U.S. Department of Education to Extend Federal Student Loan Servicing Contracts for Two Years

October 15, 2021

In response to the announcement that the U.S. Department of Education will be extending the federal student loan servicing contracts for 2 years, Persis Yu, the director of National Consumer Law Center’s Student Loan Borrower Assistance Project, issued the following statement:

“On January 31, 2022, the federal student loan payment suspension is set to end, putting tens of millions of borrowers into repayment. The end of the COVID-19 payment suspension poses an unprecedented challenge and is fraught with risk. If done wrong, tens of millions of borrowers could end up defaulting on their federal student loans and face the government’s punitive collection tactics (such as wage garnishment, social security offset, and tax refund offsets) that often push low-income households to or over the financial brink. High quality student loan servicing is paramount.

“In the past year, four major federal student loan servicers have opted out of the government’s servicing contract. The combination of restarting repayments, along with the risks associated with large-scale loan transfers by servicers, will have dire consequences unless meaningful actions are taken to protect the interests of borrowers.

“We are pleased to see that in extending the contracts with the remaining federal student loan servicers, the Department of Education has taken some steps to provide improved service and accountability for student loan borrowers. In particular, we applaud the commitment to improve language access, enhance performance metrics, end servicers’ use of qualified immunity, and require servicers to comply with state consumer protection laws.

“But although important, these enhanced oversight and accountability measures are not enough to protect borrowers from anticipated problems with the transition into repayment nor do they provide relief to borrowers who have been harmed by servicing problems. Recent Department actions for public service workers have begun to acknowledge and address these harms. Yet more is needed. For example, of the over four million borrowers who have been in repayment for over 20 years, only 32 have had their loans canceled through income-driven repayment, undermining the program’s promise of eventual relief from the burden of student debt. Widespread administrative debt cancellation is immediately needed to remedy the failures of our student loan system.”

For more information:

- PR: Troubled Servicer Navient to Exit Federal Student Loan System, September 28, 2021
- Student Loan Borrower Assistance: Moving in the Right Direction to Protect Student Borrowers – Department of Education Says States Can Hold Student Loan Servicers Accountable, September 28, 2021
- NCLC attorney Persis SiChing Yu testimony Before the U.S. Senate Committee on Banking, Housing, and Urban Affairs Subcommittee on Economic Policy re: “Protecting Student Loan Borrowers and the Economy in Upcoming Transitions,” July 27, 2021
- NCLC/CRL Brief: Almost Two in Three Navient Borrowers Enrolled in IDR Plans and Making
Payments During COVID-19 Federal Student Loan Payment Pause Are Underwater (Last updated August 2021)

- Policy Brief: Education Department’s Decades-Old Debt Trap: How the Mismanagement of Income-Driven Repayment Locked Millions in Debt, March 2021