



STATE OF CALIFORNIA

Department of Financial Protection and Innovation

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California Applauds Appointment of U.S. Education Secretary Cardona and Joins States in Asking for Better Student Loan Protections

Welcoming renewed federal partnership, California DFPI joins other regulators asking Secretary to reverse policies undermining states' oversight of student loan servicers

SACRAMENTO – The California Department of Financial Protection and Innovation (DFPI) joined financial regulators across the country to congratulate newly-confirmed Education Secretary Miguel Cardona and invited him to partner with states in protecting student loan borrowers by reversing policies and guidelines issued by the previous administration.

In a letter signed by DFPI Commissioner Manuel P. Alvarez, state regulatory officials call attention to two policies instituted by former Secretary Betsy DeVos that obstruct states' ability to regulate the private companies that service federal student loans. The state regulators urge Secretary Cardona to reverse these policies and to join states' efforts to ensure the student loan servicing industry is a resource for borrowers, not a barrier to relief or source of harm.

“Over the past few years, California has worked to fill a void left by the federal government in shielding student loan borrowers from predatory practices,” said Commissioner Alvarez. “With the confirmation of Secretary Cardona, we look forward to working anew with federal partners to protect California borrowers and help mitigate the ongoing student loan debt crisis.”

The New York State Department of Financial Services (DFS) submitted the letter on behalf of a coalition of financial regulators from California, Colorado, Connecticut, Illinois, Maine, Massachusetts, New Jersey, New York, Rhode Island, Washington, and Wisconsin. Specifically, the letter urges Secretary Cardona to reverse two policies instituted by former Secretary DeVos that obstruct states' regulation and oversight of the servicing industry.

- First, the former administration issued guidance asserting that federal law preempts states' regulation of the private companies that service federal student loan, including licensing requirements and other consumer protections.

- Second, the former administration and the student loan servicing industry attempted to use the federal Privacy Act of 1974 as a shield against states' requests for information, claiming that federal law prohibited student loan servicers from sharing certain information with states.

Each of these two policies created unnecessary and legally dubious obstacles to states implementing common-sense consumer protections and investigating potential misconduct. The coalition's letter urges Secretary Cardona to reverse these two policies to allow states to proceed without federal opposition and as a way to partner with states in protecting student loan borrowers.

A copy of the submitted letter can be found here: <https://dfpi.ca.gov/2021-state-regulators-letters-to-sec-of-ed>.

Currently, there is approximately \$1.6 trillion in outstanding federal student loan debt, owed by 43 million loan borrowers across the country. Approximately \$125 billion of that outstanding debt is owed by 3.7 million borrowers in California. Nationwide, student-loan debt is the second-largest class of consumer debt behind mortgage loans.

These federal loans are all serviced by private companies. These servicers process monthly bills and payments, administer loan repayment and cancellation programs such as Public Service Loan Forgiveness, and are often borrowers' sole points of contact for help managing their loans. However, for years there have been instances of servicers providing inaccurate information or engaging in harmful misconduct, often resulting in increased costs and extended repayment periods for borrowers. Several states and the federal government have investigated these practices.

In response to this growing crisis, some states have passed laws to require private servicers to obtain licenses to do business in their jurisdictions and requiring them to follow specific servicing rules and protections. In California, the Student Loan Servicing Act, which became operational 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 the California Consumer Financial Protection Law to better protect consumers and foster responsible financial innovation. 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, including student loan debt relief companies.

The DFPI warns cautious student borrowers about 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.

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