Student loan borrowers face servicer disarray as monthly payments are set to resume

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20 September 2023

With payments on federal student loans set to resume in just 10 days, borrowers are facing problems obtaining information about their debts, including difficulties contacting the servicing companies that are managing their accounts.

Borrowers are reporting having to wait on hold for hours or being unable to log on to their accounts to find out what their payment due date is or how much they are expected to pay.

In some cases, borrowers do not know which of the 18 different servicing companies—operating under contract with the US Department of Education—are collecting their payments. This is because some of the servicers no longer exist, and many loans have been sold to companies that have been established since the pause in student debt repayment was enacted by the US government in March 2020, at the beginning of the coronavirus pandemic.

According to a CNN report, servicer web sites have been "sporadically down" as "high volumes of borrowers try to access their accounts." CNN also reported that funding for the Federal Student Aid office was not increased, even though the workload increased with the restart of payments. The report said, "The office got about $800 million less from Congress this year than what the Biden administration had asked for."

CNN reported that in one case, a borrower had been on the line with her loan servicer EdFinancial for three hours for the fourth time in two days. The borrower "called the day before at breakfast, again at lunch, and then asked for an automatic callback but said she never received one."

A parent borrower told the *World Socialist Web Site* that the mobile app of AidVantage had been pulled from the app store in recent days without warning or explanation. Attempts to use the app to access loan information encountered the following message: "Effective immediately, the mobile app will no longer be supported. It was removed from the App Store and Google Play earlier this year, and support has been discontinued. You will still be able to log into Aidvantage.com using your favorite mobile browser to review your account online."

Students and parents who are repaying their federal student loans may be unaware of the fact that a portion of the money they are paying to the US government for their loans is going directly into the pockets of private companies and their highly compensated executives.

The $1.7 trillion in federal student loans owed by 43 million people are managed by servicing corporations such as AidVantage, CornerStone, EdFinancial, Nelnet and Sallie Mae. These firms make money from the student loans based on signed agreements they have with the US Department of Education.

According to *The College Investor*, "Servicing companies collect payments of principal and interest on behalf of the loan holder (the Department of Education, in the case of federal loans). In exchange, they're paid a monthly fee for each loan serviced."

These fees can be based on a percentage of the outstanding loan balance or a fixed dollar amount. Since the percentage-based fees cause the amount that servicers earn to decline over time as the loan balance is paid down, the US government has allowed these companies to move almost exclusively to fixed dollar amount fees.

As *The College Investor* explains: "If a borrower is current for the entire duration of a 10-year repayment plan, the loan servicer will receive $342.00 over the repayment term, plus $47.25 for the in-school period and $10.08 for the grace period. That's a total of $399.33 per borrower."

If the borrower opts for a so-called "income-driven repayment plan," which is falsely promoted as a means of making repayment affordable for student loan recipients, and extends the repayment to 25 years, "the loan servicer will receive $855.00 over the repayment term, plus $47.25 for the in-school period and $10.08 for the grace period. That's a total of $912.33 per borrower."

These fees also increase if payments are delinquent. These delinquency fees max out at 30 days and decline thereafter, encouraging the loan servicers to adopt aggressive tactics to force borrowers to make payments before their loans go into default. The fees for deferment (extension of the loan term without interest accrual) and forbearance (extension of the loan term that includes interest accrual) are also nearly as high as those collected while loans are in repayment.

Clearly, it is in the interest of the servicers to keep borrowers on repayment for as long as possible because this is how they will make the most money from the scheme. In the case of AidVantage, for example, which holds a portfolio of 13 million in current student loans, the potential payoff for the company is in the range of $5.1 to $11.8 billion. With more to be made as additional loans are secured in coming years.

AidVantage is the student loan servicing arm of the multinational government services conglomerate Maximus, which has annual revenues of $3.46 billion and operates in nine countries, including the US, Australia, Canada and the UK. Headquartered in Tysons, Virginia, Maximus is a publicly traded corporation with a current Wall Street market value of $4.74 billion.

The Wikipedia entry on Maximus describes it as a company that holds contracts "with government agencies to provide services to manage and administer government-sponsored programs." It provides administrative services for "Medicaid, Medicare, health care reform, welfare-to-work, and student loan servicing, among other government programs."

The president and chief executive officer of Maximus is Bruce L. Caswell, who earned $6.3 million in salary, bonus and stock options in 2022. The top six executives of Maximus, including CEO Caswell, earned a combined $14 million in 2022. These parasitic individuals are receiving massive incomes at the expense of student loan borrowers who have little or no means of paying back their debts without sacrificing their ability to put a roof over their head or feed themselves and their families.

Meanwhile, reports are emerging that the restart of student loan repayments will have ripple effects on the broader economy. According to a report in the *Wall Street Journal* on Monday, the restart of student loan payments "could divert up to $100 billion from Americans' pockets over the coming year, leaving consumers squeezed and some of the nation's largest retailers fearing a spending slowdown."

With average monthly payments at between $200 and $300, the working class population will be forced to cut back on purchases. The *Journal* report is based on projections by Target, Walmart and other retail corporations "that depend on discretionary spending."

The resumption of student loan repayment will also intensify defaults on other types of borrowing. The *Journal* report says:

> According to credit-reporting agency TransUnion, more than half of consumers with student loans added bank credit-card debt during the pandemic, while around a third took on new auto loans and 15 percent took out new mortgages. At the same time, consumers' savings have been declining since reaching a peak in 2021.