US student loan corporation faces lawsuit for cheating millions

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Navient, the largest servicer of student loans in the United States, has recently been targeted by the Consumer Financial Protection Bureau (CFPB) and the state attorneys general of Washington and Illinois for misleading borrowers and other illegal practices that increased the loan repayment costs for millions.

Navient oversees some $300 billion in student loans for more than 12 million borrowers, 6 million of which are under contract with the Department of Education. In total the Delaware-based corporation, which was formed out of Sallie Mae in 2014, accounts for nearly one fourth of all student loan borrowers. The lawsuit alleges that every account may have been affected by the malpractice.

Navient is charged with misleading borrowers away from cheaper income-based payment plans in order to inflate loans with higher interest rates. Borrowers are legally allowed to change payment plans as they please. However, Navient is accused of advising its customer service employees to press customers away from the income-based plans and into forbearance, a short-term postponement of payment normally appropriate for those with temporary financial difficulty.

Those placed into forbearance without proper knowledge of the terms face significantly higher costs, which generally increase the longer the payments are postponed. Such costs include the accumulation of unpaid monthly interest and the addition of unpaid interest to the principal balance of the loan, resulting in a recalculation of the loan based on the compounded interest.

The court filing concluded that from 2010 to 2015, Navient enrolled 1.5 million borrowers in two or more consecutive forbearances, more than 470,000 in three consecutive forbearances, and 520,000 in four or more. In total this amounted to nearly $4 billion in extra interest revenue for the company over those 5 years.

The lawsuit points out that Navient customer service employees had been incentivized to mislead customers. The longer the call, the less these workers are paid. The process to transition a customer into an income-based payment plan requires multiple and lengthy conversations as well as an online or paper application with income tax documentation.

By contrast, forbearance enrollment can be completed with one phone call and without any paperwork. These findings reveal that the company's practices had effectively ensured that the employees tasked with helping customers would be financially burdened to actually do so.

Navient also neglected to inform those able to enroll in income-based plans that their enrollment required recertification after a 12-month period. The lawsuit notes that failure to recertify in a timely manner typically increases monthly payments by hundreds to even thousands of dollars and delays the progress toward loan forgiveness.

In addition to Navient's cost-cutting and selective presentation of information to student loan holders, the company is charged with careless overview of the accounts of injured military veterans. Permanently injured veterans are eligible to have their federal student loans discharged. However, on numerous accounts, Navient improperly marked the forgiven loans as defaults, ruining veterans' credit scores.

Navient and its predecessor, Sallie Mae, have a history of government lawsuits and investigations spanning nearly two decades.

In 2014, Navient was fined $60 million by the Justice Department and the Federal Deposit Insurance Corporation (FDIC) for illegally overcharging military customers. That lawsuit found that the company had intentionally ignored the Servicemembers Civil Relief Act, which caps loan interest rates at 6 percent for active military personnel. In 2008, Sallie Mae struck a settlement with the state of New York for $2 million for conflict of interest practices. The company was found to have been paying for the entertainment and travel expenses of school officials it was doing business with.

The recent filing by the CFPB came just two days before the inauguration of now President Donald Trump. The *New York Times* reported that immediately following the November election, Navient's stock value rose to nearly $18 from around $13, reflecting speculation among shareholders that the incoming administration would move to further deregulate finance— including the potential dismemberment of the CFPB.

The CFPB was established by the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010. Since its inception, Republican politicians have unanimously opposed the largely harmless organization, but now with Republican control of the House, Senate and White House, even such nominal reforms can be expected to be pulled back in the near future.

Currently, total student debt towers at more than $1.4 trillion, surpassing both credit card and auto loan debt. A report released earlier this month by the CFPB also found that the number of Americans aged 60 and over still paying for student debt has quadrupled since 2005, increasing from 700,000 to 2.8 million seniors.