Student Loan Ombuds Annual Report

July 2024

Department of Consumer and Business Services (report submitted under ORS 725A.530(3))

About DCBS:
The Department of Consumer and Business Services (DCBS) is Oregon's largest consumer protection and business regulatory agency. For more information, visit https://www.oregon.gov/dcbs/pages/index.aspx.

About Oregon DFR:
The Division of Financial Regulation (DFR) protects consumers and regulates insurance, depository institutions, trust companies, securities, and consumer financial products and services, and is a division of DCBS. Visit dfr.oregon.gov.

About the Student Loan Servicing Program:
Oregon's Student Loan Servicing Program provides support for Oregonians with student loans through outreach, education, and advocacy. Visit https://dfr. oregon.gov/help/student-loan-help/Pages/index.aspx. We encourage borrowers who have concerns about the servicing and repayment of their student loans to contact the student loan ombuds at DFR.bankingproducthelp@dcbs.oregon.gov or 888-877-4894 (toll-free).

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Introduction

This annual report to the Oregon Legislature describes the activities of the student loan ombuds with recommendations for legislative changes to better the repayment experience for Oregon's student loan borrowers. This report includes information about the outlook, trends, and effects of federal and private student loan servicing in the following sections:

- Background on student loans and student loan servicing
- Analysis of developments in the student loan space
- Policy recommendations to the legislature, including updates on previous recommendations

Executive summary

The student loan landscape is arduous and everchanging. The Biden administration is, in Secretary of Education Miguel Cardona's words, "committed to fixing a broken system" and have undertaken several changes toward that end.[1]

Since Oregon's student loan statute was codified in 2022,[2] Oregon's student loan ombuds has received 106 complaints and 440 contacts from the public. Of those, 72 complaints and 336 contacts came in the year since the previous annual report. Oregon's Division of Financial Regulation (DFR) has also licensed 64 total student loan servicers. Most servicers met the deadline and were already licensed by the time the 2023 report was submitted. A total of 11 new licenses have been issued since then. To see whether a student loan servicer is licensed in Oregon, visit Consumer Access (nmlsconsumeraccess.org).

Like last year, the majority of borrowers contacting the student loan ombuds had questions about federal student loan forgiveness programs and eligibility. Borrowers asked about how the return to repayment might affect them, how the new income-driven repayment plan works, and servicing transfers. Many borrowers were disappointed by the Supreme Court's verdict overturning a federal student loan debt forgiveness program[3] and the resulting unexpected return to making payments on student loans after the COVID-19 payment pause.[4]

1 Student loan borrower rights after the Supreme Court hearing. https://library.nclc.org/article/student-loan-borrower-rights-after-supreme-court-ruling#content-2

2 "Chapter 725A – short term loans and student loan servicing Oregon revised statutes." https://www.oregonlegislature.gov/bills_laws/ors/ors725a.html

3 22-506 Biden v. Nebraska (06/30/2023) (supremecourt.gov)

4 See Payment pause ends section of this report

Background on student loans

New ways of financing higher education continue to appear in complaints from borrowers. Installment payment plans, in which borrowers pay the school – or a third party – the full tuition over a stipulated time, are common.[8] Buy now, pay later loans, sometimes in the form of income share agreements (ISAs), also continue to grow in popularity. For many reasons, it is difficult to estimate the exact size of these portfolios. In 2020, there were an estimated $300 million worth of ISAs originated. Extrapolating based off the federal loan origination in that same year of $100 billion, ISAs are a small part of the market.[9]

The U.S. Department of Education (ED) continues to own by far the largest portion of the outstanding student debt nationwide. As of June 1, 2024, the principal and interest owed to ED is $1.62 trillion.[5] The total includes Direct Loans, Perkins Loans, and department-held Family Federal Education loans. Most student debt is used directly by undergraduate students in the form of Direct Loans (about $1.4 trillion).[6] The remainder is borrowed by parents on behalf of their college student dependents or by graduate students.

Private student loans continue to be part of the student debt ecosystem, despite their decreasing popularity. As Parent Plus loans and new products become more popular, they often take the place of private student loans to fill gaps in financing. The private student loan portfolio is made up of about $132 billion in outstanding student debt.[7]

According to the available Federal Student Loan Portfolio data from ED's student aid data center,[10] student loan borrowers are comprised of a large and diverse group of Americans. As of June 1, 2024, borrowers 24 and younger have a total outstanding loan balance of $98.9 billion – a smaller total number than any other age group, with the exception of borrowers older than 62.

The largest proportion of student debt is currently held by people ages 35 to 49 – 12.3 million student loan borrowers fall into this age group – twice as many people as in the 24 and younger group. There are more borrowers in the intervening 25-34 age group, but they hold less cumulative debt. This could be due to recent increases in

5 "Federal student loan portfolio." Federal student aid Federal Student Loan Portfolio | Federal Student Aid

6 "Portfolio by loan type." Federal student aid Federal Student Loan Portfolio | Federal Student Aid

7 CFPB annual education loan report. https://files.consumerfinance.gov/f/documents/cfpb_annual-education-loan-ombudsman-report_2023.pdf

8 "Tuition Payment Plans in Higher Education" CPFB https://files.consumerfinance.gov/f/documents/cfpb_tuition_payment_plan_report_2023-09.pdf

9 "Income Share Agreements: Market structure, communication and equity Implication of a student loan alternative" https://www.rand.org/pubs/research_reports/RRA2649-1.html

10 https://studentaid.gov/data-center/student/portfolio

scholarships and grants, as well as the fact that borrowers 35 and older are more likely to have incurred additional debt to complete a graduate or professional degree.

Oregon reflects national patterns – those between ages 35 and 49 are the largest number of borrowers and owe the largest total debt – 196,500 Oregonians in that age group owe a total debt of $9.13 billion.

About 535,900 Oregonians currently owe some federal student debt – down from an estimated 552,100 at this time last year. Of those, nearly 80,000 owe less than $5,000. The largest portion of Oregon's borrowers (42 percent) owe between $10,000 and $40,000.[11]

About 6.74 million borrowers nationwide are currently at least one month behind on their student loan payments.[12] Because we are still in the on-ramp phase of return to repayment, borrowers who are late on their loans are being put into a forbearance status rather than delinquency status. This means there is no current data for new student loan defaults. As of June 1, 2024, $11.8 billion worth of federal student debt is 31 to 90 days behind. In most cases, those loans have been in default since before 2020.

Data relating to race, gender, and other identities are not available in the Federal Student Loan portfolio data center. However, there is a range of scholarship indicating the racial and gender disparities among student loan borrowers. Black students borrow more and earn less than their white counterparts.[13]

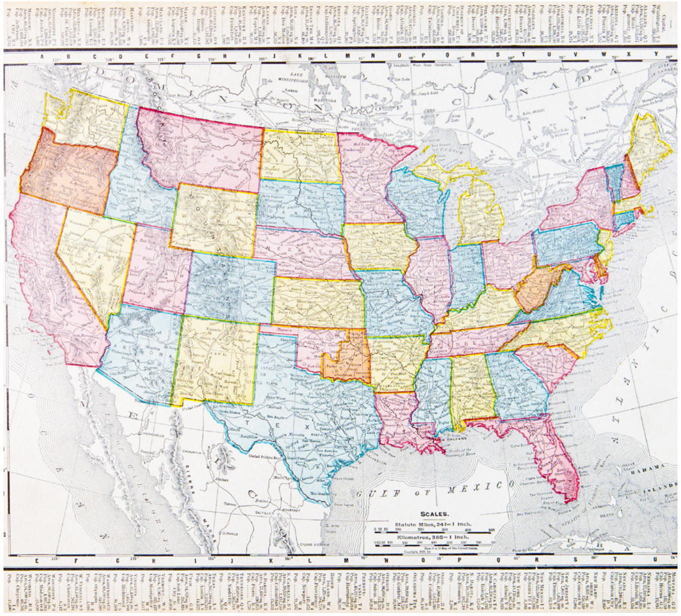
Populations that are experiencing the most hardship among student loan borrowers include borrowers who have Parent Plus loans in addition to still paying their own debt, borrowers who did not graduate from college, and borrowers who rent rather than own their home. Research completed by experts at the University of California, Jain Family Institute, and University of Utah reflects that lower incomes and lower credit scores correlate directly with borrowers who struggle to repay their loans.[14]

[11] Portfolio by location and debt size https://studentaid.gov/data-center/student/portfolio

[12] Portfolio by delinquency status https://studentaid.gov/data-center/student/portfolio

[13] Hanson, Melanie. "Student Loan Debt by Race" EducationData.org, May 13, 2024, https://educationdata.org/student-loan-debt-by-race

[14] Financial Hardship Among Student Loan Borrowers https://www2.ed.gov/policy/highered/reg/hearulemaking/2023/financial-hardship-among-student-borrowers-non-federal-negotiators-requested-presentation.pdf



Payment pause ends

The federal student loan collection mechanisms, as well as interest accrual for federal student loans, were paused from April 2020 through September 2023. Bills stopped arriving in April 2020 under the Trump administration due to a provision in the CARES Act as a form of economic relief for Americans as the COVID crisis hit.[15] Although it was originally planned to be a short-term measure, the expiration date was moved more than once. When the payment pause ended last fall, some borrowers reported confusion about the balance and status of their loans. The Biden administration has overhauled the student loan origination and repayment system. Although the changes were undoubtedly intended to improve the borrower experience, the effects have caused much confusion and some harm to borrowers.

Richard Cordray, chief operating officer of Federal Student Aid, delivered the following remarks to the Educational Finance Conference on Thursday, Sept. 16, 2021

"… the payment pause itself has been an unprecedented challenge for the Direct Loan program as well. It may seem that it would be easy just to stop doing something, akin to taking a rest, but that surmise would badly misunderstand the complexities of the financial aid world. In the first place, the pause was not one single decision that spanned this entire period, but instead has been a series of extensions that each generated its own set of workstreams. FSA has had multiple periods where it had to plan and prepare for return to repayment, only to reverse course, often at the last minute. The dilemma of how to communicate these mixed messages to borrowers has also been severe, with so many false starts no doubt sowing tremendous confusion about what even the immediate future may hold. At the same time, borrowers have been hearing a steady drumbeat about the possibility of loan forgiveness, either wholesale or piecemeal. The old saying is that "the wish is father of the thought," and we can expect that many, many borrowers will not be eager to return to repayment when they have been led to believe, or even to hope, that was never going to happen. Getting over that psychological hurdle with millions of Americans may be a much harder job than we know."[16]

The intervening two years did not ease that weight on borrowers. The COVID-19-era payment pause was extended several times, meaning that borrowers, the department, and servicers were often preparing to restart a system and then were put back on pause. The elusive nature of the payment pause meant that servicers and borrowers were somewhat taken by surprise when payments finally came due – in October 2023 for most people. The federal student loan system has never before paused, or returned to collecting payments, charging interest, and performing collection actions. The unprecedented nature of temporarily halting those processes, with the overlay of new

[15] HR 748 – CARES act https://www.congress.gov/bill/116th-congress/house-bill/748

[16] Cordray remarks at EFC politico.com/f/?id=0000017c-9469-dddc-a77e-95fb97700000

programs, and changes to existing programs, appears to have overwhelmed the system.[17]

While many borrowers received bills in September 2023, at least 99,000 of those bills contained incorrect information. In most cases, the incorrect bills were sent to borrowers who had previously defaulted on their loans and took advantage of the Fresh Start program or borrowers who had applied for the new Income-Driven Repayment (IDR) plan.[18] For another 2.5 million borrowers, bills arrived late or not at all.[19] These errors were caught early and resulted in planned remediation for borrowers, as well as the withholding of contract funds from the servicers at fault. Borrower remediation was intended to subsidize interest charges, and months that were incorrectly billed were retroactively placed in forbearance while still being coded as eligible toward PSLF or IDR forgiveness. Contacts received by Oregon's student loan ombuds indicated that not all eligible borrowers have received the remediation they were offered.

In addition to the problems associated with billing, borrowers encountered long wait times, difficulty in accessing secure online messaging, and overall challenges in contacting servicers. A report released by the American Federation of Teachers (AFT) and the Student Borrower Protection Center (SBPC) indicates that in the case of at least one servicer, the call deflection was intentional – despite the inability of borrowers to access services on their website.[20]

In addition to the shortcomings recorded by the federal Education Department, SBPC, and AFT, the Consumer Financial Protection Bureau reports an increase in student loan complaints. While the increase may be expected alongside payments restarting, most of the complaints are related to processing of IDR applications, poor customer service from student loan servicers, or both.[21]

With repayments comes the risk of defaults. To mitigate against defaults, the U.S. Department of Education has implemented the Fresh Start program and on-ramp.[22] Fresh Start allows borrowers to call or log in to the Default Resolution Center and request that their defaulted loans be returned to a loan servicer and placed in "repayment" status. Once enrolled in this program, borrowers also have the record of default removed from their credit report. Similarly, the on-ramp means that borrowers who were current at the time the pause ended (Sept. 30, 2023) will not be reported delinquent or sent to the default servicer during the first year of repayment. The goal of the on-ramp was to hold harmless the borrowers who struggled to pin down their servicer or payment amount during the confusion following the end of the payment pause, and give borrowers a chance to readjust to repayment. The U.S. Department of Education estimated that about 7.5 million borrowers are eligible for Fresh Start, but since the program is opt-in, the total number of borrowers who benefited is unknown. Fresh Start is a temporary program that ends Sept. 30, 2024. Data on the success of these programs will hopefully be available after that date.

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17 "Student loan payment restart has been marred by errors, from late notices to incorrect bills" October 31, 2023 https://abcnews.go.com/Politics/student-loan-restart-marred-errors-late-notices-incorrect/story?id=104487395

18 Decision memorandum October 29, 2023 https://www2.ed.gov/policy/gen/leg/foia/decision-memorandum-return-to-repayment-servicing-errors-10-29-23-signed-redacted.pdf

19 ibid

20 The MOHELA Papers. https://www.mohelapapers.org/

21 Report of the CPFB Education Loan Ombudsman https://files.consumerfinance.gov/f/documents/cfpb_annual-education-loan-ombudsman-report_2023.pdf

22 ibid

The Biden administration and Education Secretary Miguel Cardona have introduced many changes to student loan repayment and cancellation systems. Some of the modifications were attempts to improve existing programs, while others were new.

Student loan forgiveness and other changes to federal repayment options

On June 30, 2023 – the same day that last year's student loan ombuds report was published – the U.S. Supreme Court overturned the Biden administration's attempt to provide blanket relief of up to $20,000 for income qualifying borrowers.[23] The same day, White House Press Secretary Karine Jean-Pierre and Secretary of Education Miguel Cardona announced their intention to pursue a "Plan B," stating: "We're going to open up an alternative path to debt relief for as many borrowers as possible. While we acknowledge the Court's decision, we began the negotiated rulemaking process on settlement and compromise authority today."[24]

Because the original proposal used the Health and Economic Recovery Omnibus Emergency Solutions (HEROES) Act as justification for debt relief, the negotiated rulemaking process under the Higher Education Act was still available to the administration to pursue. On July 6, 2023, the Department of Education announced its intention to establish a negotiated rulemaking committee.[25] One constituency the department sought to have represented on the committee was state officials, including state higher education officers, state authorizing agencies, and state regulators of institutions of higher education. Oregon's student loan ombuds, Lane Thompson, was nominated to the committee as a negotiator representing that group. The negotiation protocol requires three sets of two-day meetings over three months, with the goal of reaching unanimous consent on student loan relief language. By the end of the third session, language about relief for borrowers experiencing hardship had not yet been introduced by the department. Negotiators requested, and were granted, an additional set of meetings to work on hardship language. By the end of the fourth session, negotiators and the department reached consensus on a range of relief options.

In April 2024, the Biden administration announced that the first set of rules had been posted to the Federal Register for comment. Included in the new proposed rules are discharges for borrowers with all the following circumstances:[26]

- Borrowers already eligible under an existing program, but who have not applied yet

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[23] 22-506 Biden v. Nebraska (06/30/2023) (supremecourt.gov) 22-506 Biden v. Nebraska (06/30/2023) (supremecourt.gov)

[24] Press briefing by Press Secretary Karine Jean-Pierre, Secretary of Education Miguel Cardona, and Deputy Director of the National Economic Council Bharat Ramamurti https://www.whitehouse.gov/briefing-room/press-briefings/2023/06/30/press-briefing-by-press-secretary-karine-jean-pierre-secretary-of-education-miguel-cardona-and-deputy-director-of-the-national-economic-council-bharat-ramamurti/

[25] Negotiated Rulemaking Committee, public hearing. https://www.federalregister.gov/documents/2023/07/06/2023-14329/negotiated-rulemaking-committee-public-hearing

[26] Biden Announces new student loan forgiveness plan affecting tens of millions of Americans April 8, 2024. https://www.cnbc.com/2024/04/08/biden-will-announce-details-of-new-student-loan-forgiveness-plan.html

- Borrowers whose interest repaid exceeds the amount originally borrowed
- Borrowers who entered repayment more than 25 years ago
- Borrowers who attended schools of questionable value

The comment period closed on April 17, 2024. The hardship language that the negotiators reached consensus on has yet to be posted to the Federal Register.

Also, the Biden administration has effectuated more student debt cancellation than any other presidential administration. As of March 29, 2024, the administration has approved debt cancellation for nearly 3.9 million Americans, totaling more than $144 billion in relief.[27] The 3.9 million borrowers include people eligible for discharge under Public Service Loan Forgiveness (PSLF), Income Driven Repayment (IDR) forgiveness, Total and Permanent Disability Discharge (TPDD), closed school discharge (CSD), and Borrower Defense to Repayment (BDR). The increase in forgiveness under these programs is an indication that changes made to them over the past three years are benefiting borrowers and making the existing forgiveness options more accessible.[28]

These changes include the introduction of a new income-driven repayment plan – Saving on a Valuable Education (SAVE), as well as updates to PSLF, TPDD, and BDR made in 2022. An example of the rule change for BDR is the explicit inclusion of group discharges. This allows borrowers who attended predatory schools to have their debt forgiven without an individual application. Recently, several group discharges have been approved by the U.S. Department of Education, indicating that it is engaged with using the new rules established in 2022. Some examples of schools whose previous attendees had their debt discharged under the new BDR rules include The Art Institutes, the University of Phoenix, and Ashford University.[29]

Also included in the total forgiveness numbers are people who had borrowed $12,000 or less, were in repayment for at least 10 years, and signed up for the SAVE plan. Forgiveness under that plan was not slated to become available until July 2024. However, the Department of Education expedited the timeline to get cancellation to borrowers sooner, and began canceling balances for these borrowers in February 2024.[30] In addition to the relief accessed under SAVE, many borrowers are benefiting from lower monthly payments, subsidized interest, and shorter repayment periods. For example, more than 4 million borrowers have a $0 monthly payment on the new plan.[31]

One additional group reflected in the $144 billion total relief are borrowers whose loans were forgiven under the one-time account adjustment. As of April 12, 2024, more than 996,000 borrowers qualified for roughly $49.2 billion of debt relief under this one-time change. These borrowers had been making payments for at least 20 years, and, in many cases, are elders.[32] The soft deadline was April 30, 2024, to consolidate FFEL, Perkins, or other federally insured student loans into direct loans to benefit from the one-time adjustment. This deadline was intended to allow enough time

[27] See how much loan debt Biden has canceled. https://www.cnn.com/2024/03/07/politics/student-loan-debt-forgiveness-biden/index.html

[28] Biden-Harris Administration releases state-by-state breakdown of 1.2 billion in SAVE plan forgiveness. https://www.ed.gov/news/press-releases/biden-harris-administration-releases-state-state-breakdown-12-billion-save-plan-forgiveness

[29] Borrower Defense Updates https://studentaid.gov/announcements-events/borrower-defense-update

[30] Fact Sheet: President Biden cancels Student debt for more than 150,000 student loan borrowers

[31] ibid

[32] Q&A The New Student Loan Income-driven repayment account adjustment. https://www.nerdwallet.com/article/loans/student-loans/idr-waiver

for those consolidations to be processed by July 1. The last time that the department intends to review past payments for eligibility toward IDR forgiveness is September 2024. After that date, borrowers are expected to be able to see the number of qualifying months they have earned toward forgiveness under IDR. The total debt forgiveness granted under the one-time account adjustment will not be known until later this year.

Unified Servicing and Data Solutions related changes

As of the publication of this report, The U.S. Department of Education's Federal Student Aid (FSA) Office is moving to what it calls the Unified Servicing and Data Solutions (USDS) platform.[33] With this platform, borrowers will have one login for both FSA and their servicer's platform, servicers will co-brand with FSA, and FSA will be doing specialty servicing "in house" (via the use of other vendors, known as business process operations or BPOs.) While the transition to the new servicing platform is in process, certain functions are on hold. Most notably, PSLF discharges are currently paused until July 2024. For borrowers who had previously applied for PSLF, and have still not received the forgiveness they earned, the pause has added more anxiety and stress.

We are here (pointing to: Single sign on (SSC))

Current Environment	Single sign on (SSC) (Year 1of USDS Go-Live)	StudentAID.gov Repayment Portal (Target State)
Borrowers must use their servicer's website to manage repayment, including making payments and changing repayment plans. Certain tools and forms are available on StudentAid.gov.	Borrowers still use their servicer's website to manage repayment. **More tools and forms are available on StudentAid.gov.**	Servicer websites are decomissioned; **all repayment functionality is in one place, StudentAid.gov.**
Borrowers use **different login credentials** for their servicer website and StudentAid.gov.	Borrowers **use the FSA ID** to log into both their servicer and website and StudentAid.gov.	Borrowers **use the FSA ID** to log into StudentAid.gov. Servicers no longer have seperate website.
Servicer's use their own branding on websites and communication	**Servicers co-brand with** FSA on their websites and communications.	**Borrowers only see the FSA brand.**
Servicer's websites have **different formatting and tools.**	Servicers must have some **common website formatting and tools**.	Borrowers all **access tools on one website**. StudentAid.gov.
Borrowers **must setup new login credentials and payment information** when their account is transferred to another servicer.	Borrowers **use the FSA ID, but must setup new payment information** when their account is transferred to another servicer.	Borrowers experience **no changes to login or payment information** when their account is transferred to another servicer.

[33] The Next Generation of Loan Servicing. https://studentaid.gov/data-center/business-info/next-gen/next-gen-loan-servicing

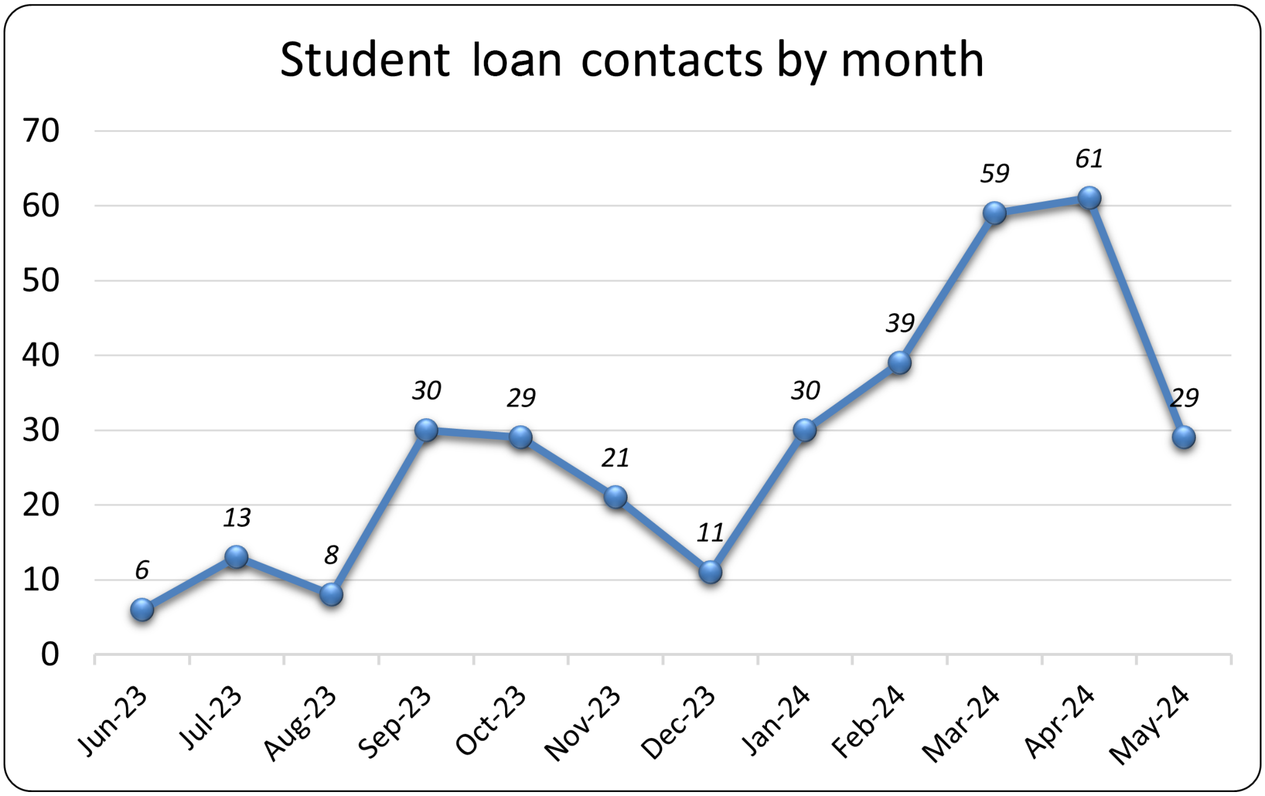
Oregon developments

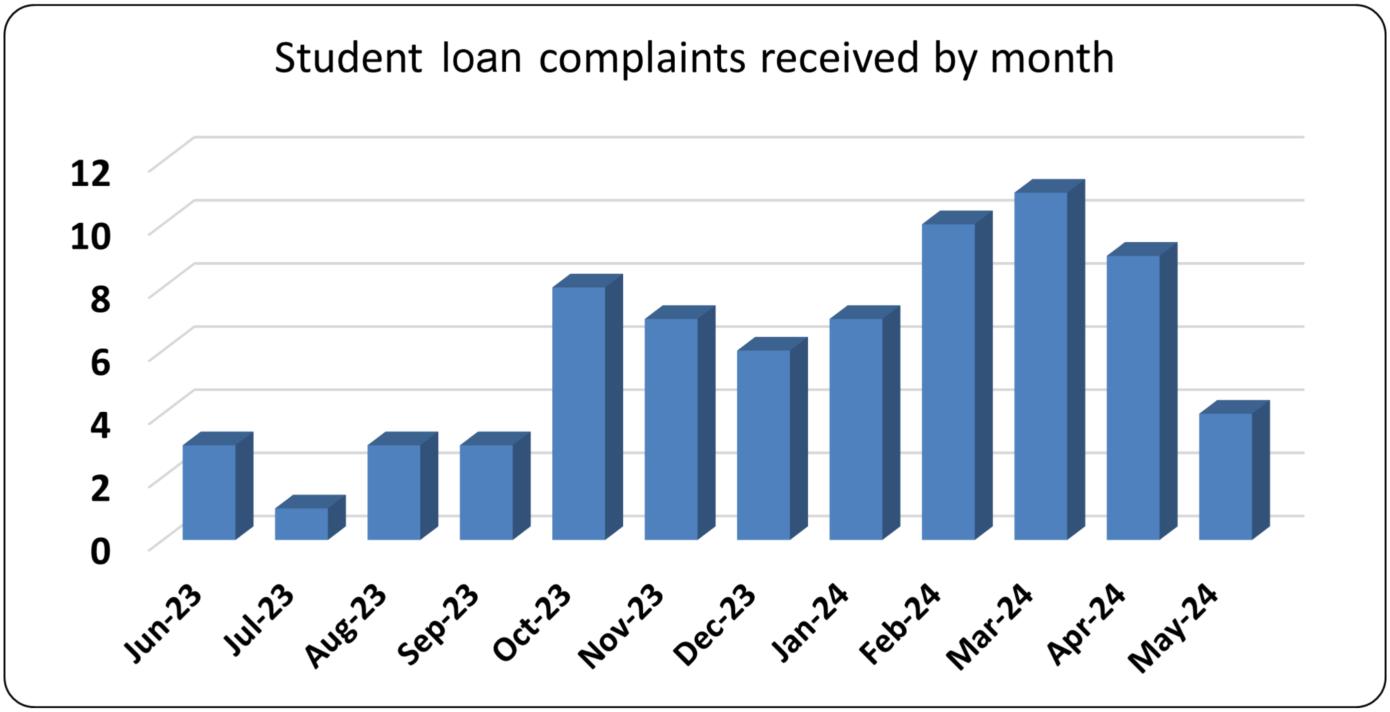
Oregon's student loan ombuds' second year began with the Supreme Court overturning President Biden's proposed relief plan. Many borrowers had applied, and even received notification that they were approved, for relief under the plan. When the president announced the large-scale cancellation, he did so with the intention of returning to repayment only after many borrowers' loans were canceled. From the studentaid.gov/debt-relief-announcement:

"To smooth the transition back to repayment and help borrowers at highest risk of delinquencies or default once payments resume, the U.S. Department of Education will provide up to $20,000 in debt relief to Pell Grant recipients with loans held by the Department of Education …"

Without this expected relief, 43 million U.S. borrowers were returned to repayment in September 2023. This resulted in panic, confusion, and even anger for many borrowers. In addition to returning to repayment, Federal Student Aid has been responsible for implementing the new rules for Borrower Defense to Repayment, Public Service Loan Forgiveness, and Total and Permanent Disability Discharge; transferring borrowers as contracts change; completing the one-time account adjustment; changing to the USDS platform and rolling out the new Free Application for Student Aid (FAFSA). Because FSA became overwhelmed, much of that experience was passed on to borrowers and state student loan advocates. One way to illustrate the effect of long wait times and mass disorientation is through the number of contacts that the student loan ombuds received.

As the chart shows, six contacts in June 2023 quickly became 60 by early 2024. The increase can be attributed to long wait times when trying to contact servicers, unclear messaging from servicers and the U.S. Department of Education, and frustration over blame shifting between federal student loan entities. The student loan ombuds received the same number of contacts in April 2024 as they did the entire first year of the program. Year two included a total of 336 contacts via phone and email.





The most common topics of consumer contacts were servicing transfers, Income-Driven Repayment (IDR) plans, eligibility for forgiveness, long wait times, and questions about which entity is involved in which processes. Many questions arose at the intersection of these issues – hoping to have an IDR or forgiveness application processed before repayment restarted, having submitted an application to one servicer, and uncertainty as to whether a new servicer has the information previously submitted. Questions range from the general "Am I eligible for any forgiveness?" and "Where do I start with addressing my old loan debt?" to the very specific "Will my Public Service Loan Forgiveness application be reviewed under the waiver criteria since it was submitted during the waiver period?" and "How can I get a reissue for a refund check from the multi-state settlement?"

Another common topic of consumer contacts is potential fraud – multiple borrowers contacted the ombuds to ask if an email or phone call was from a legitimate service provider. The confusion about forgiveness being offered, then withdrawn, has opened a space for scammers to take advantage of borrowers' lack of clarity.

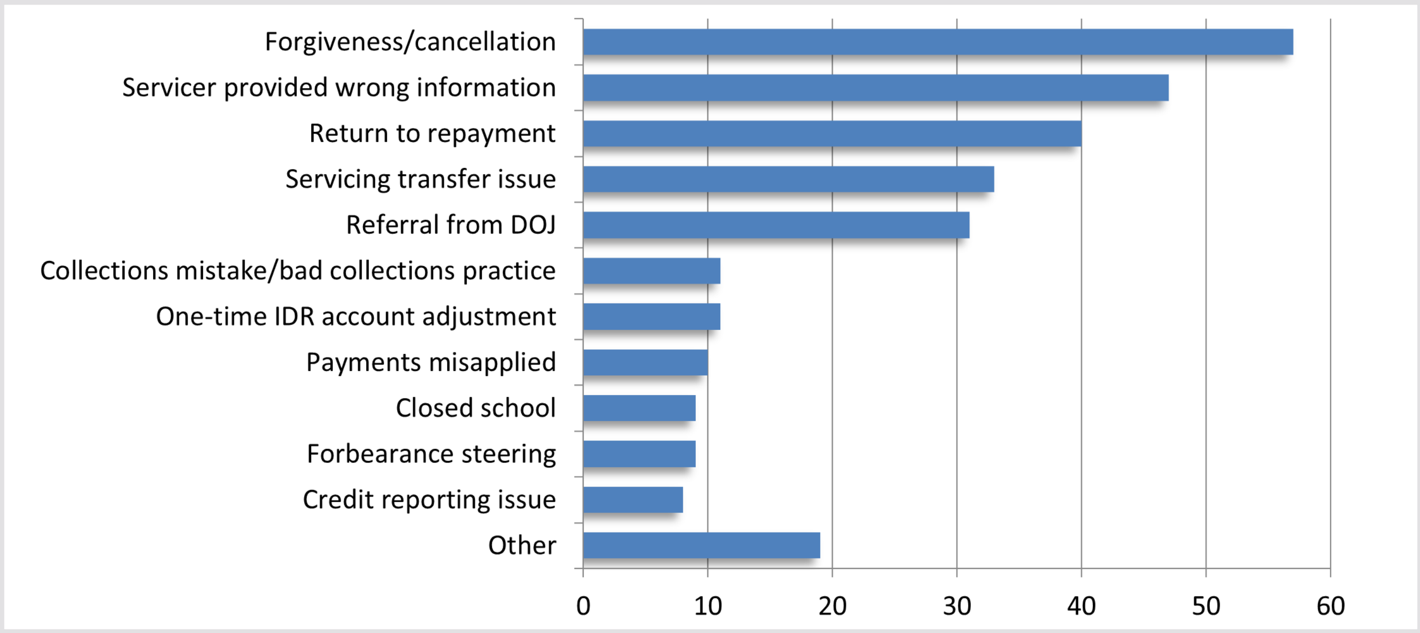
Summary of complaints and patterns

Seventy-two new complaints were filed in the year between June 1, 2023, and May 31, 2024.

Because some of the complaints filed in the previous report year are still open, this year's analysis will be of all complaints received since the beginning of the program (106 total complaints). Of the total complaints received, 52 have been closed so far.

Like the increase in consumer contacts, complaints received from consumers increased almost every month of the past year.

Quarter/Year	Total SL Complaints opened	Total SL Complaints closed
2022 Q3	4	3
2022 Q4	15	6
2023 Q1	10	10
2023 Q2	8	4
2023 Q3	7	3
2023 Q4	21	5
2024 Q1	28	13
2024 Q2	13	8
Total	106	52



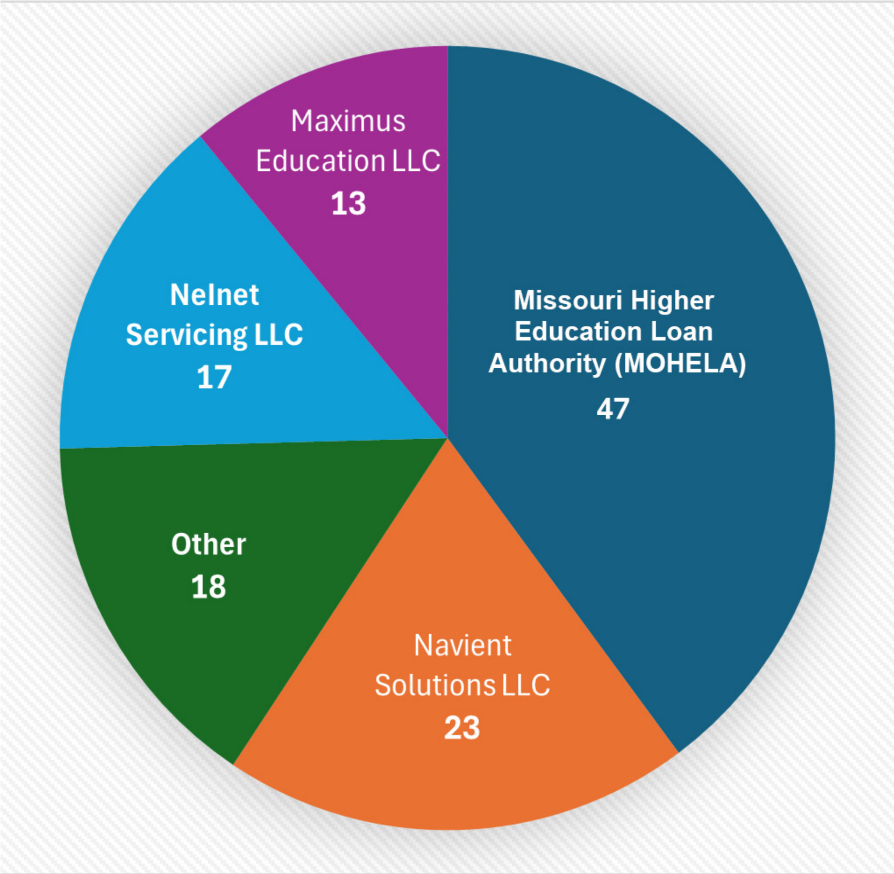
*Other includes income share agreements/new products, bankruptcy, identity theft, unlicensed servicing, servicer rude/unprofessional, state or federal tax offset, and benefits offset.

Complaints about loan cancellation and discharge continue to be the most common. Closely following are complaints about the return to repayment and servicing transfers. Often, when borrowers reach out, the first thing they say is that they received conflicting information from their servicer and the U.S. Department of Education, or between their servicers' customer service staff and their websites. For this reason, many complaints are keyworded "servicer provided wrong information." Complaints can be assigned more than one keyword.

Of the 52 complaints closed, 16 received some type of favorable resolution. That includes borrowers who had balances canceled after long waits, borrowers who received refunds for fees they should not have been charged, and borrowers who had information corrected at the credit bureaus. In the case of 27 borrowers, no violation was found and the complaint was closed after providing the borrower with detailed information and documentation regarding their loan debt. Situations that fall into this category include borrowers who thought they should have been part of the Navient Multi-State settlement, but did not meet the criteria; borrowers who believe they do not owe the debt that is being collected; and borrowers who thought they were entitled to additional benefits though the CARES Act.

The remaining cases involve issues with servicers. The Division of Financial Regulation (DFR) is evaluating whether the issues fall under state or federal law and exploring next steps to ensure compliance and redress consumer harm.

Case study: *A borrower contacted the student loan ombuds in September 2023. At that time, she had been waiting since 2021 to have her Public Service Loan Forgiveness application processed. After months of back and forth between the current and previous servicers, guarantee agencies, and the U.S. Department of Education, they were informed that a Social Security number – that was not only not hers, but actually no one's – was attached to all loan history in the National Student Loan Data System (NSLDS) before a consolidation completed in 2022. The Department of Education's ombuds explained that they need to ask the NSLDS team to make the update. As of the date of publication, the update has not been made, and the borrower's loans continue to be open and accruing interest.*



The chart on this page identifies the servicers named in borrower complaints received by DFR. One servicer, the Missouri Higher Education Loan Authority (MOHELA), has the largest proportion of complaints against it. This could be a scope of work issue. MOHELA, the second-largest of the federal servicers, was tasked with the processing of "specialty servicing," including Public Service Loan Forgiveness applications for the past two years.

Outreach and education

The student loan ombuds participated in two concerted outreach campaigns in the past year. The first was in preparation for returning to repayment. Starting with a student loan symposium on July 19-20, 2023, hosted by Oregon Attorney General Ellen Rosenblum, the ombuds served as a panel speaker during the opening session.[34] After the symposium, DFR posted a new page on its website about the return to repayment.[35] The ombuds also partnered with Oregon Consumer Justice to provide training to its policy cohort partners and staff. The division also posted social media messaging on the return to repayment, using the friendly and frowny dollar.[36] In addition, the ombuds presented to the Oregon Senate Education Committee at the invitation of the committee chairperson, Sen. Michael Dembrow.

The second topic of focused outreach was the deadline for Federal Family Education Loan (FFEL) borrowers to consolidate to Direct Loans to benefit from the one-time account adjustment.

Case study: *A borrower submitted a complaint in June 2023 because a private student loan he settled with a lender continued to be reported as late to the credit bureaus. The servicer responded, saying it failed to previously update the credit bureaus, but upon receipt of the complaint, reviewed his account again and updated the loan status to paid. The removal of the derogatory information improved the borrower's credit profile.*

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34 Attorney General Rosenblum Hosts her 3rd National Symposium on Student Debt Crisis. https://www.doj.state.or.us/media-home/news-media-releases/attorney-general-rosenblum-hosts-her-3rd-national-symposium-on-student-debt-crisis/

35 https://dfr.oregon.gov/help/student-loan-help/Pages/student-loan-repayment.aspx

36 Appendix, Exhibit 1 social media posts

To get the most from the reassessment of time in repayment, borrowers whose loans were not owned by the U.S. Department of Education were required to consolidate to a new direct loan by the end of April 2024. The term consolidation seemed to cause confusion. Many borrowers do not have multiple loans that need to be consolidated. Instead, they may have one loan that was made as a federal loan, but is not owned directly by the Department of Education. The level of education and detail that was required for borrowers to understand whether this consolidation process applied to them, and to act, was burdensome. Adding to this issue is the distrust generated by servicing transfers, poor tracking and for-profit collections, which leads to harm to many borrowers.

Oregon's ombuds partnered with U.S. Rep. Suzanne Bonamici of Oregon for a series of webinars about this one-time adjustment and how best to take advantage of it. One of those webinars was recorded, and can be viewed at https://youtu.be/E0oWEpr1YVw?si=vCoBpk2jX0foqMNy

The other action DFR took in regard to the one-time account adjustment was to post a bulletin providing industry guidance to servicers with FFEL loans in their portfolios.[37] The bulletin was posted to DFR's website, emailed to regulatory contacts, and distributed via a press release.

In addition to those specific topics, DFR ran a TV and radio commercial, in English and Spanish, from Jan. 1 to March 31, 2024.[38] The ad invited Oregon consumers with concerns about their student loans to contact the student loan ombuds.

Since the 2023 report, Oregon's student loan ombuds has attended 17 events – 13 on her own, and four with other DFR employees. The events included Portland Pride and the Pirates of the Pacific Festival in Brookings. The ombuds taught webinars and seminars on topics that included return to repayment, introduction to student loan ombuds, and changes to student loan repayment.

Case study: *A borrower reached out in late April 2024 because she received conflicting information from her servicer about what payment plan she was on and how much she owed each month. She spent many hours calling, messaging, and otherwise working to contact the servicer to figure out why, but was not able to get a clear answer. She filed a complaint with DFR as a last-ditch effort to get a clear understanding of what was causing the confusion. In late May, her servicer responded to the complaint by saying they had accidentally processed a graduated payment plan application attached to her consolidation application after they had already processed a (preferred, and previously submitted) income-driven repayment application. Because of that error in order of processing, they had given her the preferred/requested payment one month (the income-driven option) and then increased it later to the other (graduated) payment plan amount. The servicer apologized for the error and applied a 0 percent interest remediation forbearance to the borrower's account for the three months of payments affected, which forwarded her next due date to September of this year. The borrower was relieved with the outcome of the apology, explanation, and forbearance.*

[37] https://dfr.oregon.gov/laws-rules/Documents/Bulletins/bulletin2024-04.pdf

[38] Appendix, Exhibit 2 commercial

The ombuds serves as a technical advisor[39] on Oregon's Financial Empowerment Achievement Team, which annually produces the Oregon Financial Wellness Scorecard.[40] She also facilitates monthly calls for the more than 15 states with a student loan ombuds or advocate.

Summary of licensing and examinations

June 1, 2023, through May 30, 2024, is the second year that student loan servicers were expected to be licensed in order to service student loans in Oregon. Eleven new entities applied for – and were granted – student loan servicing licenses since June 1, 2023. One servicer chose not to renew its license, and seven requested termination.[41]

In the most recent year, a DFR student loan examiner completed eight examinations. There are three ongoing examinations, and another two are in the planning process. The completed examinations included the following findings:

- Sub-servicers, or vendors used by servicers, are not always sufficiently licensed
    - Call centers and document processors used by student loan servicers are generally required to have the same licenses as the servicer
- Some licensees do not keep complete records or comply with document retention requirements
- Contacts from borrowers are not always documented or documented clearly enough for a different agent to understand

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[39] Financial Empowerment Advisory Team https://www.oregon.gov/treasury/financial-empowerment/pages/financial-empowerment-advisory-team.aspx#avTeam

[40] Oregon Financial Empowerment Scorecard https://www.oregon.gov/treasury/financial-empowerment/Documents/FEAT-Meeting%20Materials/2024/240205-FINAL-2024-Financial-Empowerment-scorecard.pdf

[41] According to data from the Nationwide Multistate Licensing System & Registry (NMLS)

A few other patterns emerged that did not meet the threshold of a finding, but nonetheless concerned the examiner:

- Billing statements are insufficient or inaccurate
  - Transaction histories often lack detail about the application of payments
- Servicers do not have the original promissory note or disclosure on file
  - Servicers cannot verify the correct loan terms are being used

Looking forward

Calls and complaints to the student loan ombuds continue to increase. Some work, including administrative tasks and outreach responsibilities, is currently being covered by other DFR employees. The limited staffing means that in the ombuds' absence, no one is available to respond to borrowers' student loan concerns or complaints. The lack of staff capacity also reduces DFR's ability to investigate and act against student loan servicers. While individual complaints are being addressed, additional staff would allow for more overarching analysis of student loan patterns and enforcement, more statewide outreach, and a succession plan for the ombuds.

Income share agreements (ISA) and other new products are likely to continue to pose challenges for borrowers and regulators. DFR plans to publish a bulletin on licensing requirements about the sale and servicing of ISAs. That bulletin should provide the clarity and guidance that industry requests.

Borrowers who are eligible for student loan cancellation under the recent negotiated rulemaking will likely see relief in the next year.

Goals for the upcoming year

The most recent year's outreach and engagement efforts have allowed the student loan ombuds to identify what topics are most important for borrowers and community organizations. This has resulted in new PowerPoint presentations, a recorded webinar, and plans for short-form videos. Ideally, DFR will produce two- to three-minute topical videos on the most frequently asked questions.

The ombuds will continue to support borrowers as the move to the Unified Servicing and Data Solutions platform, the ongoing and new eligibility for cancellation programs, and a still rocky return to the repayment process will continue to pose challenges to them.

Case study: *A borrower filed a complaint in February 2024 because she believed her loan balance should be forgiven because of the one-time adjustment. Her complaint stated that she was steered into forbearances and had not been alerted to income-driven repayment options. The servicer responded to her complaint by providing documentation it had from the time of the default. Because the loans had been more than nine months behind in 2008, a final demand notice had already been issued in June 2009 – one month before income-driven repayment plans became available. The servicer included documentation from that time reflecting the options available and presented to her at the time. The servicer also pointed out that the borrower would need to consolidate her loans to direct to take advantage of the one-time account adjustment. The explanation, and subsequent support in completing the necessary paperwork, means she will eventually be eligible for forgiveness under an income-driven repayment plan.*

Updates to Oregon's student loan servicing statute and rules

It would be beneficial for Oregon's statute or administrative rules on student loan servicing to be amended. Last year's recommendations were that:

- A transaction history be included in all billing statements showing funds posted and fees assessed since the prior statement
- Acknowledgement letters be sent when complaints or information requests are received from borrowers
- Licensees respond to requests for information from borrowers within 30 calendar days (similar to what is required for responses to complaints)

In addition to the above, the ombuds also recommends changes to:

- Reconsider the minimum requirements for liquidity and tangible net worth
- Increase the bond requirement and explicitly allow immediate cancellation of a license without it
- Require financials to be uploaded at licensure for federally contracted student loan servicers

The following recommendations are continuations from the 2023 report:

Explore requiring all Public Service Loan Forgiveness (PSLF) eligible employers to notify their employees

The PSLF program was designed as a benefit to incentivize college graduates to work in nonprofit or public service careers. Since eligibility is based on where a borrower is employed, it would make sense for employers to take on some responsibility for promoting the program. Eligible employers should understand that they benefit by discussing the program – it may lead to longevity within the organization and the corresponding financial benefits of that retention are at no cost to the employer. ORS 329.756 requires educational employers to tell employees about PSLF.[42] There continues to be no enforcement or tracking mechanism. It would be valuable if the statute were made more robust and rules were implemented to clarify roles and responsibilities. Until a state agency is explicitly assigned to track compliance with the law, the status is unlikely to change.

Explore increasing subsidies and state support for higher education tuitions and fees

Ultimately, as long as debt is the No. 1 way that middle- and low-income Americans finance their higher education, many of the issues mentioned in this report will persist. College enrollment continues to decline, with many citing the cost of college as the main factor. If the U.S. hopes to produce workers who can compete on the world stage, we need to follow the models used in other developed countries and shift the responsibility of tuition from the individual to state and federal governments. This model would be similar to how kindergarten through 12th grade is largely covered by funding from public bodies. The Oregon Opportunity Grant, Oregon Promise, and Oregon Tribal Student grants are good examples of ways the state can support higher education finance.

[42] https://oregon.public.law/statutes/ors_329.756

Hold student loan servicers accountable for incorrect information furnished to credit reporting agencies

Currently, there is no direct consequence for servicers who incorrectly report late payments or other derogatory information to the credit bureaus. This negative information can affect borrowers' ability to acquire housing, jobs, and insurance. If a credit reporting error is the fault of the servicer, then the servicer should be expected to do a swift and complete review and correction. One possible mechanism that DFR is examining for this would be adding a requirement for accurate credit bureau reporting to the student loan servicing laws. Additional legal research is needed.

Status updates

The following recommendations made progress from the 2023 report:

Explore creating caps and increasing floors on garnishment for defaulted loans

Status: SB 1595 from the 2024 legislative session expanded protections from garnishment for certain debts. However, because of concerns regarding federal pre-emption, the legislation did not include protections for student borrowers.

Incentivize creation of peer advocates at universities

Status: The 2023 report recommendation stated that college students are often better able to hear, identify with, and receive advice from people closer to their age. After the student loan ombuds presented to the education committee in Oregon's Senate, the chief of staff for the University of Oregon's student government (Associated Students of University of Oregon) reached out to brainstorm peer advocate possibilities. Discussions are still preliminary, but the ombuds is bolstered by the interest from the university leadership community.

Conclusion

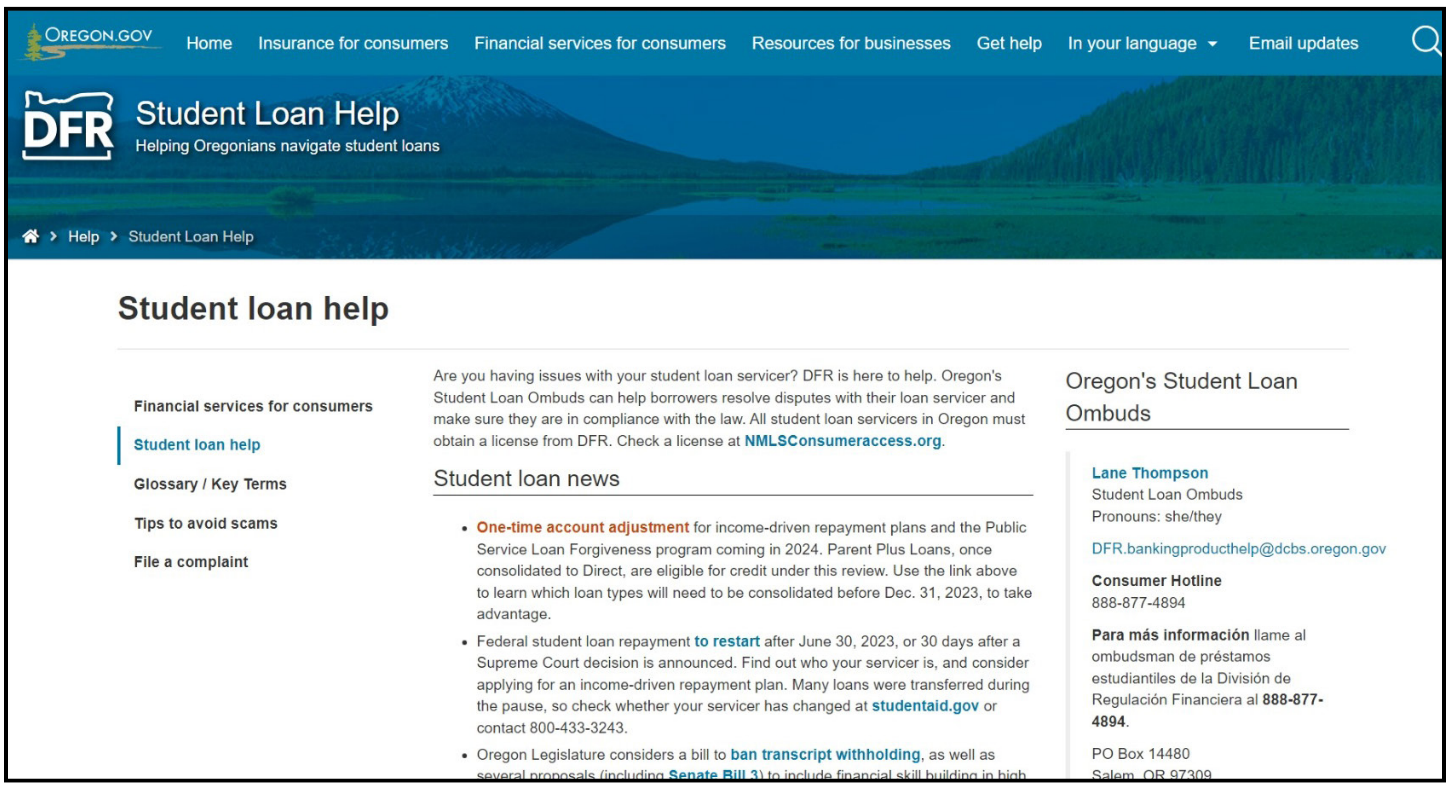
While many Oregonians express gratitude and respect for the information Oregon's student loan ombuds provides, there were many issues the ombuds was not successful in resolving. The complex system of vendors, departments, servicers, and call deflection strategies make it difficult or impossible to resolve any issue outside the norm. Borrowers' inability to receive benefits they are eligible for results in the collection of invalid loans.

The large scale of this debt portfolio, the range of repayment and forgiveness options, and the many entities involved mean that people who need attention fall through the cracks. State student loan ombuds do not have enough net to catch them.

It is likely that the regulation of income share agreements and other alternative financing options will continue to be a work in progress in Oregon and throughout the country.

The change to the Unified Servicing and Data Solutions platform will likely be tough. Borrowers are likely to get incorrect information from Business Process Operations (the internal specialty servicing vendors the U.S. Department of Education uses) and the changes in branding will likely add confusion. However, once the transition is complete, there is good reason to believe that the new environment will be more accessible for borrowers, provide additional transparency on the status of their accounts, and ultimately benefit Americans.

The price of college and controversial nature of loan forgiveness are likely to continue to drive down attendance at institutions of higher education.[43] At the same time, Oregon's students find it easier to afford college now than at any time recently, and that is good.[44]



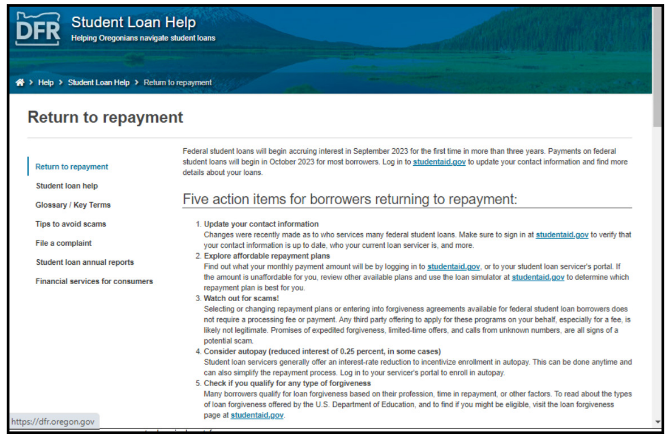
[43] Oregon's college-going rates have fallen, risking equity, the state economy. https://www.oregonlive.com/education/2024/06/oregons-college-going-rates-have-fallen-risking-equity-the-state-economy.html

[44] Student ability to afford college in Oregon improved during the pandemic state finds https://www.oregonlive.com/education/2023/09/student-ability-to-afford-college-in-oregon-improved-during-the-pandemic-state-finds.html

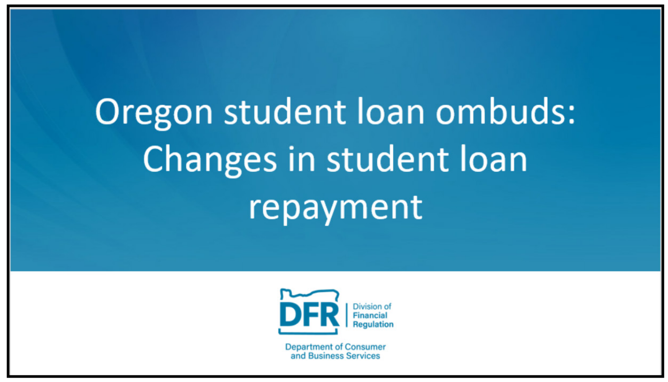
Appendix

Social media graphic

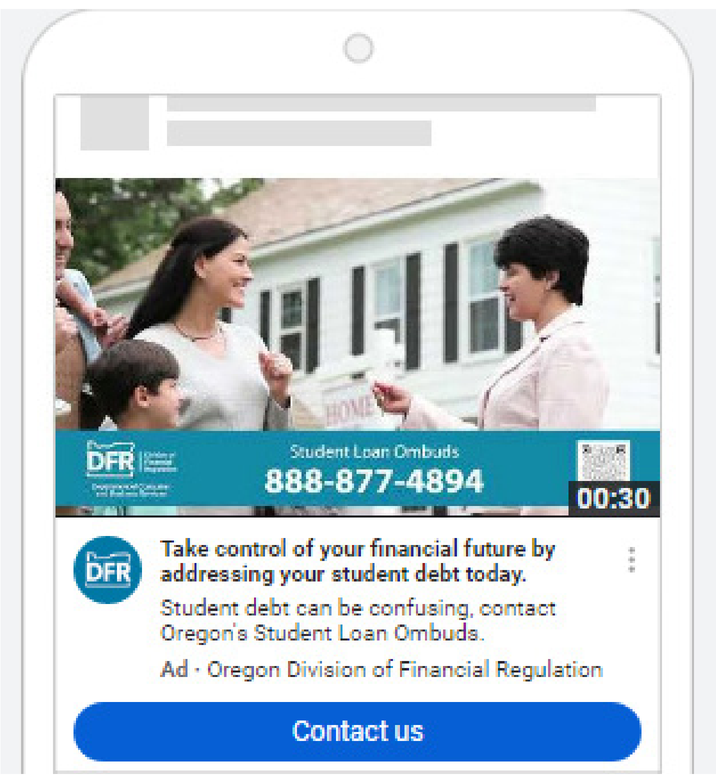
Return to repayment webpage



PowerPoint



Commercial



Studentaid.gov website