For Immediate Release
February 3, 2021

Contact: Mark Leyes
916-576-4984

DFPI Launches Investigation Into Student-Loan Debt-Relief Companies and Takes Action Against Optima Advocates

SACRAMENTO – The California Department of Financial Protection and Innovation (DFPI) today launched an investigation into whether student-loan debt-relief companies operating in California are engaging in illegal conduct under the new California Consumer Financial Protection Law (CCFPL) and Student Loan Servicing Act (SLSA). The DFPI today also issued a formal action against one such company, Optima Advocates, Inc., which took money from struggling student-loan borrowers while falsely claiming the company could get the student-loan debt dismissed.

"Student-loan borrowers seeking help with repayment deserve protection from predatory debt-relief scams," said DFPI Commissioner Manuel P. Alvarez. "This action holds Optima Advocates accountable for its deceptive practices and will bring relief to those having a hard time repaying their student loans."

In the action against Irvine-based Optima Advocates, the DFPI finds that Optima Advocates engaged in unlawful and deceptive acts and practices and orders the company to pay penalties and refunds to consumers. The DFPI further orders the debt-relief company to stop engaging in unlicensed student-loan servicing.

Optima Advocates offered fraudulent guarantees to consumers that it could "wipe away" their student loans by getting them "dismissed" or "discharged" in exchange for exorbitant fees ranging from $2,100 to $26,510. Many consumers financed the payment of the fees, taking on even more debt. The company, however, could not and did not achieve the promised results. By making deceptive promises about its services, Optima Advocates violated the CCFPL, which prohibits unlawful, unfair, deceptive, or abusive conduct by financial service providers. In addition, by charging fees in advance of performing services, which is illegal under the federal Telemarketing Sales Rule, Optima Advocates engaged in unlawful conduct.

Further, Optima Advocates interacted with student-loan borrowers with the apparent goal of helping them avoid default on their loans. The company was therefore required to obtain a license from the DFPI under the SLSA before engaging with consumers. Other debt-relief companies operating in a similar manner as intermediaries between student-loan borrowers and their lenders or servicers should seek licensure under the SLSA.

In addition to the action against Optima Advocates, the DFPI today issued subpoenas to four other student-loan debt-relief companies, requesting emails and documents relating to their services. The DFPI is investigating whether the companies engage in or have engaged in any unlawful, unfair, deceptive, or abusive acts or practices with respect to consumer financial products or services. The investigation also considers whether the companies' business activity requires a license. Responses to the subpoenas are due in March.

"This investigation is one of many steps the DFPI is taking to fulfill its mandate under the new California Consumer Financial Protection Law to protect our state's most vulnerable populations, including current and former students with low to moderate incomes," added Commissioner Alvarez.

Student-loan debt-relief companies advertise offers to help reduce consumers' monthly payment amounts for their federal or private student loans by applying for forbearance, income-driven repayment plans, or forgiveness on their behalf. Although borrowers can apply for any of these programs themselves free of charge, debt-relief companies often charge hefty fees to do it for them. There are 3.7 million borrowers in California who owe nearly $125 billion in student-loan debt. Nationwide, student-loan debt exceeds $1.5 trillion and is the second-largest class of consumer debt behind mortgage loans.

The Student Loan Servicing Act, which took effect on July 1, 2018, requires persons engaged in the business of servicing student loans in California to obtain licenses and be subject to DFPI oversight.

In 2020, California passed AB 1864, the landmark California Consumer Financial Protection Law. The law, which took effect on Jan. 1, 2021, expanded the DFPI's regulatory and enforcement authority to cover previously unregulated consumer financial products and services.

The DFPI warns student borrowers from being lured by claims of fast loan forgiveness. While some companies promise to reduce student-loan debt for a cost, consumers can apply for loan deferments, forbearance, repayment, and forgiveness or discharge programs directly through the U.S. Department of Education or their loan servicer at no cost. For federal student-loan repayment options, visit StudentAid.gov/repay. For private student loans, borrowers can contact the loan servicer directly. To file a complaint directly with the DFPI regarding a debt-relief company, visit: https://dfpi.ca.gov/file-a-complaint/.

In addition to regulating student-loan servicers, the DFPI licenses and regulates financial products and services, including state-chartered banks and credit unions, commodities and investment advisers, money transmitters, the offer and sale of securities and franchises, broker-dealers, nonbank installment lenders, payday lenders, mortgage lenders and servicers, escrow companies, Property Assessed Clean Energy (PACE) program administrators, debt collectors, rent-to-own contractors, credit repair and consumer credit reporting agencies, debt-relief companies, and more.

###