Illinois lawsuits allege fraud by student debt settlement companies

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Student debt settlement companies used fraudulent means to convince young people to pay them large fees to obtain fictitious debt relief, according to a lawsuit filed Monday by Illinois Attorney General Lisa Madigan.

The lawsuits target two companies: Broadsword Student Advantage of Frisco, Texas, and First American Tax Defense of Park Ridge, Illinois. These are only two of many companies that have duped thousands of heavily indebted students and graduates by requiring over $1000 in fees for fictitious services. Among the services offered by First American was the "Obama forgiveness program," which Madigan says does not exist.

There are hundreds of thousands of complaints every year to the US Federal Trade Commission about debt settlement and collection companies, according to the *New York Times*.

The lawsuit noted that Rick Cibelli of Peoria, Illinois appealed to First American Tax Defense after borrowing $10,000 to receive his paralegal certificate, but could not manage the $60 monthly payments. After calling the Department of Education about the program, he learned that the firm had no affiliation with the US government, and asked for a refund of his $700 up-front payment, which was refused by the company.

These fraudulent debt settlement companies are prevalent on radio, television, and internet advertisements. Their targets include teachers, nurses, and other public employees who may have faced high tuition. Students looking for debt relief with these companies would talk to a salesperson using high pressure sales pitches to coerce the vulnerable borrowers to put large up-front fees on credit cards.

Student debt has soared in recent years. The total level of US student loan debt hit more than $1 trillion in 2011, surpassing the total amount of credit card debt and home mortgage debt. The class of 2014 had an average debt load of $33,050, more than triple the level in 1993.

At the beginning of 2013 total student loan debt stood at $1.2 trillion, almost 8 percent of US Gross Domestic Product. Between 2003 and 2012, the portion of 25-year-olds with student debt rose from 25 percent to 43 percent.

Debt settlement companies proliferated in response to the banking deregulation of the 1980s and 1990s. Loosened restrictions allowing predatory lending, combined with the drive to slash wages and close down industries, created an environment where the working class became vulnerable to fraudulent loan forgiveness scams.

In announcing the lawsuits, Madigan, a Democrat, said, "All of the alleged services that these operators provide, you can access yourself at no cost because they are free programs offered by the U.S. government. Too often, students do not know what options they have to repay or reduce their loan payments."

The complaint filed by Madigan concludes, however, "despite advertising wide-ranging student loan relief services, such as the ability to secure lower student loan payments, remove wage garnishments, negotiate student loan debt forgiveness, and improve credit scores, Defendants do not have such capabilities."

The implication, then, is that neither does the US government. The Obama Administration's "Pay As You Earn" student loan payment program is largely meaningless: it allows certain qualifying students to pay their student loans over a longer period of time with an overall higher interest payment. For many borrowers this results in a higher total payment to the bank, but a smaller monthly payment.

Last year, the Obama administration and Congress moved to tie student loan interest rates to market interest rates. As a result of this agreement, interest rates on federal student loans increased by one percent this year, and are slated to rise even further in the future.

Last month, the Obama administration provided a $16 million bailout to Corinthian Colleges, owners of Everest College, Heald, and WyoTech, to keep the company afloat as it was undergoing fraud investigations by 20 states. If Corinthian had shut down, close to $1 billion in student loan debt could have been potentially discharged under federal rules.