

Defrauded Borrowers Sue U.S. Department of Education Contractor for Seizing Funds While They Wait in Limbo for Borrower Defense Relief

FOR IMMEDIATE RELEASE: February 12, 2020

National Consumer Law Center contact: Jan Kruse (jkruse@nclc.org) or (617) 542-8010

Download the complaint

Boston- The National Consumer Law Center, Justice Catalyst Law, and Flitter Milz, P.C. today served Maximus Federal Services, Inc. (Maximus) with a class action lawsuit, alleging that the company is engaging in illegal collection activity against thousands of federal student loan borrowers who submitted Borrower Defense to repayment claims to the U.S. Department of Education (Department).

Plaintiff Jaimaria Bodor borrowed federal student loans to attend a program run by the now defunct for-profit Corinthian Colleges, Inc. (Corinthian). Like many other Corinthian students, Bodor incurred debt to attend a program that wasted her time and provided no value. Because she alleges that Corinthian misled her about the value of its program, she filed a Borrower Defense application with the Department to have her loans canceled. Defendant Maximus unlawfully continued to process wage garnishments, tax refund offsets, and Social Security offsets against Bodor and other members of the prospective class, when Maximus was supposed to cease all collection activity during the pendency of the Borrower Defense applications.

“The ability to seize wages and tax refunds is an extraordinary collection power that causes borrowers terrible harm,” **said Persis Yu, director of the National Consumer Law Center’s Student Loan Borrower Assistance Project.** “Using this power against borrowers who were misled by their schools adds insult to injury and is inexcusable.”

Defendant Maximus, based in Virginia, has a contract with the Department to service defaulted federal student loans, and is the largest student loan servicer in the federal student loan system, handling nearly 8 million (7.98M) student loan borrowers’ accounts. The Department is expected to pay Maximus over \$848 million for this contract. Borrowers who submit Borrower Defense applications can choose to stop collections on their loans. Contrary to the explicit instructions of the Department, Maximus subjected Bodor, and the class that she seeks to represent, to continuing involuntary collection activity.

“Maximus is the sole contractor handling the Department of Education’s default loan system,” **said Brian Shearer, legal director of Justice Catalyst Law.** “If Maximus is allowed to ignore the rules established by Congress and Department, it’s as if the rules don’t even exist.”

Background: On December 20, 2017, *Calvillo Manriquez v. DeVos*, was filed by the Project on Predatory Student Lending at the Legal Services Center of Harvard Law School and Housing & Economic Rights Advocates in the U.S. District Court for the Northern District of California seeking full Borrower Defense relief for all students who had attended certain Corinthian schools during a

designated time period. On May 25, 2018, the Court in *Calvillo Manriquez* ordered Secretary Betsy DeVos to cease all efforts to collect debts from borrowers who would fit the criteria of the putative class.

According to the Department's filings in that case, thousands of borrowers who had applied for Borrower Defense relief—including, but also beyond those protected by the May 25, 2018 Court Order—continued to experience involuntary collection efforts because the Department's contractors, such as Maximus, placed their loans in an incorrect repayment status.