

# United States Senate

WASHINGTON, DC 20510

September 8, 2017

The Honorable Betsy DeVos  
Secretary of Education  
U.S. Department of Education  
400 Maryland Avenue, S.W.  
Washington, D.C. 20202

Dear Secretary DeVos:

We write to request that your agency take swift action to address the growing problem of student loan debt relief scams. These schemes are luring student loan borrowers into paying thousands of dollars in exorbitant and unnecessary fees for services that are available for free with false promises to reduce or forgive their debt.<sup>1</sup> Most victims of these deceptive practices are quickly defrauded by the companies that promised to help them, and unknowingly become delinquent on their payments and default on their loans, miss communications with their servicers, and fall even deeper into debt. Given the terrible impact on student loan borrowers and their families, and the clear federal role in improving federal student loan servicing we strongly believe the U.S. Department of Education (“Department”) and its contracted loan servicers should take new and more aggressive action to reduce the prevalence of these debt relief scams.

The tactics of student loan debt relief companies have recently become increasingly worrisome and aggressive. Debt relief scams target students with advertisements on social media, customized mailings designed to resemble official correspondence, relentless robocalls, and persuasive print, television, and radio advertisements. Data brokers are even selling information that allows scammers to identify a borrower’s actual loans and balances to customize further their marketing materials.<sup>2</sup> Many of these companies also allege or imply a connection with the Department, the federal government, or its programs and charge borrowers substantial upfront fees and monthly payments. Debt relief scams also pose a risk for identity theft by asking for sensitive personal information so that their agents may take control of borrowers’ loan accounts.<sup>3</sup> Federal law also prohibits the use of borrowers’ personal information for unauthorized access to their accounts, or for commercial advantage or private financial gain.<sup>4</sup>

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<sup>1</sup> Read, R. & Nykiel, T. “Feds ineffective as ‘debt relief’ firms prey on students.” The Detroit Free Press. June 14, 2017. <http://www.freep.com/story/money/business/2017/06/14/student-loans-predatory-practices-debt-relief-scams/102854320/>

<sup>2</sup> Adler-Bell, Sam. “Scam Artists Are Preying on Student Debt Holders—and Google Is Helping.” The Century Foundation. September 14, 2015. <https://tcf.org/content/commentary/scam-artists-are-preying-on-student-debt-holders-and-google-is-helping/>

<sup>3</sup> Weisbaum, Herb. “As Student Loan Defaults Increase, So Do the Scams.” NBC News. September 19, 2016. <http://www.nbcnews.com/business/consumer/student-loan-defaults-increase-so-do-scams-n650466>

<sup>4</sup> Departmental websites present users who login with a disclaimer which reads, in pertinent part: [...] *Except as expressly authorized by the U.S. Department of Education, unauthorized attempts to access, obtain, upload, modify, change, and/or delete information on this system are strictly prohibited and are subject to criminal prosecution under 18 U.S.C. 1030, and other applicable statutes, which may result in fines and imprisonment. For purposes of this system, unauthorized access includes, but is not limited to: Any access by an employee or agent of a commercial*



Given that the average class of 2015 graduate with student debt left school owing more than \$30,000, it is understandable why they may be interested in the promise of quick financial relief.<sup>5</sup> While there are some important options for struggling federal loan borrowers—from income-driven repayment, to forbearance, deferment, consolidation, and rehabilitation—many individuals are not provided information about these programs or how to apply for relief. Debt relief scams promise borrowers a quick and easy experience with little hassle. In many respects, the prevalence of debt relief scams can be traced directly to the failure of the Department to ensure effective and streamlined student loan servicing.

The need for action is readily apparent. More than 130 companies that are actively marketing student loan debt relief services today have a prior history of illegal or fraudulent behavior, according to public records.<sup>6</sup> Many of these fly-by-night scams are combined into multiple limited liability companies (LLCs) to obscure ownership and to dodge financial and legal responsibility.<sup>7</sup> A review of businesses for sale in student debt relief and collection industry found numerous instances of owners attempting to sell companies with suspicious goals, enticements, and promises of extremely high gross revenue, such as “*help students take advantage of outstanding programs to lower their payments and collect a fee of approximately \$900 for each loan,*” or “*\$1.3 trillion dollar market for student loan consolidations!*,” and “*college loan refi-huge profits!*”<sup>8</sup>

While some state prosecutors have taken action to protect federal student loan borrowers, these actions have not been able to stop debt relief scams from operating in other states. For example, as of April 2017, Massachusetts Attorney General Maura Healey has brought four cases against student loan debt relief scams and recovered over \$260,000 for Massachusetts residents, but the companies were only barred from providing services for Massachusetts residents.<sup>9</sup> We applaud actions by state attorneys general to curb abusive practices, but addressing the problem of debt relief scams which operate across state lines requires federal support, action, and enforcement.

Scams drive more borrowers into default and harm federal taxpayers by diverting money that could otherwise be spent paying down federal loan debt. Therefore, the need for federal action to address this abuse, protect taxpayers, and stop these scams is clear. Thankfully, the federal government has many tools at its disposal. For example, the Federal Trade Commission (FTC), in collaboration with three state attorneys general, recently halted the operations of a student debt relief scam known as Strategic Student Solutions, LLC which was run as at least five separate

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*entity, or other third party, who is not the individual authorized user, for purposes of commercial advantage or private financial gain (regardless of whether that commercial entity or third party is providing a service to an authorized user of the system); [...]*

<sup>5</sup> TICAS. “*Student Debt and the Class of 2015.*” October 2016. <http://ticas.org/posd/home>

<sup>6</sup> Nerdwallet. “*Feds Point Fingers as ‘Debt Relief’ Companies Prey on Student Loan Borrowers.*” June 14, 2017. <https://www.nerdwallet.com/blog/loans/student-loans/debt-relief-companies-prey-student-borrowers/>

<sup>7</sup> Read, Richard. “*States Play Whac-A-Mole With Student Loan Relief Scams.*”

Nerdwallet. June 14, 2017. <https://www.nerdwallet.com/blog/loans/student-loans/states-student-loan-relief/>

<sup>8</sup> Senate HELP Committee analysis of BizQuest Listings. Accessed July 2017. Examples: <http://bit.ly/2uH4tyC>, <http://bit.ly/2vpBxJA>, and <http://bit.ly/2uEuEGI>



companies across Florida and Wyoming.<sup>10</sup> The company promised to reduce loan payment amounts or enroll borrowers into student loan forgiveness but did not even direct monthly payments to borrower accounts. The company's false promises left defrauded families deeper in debt while the company looted borrowers' bank accounts and the federal Treasury alike. The Consumer Financial Protection Bureau (CFPB) has also taken action to sue and close three debt relief scam companies. Similarly, the Department itself has sent several cease-and-desist letters to companies that falsely claim affiliation with the Department or its loan servicers.<sup>11</sup>

While these have been positive steps, debt relief scams continue to flourish, and more must be done to protect our nation's student loan borrowers. It is in the interest of borrowers, taxpayers, servicers, states, and the federal government to aggressively police student loan scams. For these reasons, we strongly urge the Department to:

1. Convene a task force with law enforcement and regulatory agencies, including the FTC, U.S. Department of Justice, and the CFPB to coordinate efforts against student debt relief scams and develop a confidential list of commonly utilized debt relief scam tactics;
2. Require current loan servicers to identify and track student debt relief scams, and any other incidents of undisclosed operations of third parties, and to promptly report these findings to a dedicated point of contact within the Department;
3. Regularly refer evidence or information of a potential debt relief scam to state and federal law enforcement officials with applicable jurisdiction;
4. Aggressively pursue cease-and-desist orders against any company or its owner that engages in fraudulent or illegal behavior at the expense of students and taxpayers while alleging any type of connection with the Department;
5. In coordination with the task force, maintain a list of known debt relief scams that can be shared with major technology companies, web publishers, social media platforms, and search engines to filter out potentially fraudulent advertisements;
6. Issue contract change requests to require current loan servicers to build appropriate procedures to prevent and address the use of the tactics as identified by the federal task force on a rolling basis, including proactively contacting borrowers whose accounts demonstrate the likely activities of a debt relief scam; and
7. Ensure any new loan servicing procurement makes the guidance that the Department has previously issued to servicers to address and prevent student debt relief scams is a requirement of such federal contracting.

Student loan servicers must play a role in providing better information to borrowers, and be enlisted in the effort to end these student debt relief scams. We urge you to formally require servicers to conduct active outreach to borrowers and alert the Department when an account holder's mailing address, phone number, or email address changes to that of a known student debt relief scam. Servicers should also regularly scan their entire portfolio for accounts that

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<sup>10</sup> Federal Trade Commission. "FTC Stops Operators of Unlawful Student Debt Relief and Credit Repair Scheme." May 25, 2017. <https://www.ftc.gov/news-events/press-releases/2017/05/ftc-stops-operators-unlawful-student-debt-relief-credit-repair>

<sup>11</sup> U.S. Department of Education. "Don't Be Fooled: You Never Have to Pay for Student Loan Help." January 29, 2016. <https://blog.ed.gov/2016/01/dont-be-fooled-you-never-have-to-pay-for-student-loan-help/>

appear with the same mailing address, phone number, or email address—as such patterns are a clear indicator of suspicious behavior.

When servicers receive a request from a third party for any identifying information about the borrower, they must require a release form pursuant to the Privacy Act of 1974, and verify that it was the borrower who completed the form and made any verbal requests. Additionally, any request by a third party to modify a borrower's account must be accompanied by proof of direct consent from the borrower, the Department should require servicers to track privacy release forms, including how many borrowers are utilizing each method, and report this information to the Department on no less than a biweekly basis.

These actions will help to shut down predatory companies peddling false student loan promises to desperate students and families. But, these steps alone are not enough to protect borrowers. As stewards of taxpayer dollars, we owe it to all federal loan borrowers to provide federal loan servicing and protection that makes repaying loans easier and lowers the roadblocks to successful repayment. The Department must be ready and willing to constantly adapt its response and work diligently to close all student debt relief scams.

We request a briefing on the Department's plans to combat the proliferation of fraudulent and deceptive student debt relief scams, including specific steps the Department plans to take to protect borrowers from predatory companies peddling false and misleading promises to struggling students and families. We look forward to your response to our requests by September 29<sup>th</sup>. If you have any questions, you may contact Brian Moulton in the Office of Senator Tammy Baldwin at 202-224-5653. Thank you for your attention to this important matter.

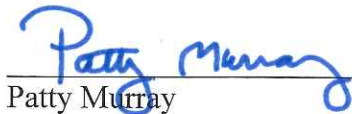
Sincerely,



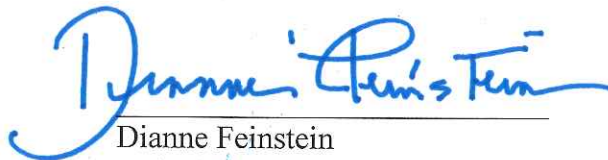
Tammy Baldwin  
United States Senator



Bill Nelson  
United States Senator



Patty Murray  
United States Senator

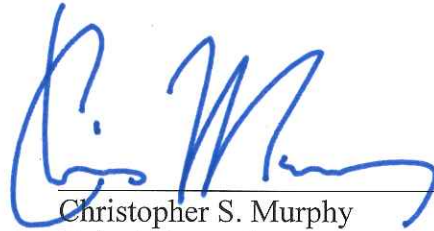


Dianne Feinstein  
United States Senator





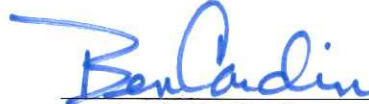
Kirsten Gillibrand  
United States Senator



Christopher S. Murphy  
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Catherine Cortez Masto  
United States Senator



Benjamin L. Cardin  
United States Senator



Kamala D. Harris  
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Richard J. Durbin  
United States Senator



Amy Klobuchar  
United States Senator



Al Franken  
United States Senator



Jack Reed  
United States Senator



Elizabeth Warren  
United States Senator

CC:

The Honorable Maureen K. Ohlhausen, Acting Chairman, Federal Trade Commission  
The Honorable Richard Cordray, Director, Consumer Financial Protection Bureau  
Mr. Chad A. Readler, Acting Assistant Attorney General, Civil Division, U.S.  
Department of Justice