AFR Americans for Financial Reform

April 15, 2019

Hon. Monique Limón
Chair, Assembly Banking & Finance Committee
State Capitol, Room 6031
Sacramento, CA 95814

RE: AB 376 (Stone) – Student Borrower Bill of Rights – SUPPORT

Hearing: Assembly Banking & Finance Committee, April 22, 2019

Dear Chair Limón:

Americans for Financial Reform writes in support of AB 376, the Student Borrower Bill of Rights. AFR is a coalition of more than 200 national, state, and local groups who have come together to advocate for reform of the financial industry. Members of AFR include consumer, civil rights, investor, retiree, community, labor, faith based, and business groups.[1] As a coalition formed in the wake of the subprime mortgage crisis to lay the foundation for a strong, stable, and ethical financial system, AFR is highly attuned to the problems created by the ongoing student debt crisis, with outstanding student debt surpassing $1.5 trillion and over 8 million borrowers in default.[2] We believe that AB 376 would make significant strides in consumer protection in California.

This bill would make California the first state in the nation to create a comprehensive set of rights for people holding student debt, by requiring student loan companies to treat borrowers fairly and giving borrowers the right to hold these companies accountable when they fail to meet basic servicing standards.

In California and across the nation, millions of people each year seek to continue their education after High School because they want to build a better future for themselves, their families and communities. Unfortunately, public funding cuts, rising costs of living and the residual effects of the 2008 financial crisis have made it nearly impossible for most families to avoid taking out loans to pay for school. As a result, 3.7 million Californians currently hold student debts with average balances of more than $35,000.

[1] A complete list of Americans for Financial Reform's coalition members is available at http://ourfinancialsecurity.org/about/our-coalition/.

[2] Seth Frotman and Rich Williams, "New data documents a disturbing cycle of defaults for struggling student loan borrowers," Consumer Financial Protection Bureau, May 15, 2017, https://www.consumerfinance.gov/about-us/blog/new-data-documents-disturbing-cycle-defaults-struggling-student-loan-borrowers/.

Having the debt is bad enough, but when students leave school they are hit with the additional challenge of navigating a terribly complex and confusing repayment system. While making payments, a borrower's main point of contact is a loan servicer like Sallie Mae, Navient, or FedLoan Servicing. The servicer becomes the gatekeeper for everything a borrower needs to do to manage a student loan, whether it's making monthly payments, enrolling in a repayment plan, or applying for important benefits.

But as multiple state and federal investigations have shown, loan servicers are consistently getting in the way of borrowers' ability to manage their loans. **Servicers routinely lose paperwork, misapply payments, give inaccurate information, and even steer borrowers into repayment options that add to the overall cost of their loans – or worse, cause them to fall behind on payments and slide toward default.**

Unlike mortgages or credit cards, there is no industry-wide framework at the federal level to regulate the student loan industry. As a result, people with student loans do not have safeguards to help them get out of debt.

To address these longstanding problems, **AB 376 would create enforceable industry-wide standards** for loan servicing companies. The bill would:

- **Ban "abusive" student loan servicing practices** that take unreasonable advantage of borrowers' confusion over loan repayment options;
- **Create minimum servicing standards** related to application of payments, paperwork retention and specialized staff training;
- **Establish a Student Borrower Advocate** within the Department of Business Oversight (DBO) responsible for reviewing complaints, gathering data and coordinating with related state agencies; and
- **Grant DBO additional "market monitoring" authorities**, to collect better data about the student loan servicing industry.

For two years now, the Trump Administration and Education Secretary Betsy DeVos have pulled back protections for student loan borrowers and enabled a dysfunctional student loan industry at every opportunity. While the federal government turns its back on students, California can and should step up to hold private companies accountable for their activities. **The Legislature must ensure that everyone can successfully reduce the burden of education debt, to promote financial security and economic justice for California communities.**

For these reasons, we strongly support AB 376 and urge an AYE vote.

Sincerely,

Alexis Goldstein
Senior Policy Analyst
Americans for Financial Reform