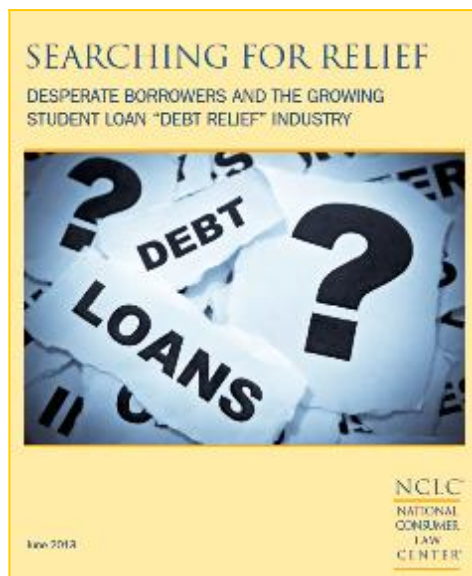


Searching for Relief

Desperate Borrowers and the Growing Student Loan “Debt Relief” Industry

A student loan “debt relief” industry has sprung up in response to the demand for student loan borrower assistance and this report documents multiple problems as well as potential violations of consumer federal and state laws. Given the many misrepresentations uncovered, it is unlikely that these companies are providing quality services in return for the money they are charging. Such practices severely compound the pain of vulnerable consumers seeking to find resolutions to difficult student debt problems. The U.S. Department of Education should make it easier for student loan borrowers to access its borrower assistance programs, and federal and state authorities should ensure that these companies comply with the law so that consumers truly understand what services they are buying.



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This report builds on NCLC’s advocacy, training, and public policy work to promote access to education, lessen student debt burdens, and make loan repayment more manageable. Learn more about NCLC’s Student Loan Borrower Assistance Project.

Key Findings

Searching for Relief: Desperate Borrowers and the Growing Student Loan “Debt Relief” Industry highlights numerous problems with the new and growing student loan “debt relief” industry, including:

- **Mischaracterizing Federal Government Programs as Their Own Programs**
- **Charging High Fees for Services that are Available for Free.** This practice is not inherently abusive, but it raises a number of warning signs. At a minimum, it is deceptive that most of the companies fail to prominently disclose that “their” programs are actually federal government programs that an individual can access on her own at no cost.
- **Not Disclosing Fees**
- **High Fees.** NCLC’s investigation found a range of fees charged, including initial fees up to \$1600 in some cases and monthly fees for ongoing services of \$20-50. The monthly fees are particularly suspect since it is unclear what services, if any, the consumer is buying on a monthly basis.
- **Selling a One-Size-Fits-All Approach.** Despite claims of broad services, most of the companies appear to offer mainly loan consolidation. There are numerous problems with this approach, including that consolidation is not an appropriate product for all borrowers and may not even be available to all borrowers.
- **Providing Inaccurate Information.** The report highlights a shocking number of company inaccuracies about consolidation, garnishment, rehabilitation, bankruptcy and other critical topics. These inaccuracies are in stark contrast to the ubiquitous claims of sophisticated student loan expertise.
- **Discouraging Borrowers from Handling Their Own Cases**
- **Focusing on Sales, Not Counseling**
- **Limiting Remedies and Access to Justice.** NCLC found widespread use of mandatory arbitration clauses (which require consumers to waive their right to use the court system and instead limit consumers to resolving their disputes with the lender through a binding arbitration process) and waivers of jury trials in consumer contracts.
- **Numerous potential legal violations of consumer protection laws, including the federal Credit Repair Organizations Act (CROA), Federal Trade Commission (FTC) Telemarketing Sales Rule, state debt settlement and debt management laws, and unauthorized practice of law provisions.** Many student loan debt relief companies appear to be routinely violating all or some federal and state consumer protection laws. Some potential violations: not including a three-day cancellation right in contracts, requiring payment before initiating services, and false and deceptive advertising.
- **Requiring Powers of Attorney.** This is extraordinary power that consumers are giving to questionable companies.
- **Safeguarding Consumer Privacy.** A number of the companies require a consumer to reveal his/her federal student loan PIN number in order to move forward with the service. This practice raises serious privacy concerns and violates U.S. Department of Education guidance.

Recommendations

- **Improve Government Bureaucracy and Simplify Student Loan Relief Programs**
- **Require Fair and Reasonable Fees**
 - All companies must disclose fees online and in all calls with consumers.
 - The companies must not charge advance fees in violation of federal law before services are completed.

- Companies should charge only fees that are bona fide and reasonable.

- **Prohibit Misleading Advertisements or Representations**

- Companies must not engage in false, deceptive, or misleading advertising, including improperly stating or implying affiliations or connections with government agencies.
- Companies must prominently disclose if their programs are government programs and if so that these programs are available at no cost through the government.
- Claims about performance must be transparent and verifiable.
- Claims about borrower rights and the requirements of student loan programs must be accurate and up to date.

- **Safeguard Consumer Privacy**

- Companies must not request or require borrowers to provide PIN numbers for the National Student Loan Data System (NSLDS).
- Companies must provide information about the potential dangers of signing power of attorney documents and comply with all applicable laws regarding such documents.

- **Refunds**

Refunds should not be as much of a concern if companies comply with applicable laws and do not charge any fees until services are completed. However, the companies must, at a minimum, refund any funds received if the consumer does not qualify for a program or otherwise has grounds for refund.

- **Other Consumer Protections**

- Commissions should not be allowed based on numbers of borrowers enrolled in particular programs.
- Transparency is critical. The companies must not only disclose all fees online and in response to requests for information, but also provide sample contracts upon request and verification of performance information.
- Comply with all applicable consumer laws, state and federal, including cancellation rights.
- Companies must comply with unauthorized practice of law provisions.
- Mandatory arbitration and other contract provisions limiting consumer access to justice should be banned.

- **Enforcement**

Federal and state regulators must step up to investigate these companies and enforce consumer protection laws.

- **Expand Reliable Assistance Resources**

Schools, loan holders and credit counselors can and should do more to assist borrowers,

with possible public funding or support from higher education institutions.

Since 1969, the nonprofit National Consumer Law Center® (NCLC®) has worked for consumer justice and economic security for low-income and other disadvantaged people, including older adults, in the U.S. through its expertise in policy analysis and advocacy, publications, litigation, expert witness services, and training. nclc-old.ogosense.net.

NCLC's Student Loan Borrower Assistance Project provides information about student loan rights and responsibilities for borrowers and advocates. We also seek to increase public understanding of student lending issues and to identify policy solutions to promote access to education, lessen student debt burdens, and make loan repayment more manageable. www.studentloanborrowerassistance.org.