STUDENT BORROWER PROTECTION CENTER

Prepared Testimony of Seth Frotman
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Health Coverage, Insurance and Financial Services
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Chairwoman Sanborn, Chairwoman Tepler, members of the committee: My name is Seth Frotman, and I am the Executive Director of the Student Borrower Protection Center.

Until last year, I served as the Student Loan Ombudsman at the Consumer Financial Protection Bureau, where I led the only unit in the federal government solely focused on protecting student loan borrowers and young adults from predatory actors in the financial sector.

As the former top federal regulator for this market, I am here to tell you that we are at a crossroads. Down one path, our leaders choose to stand up for the millions of Americans struggling under the weight of historic debt. Down the other, the student loan industry has free rein to run roughshod over a generation of student loan borrowers. It has never been more important that states—and in particular, the state of Maine—choose the right path. Hundreds of thousands of families across Maine depend on it.

You have heard the numbers before, but I think they are worth repeating—44 million Americans collectively owe more than $1.5 trillion in student loan debt. That is more than all credit cards combined; more than all auto loans combined.

And these borrowers are hurting.

Across America, eight and half million federal student loan borrowers are in default. To give you a sense of scale, there are more student loan borrowers in default than there are people in all of Maine.

And it does not stop there. Another five million borrowers—including more than 24,000 borrowers right here in Maine—are at least two student loan payments behind. Millions of these are defaults yet to come; borrowers we can expect the system to fail if we continue do nothing.

People across Maine are hurting.

The student loan borrowers in this state are teachers, nurses, servicemembers, and veterans—young and old, urban and rural. In Maine alone, more than 176,000 borrowers now owe more than $6 billion in student loan debt. This includes more than

35,000 borrowers living in Maine's rural communities and more than 20,000 senior citizens.

And they need your help.

When the history of the student debt crisis is told, the first—and perhaps the most consequential—chapter will tell the story of how policymakers, regulators, and higher education officials dropped a trillion dollars of debt onto the back of a generation of students without any serious thought of the oversight, consumer protection, or accountability that is necessary to manage it. And in that trillion-dollar void, we find a system littered with predatory practices and the players that perpetuate them. What's more, we find a series of broken laws with no accountability for those who break them.

- Like the borrower from Oxford county who was repeatedly steered into forbearance despite asking for an income-driven repayment plan, and accrued thousands of dollars in capitalized interest as a result.

- Or the borrower from Bayville, whose loan was transferred to a new servicer, but did not provide her with any information on how to access her account. When the borrower called the new servicer, the representative could not give her any information on how to establish her account online or even make a payment.

- Or the borrower from Cumberland county, who was trying to pay down her loans ahead of schedule, but her servicer lowered her monthly payment and extended her loan term without her knowledge or permission. As a result, she spent months paying more interest on her loans than necessary, increasing the overall cost of her loan.

This is the real story of our student debt crisis—one told through consumer complaints and in court filings, through cries for help on social media and in private conversations. Millions of borrowers' lives and livelihoods are being crushed in the gears of a broken student loan system.

And at the center of it all are student loan servicers—some of the largest financial services companies in America. These are the out-of-state companies that will determine the financial future of thousands of borrowers in Maine—the same companies that are paid hundreds of millions of taxpayer dollars to collect borrowers' loan payments and counsel them about their options when they run into trouble.

But it has become abundantly clear that this industry is failing—and in the process, cheating the very borrowers they are being paid to serve. Across the country, the student loan servicing industry has failed every type of borrower, with every type of loan, at every stage of repayment—from the day a student receives her first bill until the day she pays off her last loan.

- We see student loan servicers cheat borrowers in financial distress—denying millions of the most vulnerable borrowers critical protections against financial ruin and saddling them with billions of dollars in additional debt.
- We see student loan servicers rip off servicemembers and veterans—denying tens of thousands of military families the key consumer protections they earned through service to our country.
- We see student loan servicers lie to public service workers—denying teachers, cops, nurses, and other public servants critical loan protections they were promised in exchange for giving back to their communities.
- We see student loan servicers force older borrowers into years of unexpected debt—denying parents and grandparents a promised "way out" after they had been required to co-sign for student loans that imperiled their retirement security.

And unfortunately, I could go on, and on, and on.

These are the servicing failures this bill will help fix. It will let Maine identify these practices and stop them in their tracks. It will let you stand up for your constituents to make sure they are protected. It will let you make sure these companies—the ones that have an enormous role in determining the financial future of your constituents—are following the law.

This is not a new concept. Maine already oversees mortgage lenders, payday lenders, check cashers, and more. This bill simply updates and modernizes Maine law to include perhaps the most important financial product in many of your constituents' lives—their student loan.

There are a few common retorts I have heard that I would like to address:

First, some people have said state oversight is unnecessary because the federal government sets the loan terms – and that the servicers are just carrying out the government's wishes. Nothing could be further from the truth.

Too many borrowers in Maine are suffering needlessly because they cannot access the programs designed to protect them and that servicers are paid to help them with. These are teachers who cannot access teacher loan forgiveness. These are servicemembers who cannot access military consumer protections. These are nurses, cops, and social workers, who cannot access the protections they were promised through service to our communities. In other words, there are protections that exist to help your constituents ease the burden of their student debt, but the very companies responsible for helping them are failing to live up to their obligations. That is what this bill will address.

Next, some people say that states cannot do anything because this is a federal government program. But nobody here is talking about regulating the U.S. Department of Education. We are simply talking about the traditional police powers states have—and have always had—to oversee financial institutions that do business in their state. And I want to reiterate that this is exactly what these companies are—large financial services companies that oversee portfolios worth hundreds of billions of dollars. What this legislation before you simply states—is that these financial companies—the ones that have an enormous role over the financial future of your constituents—must follow the law—nothing more and nothing less.

Some people also say that there is no role for states here, and that your only job should be to advocate for a better federal system. But that is the wrong view to take. Every day, you all cross the aisle and come together to stand up and protect your constituents. I do not need to tell any of you that States are not meant to play second fiddle to Washington—especially when it comes to key consumer protections. Let me assure you, hoping Washington fixes this will not provide the relief so many across this state need. You have the ability to make a real difference. And all of the servicemembers, veterans, police officers, teachers, nurses, and thousands more need you—need Maine—to take action.

Others might say that this is a partisan exercise. But I want to be very clear—this is not about Secretary DeVos or President Trump. Just like this was not about former Secretary of Education Arne Duncan or President Obama. The practices that are harming borrowers have occurred under every administration in Washington, regardless of party. This bill is about Maine using the power it has always had to stand up and protect Mainers.

Finally, some might say that we need more time to study and analyze this problem before taking action. But in the 5 minutes I have been talking, 10 more borrowers have defaulted on a student loan. And in the year since this bill was last considered:

- Teachers across the country sued their student loan company for misleading them about their public service protections.
- The state of Mississippi sued one of the nation's largest servicers for widespread deception of student loan borrowers,

- And it came to light that another student loan servicer had mishandled military benefits like the Servicemembers Civil Relief Act and settled for millions of dollars.

I would just like to close with this: student loan borrowers need your help. They need you to intervene, to protect an entire generation squeezed by mounting debt.

This committee can send a clear message to those borrowers who have done everything we have asked of them, taking on historic debts to earn a degree—to chase the American dream.

That their struggles matter. That their fight is your fight. That Maine will not sit idly by when they are cheated.

That this committee, that this state will stand up to protect student loan borrowers.

Thank you.