrowers have many repayment options and other rights. It is the debt collection agencies' job to inform borrowers about these rights. Yet debt collectors are not adequately trained to understand and administer the complex borrower rights available under the Higher Education Act and the government does not provide sufficient oversight of their activities.

Recommended Actions

The government must balance the need to collect student loans and the need to assist borrowers. The current system heavily favors high pressure collection and collector profits, to the detriment of financially distressed borrowers seeking the help they so desperately need.

The government must:

- 1. Get rid of student loan debt collectors.**
- 2. Provide public information about the cost of outsourcing to private debt collectors and about performance. Collection agency performance must be about more than dollars collected.**
- 3. Create pilot projects to test alternatives such as in-house servicing and collection.**

ⁱ Rohit Chopra, Consumer Financial Protection Bureau, "[A Closer Look at the Trillion](#)" (Aug. 5, 2013); "[Explainer: Changes to Federal Student Loan Interest Rates](#)" (June 21, 2013).

ⁱⁱ U.S. Department of the Treasury, "U.S. Government Receivables and Debt Collection Activities of Federal Agencies", Fiscal Year 2012 Report to the Congress (March 2013).

ⁱⁱⁱ See Mark Russell, "Student Loans: The ARM Industry's New Oil Well?", *Inside ARM* (Oct. 20, 2011).

^{iv} John Hechinger, "[Obama Relies on Debt Collectors Profiting from Student Loan Woe](#)", *Bloomberg* (March 26, 2012).