IDFPR Joins Multi-State Coalition Of Regulators, Inviting U.S. Secretary Of Education To Join Them In Protecting Student Loan Borrowers

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CHICAGO – IDFPR joined a multi-state coalition of state financial regulators congratulating Secretary Cardona on his confirmation and inviting him to partner with states in protecting student loan borrowers across the country. Specifically, the letter calls to the Secretary's attention 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.

"We are looking forward to a new day at the Department of Education, which we hope will be strong regulatory partners with states on student lending supervision," said Deborah Hagan, Secretary of the Illinois Department of Financial and Professional Regulation. "Better oversight of federal student loan servicers will mean better protections for borrowers, which is our top priority for this industry."

There is currently approximately $1.6 trillion in outstanding federal student loan debt, owed by 43 million loan borrowers across the country. Approximately 1.6 million Illinois residents owe $60 billion in federal student loans to the United States government. 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 2017, the Illinois Attorney General’s Office sued one of the nation’s largest student loan servicers and lenders Navient formerly known as Sallie Mae, alleging that Navient committed numerous violations of the Consumer Fraud and Deceptive Business Practices Act, including for misleading borrowers about their income-based repayment options.

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 2019, Illinois passed the Student Loan Servicing Rights Act, which requires student loan servicers to be licensed and adhere to a comprehensive Bill of Rights that establishes strong borrower protections covering proper payment processing, complaint handling, and ensuring that borrowers receive appropriate repayment options, including income-based repayment.

Today, Illinois joined New York, California, Colorado, Connecticut, Maine, Massachusetts, New Jersey, Rhode Island, Washington state, and Wisconsin in submitting a letter calling on Secretary Cardona to join states in their efforts to protect student loan borrowers. 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.