

How student loan servicers affect millions of people

By Marcy Gordon
The Associated Press

WASHINGTON — They aren't well-known. Their names are odd. And what they do — well, it's complicated. Yet student loan servicers — with names like AES-PHEAA and Nelnet — play a key role in the lives of the 44 million Americans who, combined, have amassed a \$1.4 trillion mountain of student debt.

And this week, regulators accused the largest of them, Navient, of making it harder for borrowers to repay loans by giving them flawed information, processing payments incorrectly and failing to act on complaints.

In its lawsuit, the government's Consumer Financial Protection Bureau demands restitution for affected borrowers and financial penalties from Navient, which manages \$300 billion in loans. Navient disputes the allegations.

Here's a look at student loan servicers and what they do.

Q • What function do these loan servicers provide?

A • Think of them as a liaison between a borrower and the bank or institution that extended a student loan, such as the U.S. Education Department. They manage borrowers' loan accounts, and they process monthly payments.

The servicers communicate with borrowers and provide information to them. And they handle any complications that arise. Say a borrower loses her job or encounters some other financial hardship. She would contact her loan servicer to seek an alternative repayment plan — one that might be based on the borrower's income — or request a deferral of payments or modification of the loan terms.

Student loans can be complex, and servicers manage those complications. Many borrowers juggle multiple loans,



AP file photo

The headquarters of student loan debt collector Navient Corporation, in Wilmington, Delaware in 2014. Student loan servicers play a key role in the lives of the 44 million Americans who, combined, have run up \$1.4 trillion in student debt. In January 2016, regulators filed a lawsuit against the largest of them, Navient, accusing it of making it harder for borrowers to repay loans by giving them flawed information, processing payments incorrectly and failing to act on complaints.

with different interest rates that can change periodically.

Q • From the standpoint of student borrowers, how have the servicer companies performed?

A • A report that the CFPB issued in September 2015 outlined widespread servicing failures reported by borrowers with both federal and private-market student loans.

The report cited troubles with payment processing, paperwork, resolution of account errors and access to alternative repayment plans.

The result was that borrowers faced the possibility of being hit with higher interest rates, "payment shock," damage to their credit records and even default, the report says.

Q • How widespread are these troubles?

A • Consider this: Every 28 seconds, someone defaults on a student loan in this country. That figure comes from Rohit Chopra, a former CFPB assistant director and student loan ombudsman, who based it on Education Department data.

The CFPB estimates that one in four student loan borrowers are delinquent and struggling to repay or already in default — a problem the agency says might be fueled by fail-

ures of the loan servicers.

Borrowers normally can't choose which loan servicer manages their loan. If you're unhappy with the service in a restaurant, you just don't return there, notes Chopra, now a senior fellow at Consumer Federation of America.

"But when it comes to servicing student loans, borrowers cannot fire them; they're stuck with them," he says.

Employees in call centers operated by servicer companies often rush borrowers off the phone without giving them the appropriate remedies, Chopra says.

Q • Is there a broader impact on Americans?

A • The roughly \$1.4 trillion in student debt carried by 44 million people causes delays in home ownership and limits how much people can save. One of the results can be a decline in college savings for the borrower's children, thereby creating a multi-generational debt cycle.

What's more, among the 44 million student-debt holders, 8 million are in default on loans totaling about \$130 billion, the CFPB has found.

Q • What options for repayment plans exist for struggling borrowers?

A • Most borrowers with federal student loans — in contrast to private-market loans — are entitled by law to make payments based on how much they earn through so-called income-driven repayment plans. For the first three years after enrollment, the government may pay part of the interest if the borrower can't keep up. After 20 or 25 years of monthly payments, borrowers in the plans may be eligible for loan forgiveness.

DID YOU KNOW FEBRUARY IS BLACK HISTORY MONTH?

Established in 1976, Black History Month was an expansion of Negro History Week, which was created in 1926 by Carter G. Woodson, a noted African American author and scholar. Today, the month-long celebration of African American contributions and achievement throughout U.S. history is also known as National African American History Month. Test your own knowledge of African American history with this quiz, sponsored by our local business owners in celebration of Black History Month.



1. What is the name of the nation's first black college?

- A. Tuskegee Institute
- B. Cheyney University
- C. Lincoln University

6. Who was the first African American senator?

- A. Hiram Revels
- B. Edward William Brooke
- C. Joseph Rainey

2. Who was the first African American to be appointed to U.S. Superior Court?

- A. Billy Eckstine
- B. Thurgood Marshall
- C. Paul Robeson

7. Who was the first African American to run for president?

- A. Barack Obama
- B. Shirley Chisholm
- C. Rev. Jesse Jackson

3. What was Muhammad Ali's profession?

- A. Boxer
- B. Senator
- C. Lawyer

8. What year was slavery abolished in the United States?

- A. 1865
- B. 1866
- C. 1867

4. Who was the first African American quarterback to be drafted in a professional American football league in the first round?

- A. Charles Follis
- B. Eldridge Reno Dickey
- C. Charles "Doc" Baker

9. Who is often credited with beginning the civil rights movement by refusing to give up his/her seat on the bus to a white man?

- A. Martin Luther King, Jr.
- B. Rosa Parks
- C. Harriet Tubman

5. Who was the first African American to play baseball in the American League?

- A. Roy Campanella
- B. Sam Jones
- C. Jackie Robinson

10. What year was Dr. Martin Luther King, Jr. assassinated?

- A. 1970
- B. 1966
- C. 1968

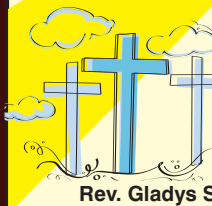
Correct Answers: 1. C, 2. B, 3. A, 4. B, 5. C, 6. A, 7. B, 8. A, 9. B, 10. C



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