Debunking the Top False Statements About Student Loans

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STUDENT LOAN SERVICING ALLIANCE

Student loans have helped millions of Americans achieve an education to further their careers and expand earning potential. Student loans have also allowed the federal government to reduce national unemployment levels, by shifting large numbers of people into higher education and better paying jobs.

Despite the widespread use of student loans, the system is far from perfect. There are many challenges within the federal student loan system that can only be improved through legislative changes. Despite this, some politicians and others, have begun to "spin" these challenges, pointing fingers and spreading falsehoods that serve their particular political agenda. But facts matter, so here are some critical facts to understand.

Following are the **top 4 false statements** currently being amplified about student loans:

1

"Student Loan Servicers are preventing borrowers from getting Public Service Loan Forgiveness (PSLF)."

FALSE!

The Truth Is:

Individual Members of Congress promised to deliver PSLF to student loan borrowers, encouraging expanded entry into the public service and nonprofit job market. However, the PSLF legislation they delivered included numerous hurdles and a lengthy timeline before a borrower could fulfill the program's requirements and reach loan forgiveness. These barriers were intentionally put in place by Congress to control the cost of the program.

Servicers' only role in PSLF is to educate borrowers about the program requirements set by Congress and officially qualify them for the program once they have fulfilled those requirements. Here's how it currently works: borrowers can have their loans cleared by certifying that they work for an eligible employer and making 120 qualifying monthly payments. However, borrowers who thought they were well on their way to loan forgiveness could fail to meet PSLF eligibility standards for a number of reasons – for example, they may have consolidated their loans, which restarts the 120 payment clock or they may apply well before they make the required 120 payments needed to qualify.

Public Service Loan Forgiveness is difficult to reach because Congress designed it that way. Only Congress can change the law & remove the barriers if they want to enable more borrowers to obtain PSLF.

2

"Additional state regulation is needed to protect student loan borrowers."

FALSE!

The Truth Is:

Student loan borrowers are actively protected by the Consumer Financial Protection Bureau (CFPB) and Department of Education (ED). There are literally hundreds of pages of federal protections in place to safeguard student loan borrowers.

Recently enacted state laws do not add any actual borrower protections that move the needle. Some state lawmakers are working to distract Americans from the fact that they are not doing anything to improve key issues like the rising cost of college tuition, reducing the need to borrow high amounts, ensuring students receive a quality education and building strong local economies with available good paying jobs.

3

"Student Loan Servicers have an abysmal record."

FALSE!

The Truth Is:

Student loan servicers have been successfully supporting federal borrowers for decades and consistently have an extremely low rate of consumer complaints. According to the CFPB, while actively servicing more than 40 million borrowers, only 1 percent of all consumer financial complaints pertain to student loans – lower than virtually any other financial product including mortgages, credit cards, checking accounts, car financing and personal loans. While servicers may make mistakes from time to time and some borrowers will have issues that need to be resolved, the actual data proves that this is extremely rare.

For example, in 2020, 87 percent of consumer complaints pertaining to federal student loans required the borrower to receive an explanation or clarification to fully resolve the issue. And, only 2 percent required any monetary relief. Adding in those where simple account adjustments had to be made that didn't involve a cost to the borrower, this means just 364 federal borrowers out of 40 million had an issue of any size that needed to be fixed – that's just 0.00091 percent.

In fact, according to an American Enterprise Institute (AEI) analysis, the majority of student loan complaints focus on borrower frustration with the terms and conditions of federal student loan programs, the loan payment options available to the borrower and issues related to institutions of higher education. All of these issues are far outside student loan servicers control and have nothing to do with loan servicing.

4

"Private student loans are predatory"

FALSE!

The Truth Is:

Consumers should be very thoughtful and careful to ensure they are shopping for private student loans among reputable private lenders. Private student loans can be a good option for certain borrowers – they have credit based loan limits, are carefully underwritten and perform extremely well. And, if a borrower has very good credit and a cosigner, they might qualify for a private student loan that offers an interest rate lower than the federal interest rate. Most importantly, private student loans consistently have an incredibly low default rate, just 2 percent, which is a startlingly positive contrast to the high 25 percent default rate of federal Stafford loans.

Private student loans also have a consistently low rate of consumer complaints. In 2020, the CFPB found that 93 percent of complaints pertaining to private education loans just required that the borrower receive an explanation or clarification to fully resolve the issue. This means that just 7 percent of private borrowers who filed a complaint had problems that a servicer or lender needed to fix and only 1 percent of those required monetary relief to resolve the issue. This means that in 2020, just 98 borrowers out of approximately 3 million private borrowers had an issue of any size that needed to be fixed – just 0.0033 percent.

It's also important to know that private lenders proactively provided student loan borrowers with additional forbearance options to support them through the COVID-19 pandemic. According to a new report by Measure One, Inc., these efforts likely prevented or delayed loan delinquency & default that otherwise might have occurred. As a result of that expanded support, the overwhelming majority of private student loan borrowers have now successfully transitioned back to repayment.

THE **BOTTOM LINE** IS:

Servicers don't set loan forgiveness requirements, are already well regulated, have a proven track record of success and help deliver responsible options. If we want to support borrowers and improve the student loan experience, ALL stakeholders must speak truthfully about student loans. When politicians, stakeholders and the news media continually recycle false statements about student loans and loan servicing, they are actively preventing all involved from focusing on, developing solutions and fixing the real problems within the student loan system.