



Student Loans101

What Borrowers Should Know

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Department of Financial Protection and Innovation

DFPI Responsibilities



- License and examine companies of financial products to ensure compliance- includes student loans servicers.
- Investigate consumer complaints.
- Take legal action when companies are not in compliance.
- Conduct education & outreach to enhance consumer awareness.
- Protect consumers from fraud and abuse.

Student Loan Debt in California

- 4 million Californians owe \$156 billion in federal and private student loan debt.
- In 2019-20, 46% of California college graduates had student loan debt.
- 35- to 49-year-olds owe the most debt on average.
- The average debt load of a California borrower is \$37,783.
- Prior to COVID-19 pandemic, approximately 500,000 borrowers were behind on paying their loans.
- In United States, student loan debt is now the second-highest consumer debt category after mortgages, totaling nearly \$2 trillion.



DEPARTMENT OF
FINANCIAL PROTECTION
& INNOVATION

Historical Lack of Student Borrower Protections

- Borrower rights determined by the federal Higher Education Act of 1965.
- Borrowers were faced with navigating complex system plagued with predatory practices, untrained servicers and for-profit schools.
- Lack of oversight of the administration of federal student loan programs.
- Servicers were found to routinely lose paperwork, misapply payments, provide inaccurate information, and steer borrowers into forbearance or deferment which added to the overall cost of their loans.
- Unfair and deceptive practices caused borrowers' balances to balloon and slide toward default.

Outsized Impacts on Students of Color

- Ninety percent of Black and 72% of Latinx students take out college loans in comparison to 66% of white borrowers.
- Black borrowers take on nearly 50% more debt for a Bachelor's degree than white peers.
- Black women have the largest student debt burdens of all.
- On average, 20 years after starting college, a Black borrower still owes 95% of their original student debt balance, while the white borrower has paid down almost 95% of theirs.
- Delinquency and default rates are higher for Black and Latinx borrowers.
- A borrower in a 75 percent- minority neighborhood is 5 times more likely to fall behind on their student loan payments.

California Protection for Student Borrowers

In 2019 Assemblymember Mark Stone introduced California Student Borrower Bill of Rights (SBOR) as Assembly Bill 376.

Applies to student loan servicers doing business in California, including state-licensed servicers as well as banks doing servicing.

Applies to borrowers with both federal and private loans.

Codified as Civil Code section 1788.100, et seq.

California is only one of 13 states that has established advanced legislation to strengthen oversight of student loan servicers and protect borrowers.

What it Does?

- Prohibits servicers from engaging in abusive, unfair or deceptive practices.
- Requires that servicers work in best interest of borrowers and provide accurate information.
- Establishes special protections for military borrowers, borrowers working in public service, older borrowers, and borrowers with disabilities.
- Established California Student Loan Ombudsperson.

Key Terms

Lender

- A company or organization lending you the money. They "originate" the loan.

Student Loan Servicer

- The company that sends borrower bill each month.
- Collects and processes loan payments.
- Tracks loans while you are in school.
- Processes changes in repayment plans, deferments, forbearances, or other activities to prevent default.
- Essentially borrower's main point of contact.

More Key Terms

Interest- The amount of money a lender or financial institution charges for allowing customers to borrow money. Federal interest rates are set by Congress each year.

Capitalization- Capitalized interest is unpaid interest added onto the loan balance after periods of nonpayment (forbearance and deferment). Capitalization increases loan's principal balance, and interest is charged on the new, larger balance.

Consolidation- The process that allows you to combine several federal student loans into one larger loan.

Delinquency & Default

Delinquency- When a federal student loan has one or more missed payments fewer than 270 days late. At the 90-day mark, federal loan servicers report late payments to the 3 major credit bureaus.

Default- A borrower can be declared in default if a payment has not been made in more than 270 days. Once in default, the entire balance of the loan (principal and interest) becomes immediately due. This is called *acceleration*. The loan holder can begin collecting on the loan through wage garnishment or withholding federal tax payments.

Two ways to get out of default:

Rehabilitation- One-time opportunity to get student loan out of default. The record of the default will be removed from credit history. However, credit history will still show late payments that were reported by the loan holder before the loan went into default. Will eliminate additional collection costs.

Consolidation- The record of the default (as well as late payments reported before the loan went into default) will remain on credit history. Late payments will remain on credit report for seven years from when they were first reported.

Forbearance and Deferment

Forbearance - A temporary postponement or reduction of student loan payments for a period of time. Borrower can ask for forbearance if they are experiencing financial difficulty.

- Federal student loans: The servicer can grant forbearance for up to 12 months at a time. Borrower must apply to their loan servicer for forbearance. Borrower must continue making payments until they receive confirmation that the servicer has accepted the forbearance request.
- Private student loans: Private student loan forbearance varies. It is more limited than the federal student loan forbearance.

Deferment- A temporary pause to student loan payments for specific situations. Borrower might seek a deferment for active-duty military service.

- US Department of Ed has a list of qualifying reasons.
- If borrower has a subsidized loan, they do not have to pay interest on the loan during deferment.
- If borrower has an unsubsidized loan, they are still responsible for the interest during deferment. If they don't pay the interest as it accumulates, it will be added to loan balance, and the amount they will have to pay in the future will be higher.

Financial Aid Key Terms

Grants- Aid awarded on the basis of financial need. Does not have to be repaid.

Federal Work Study- Money you earn from a job to help pay for school expenses. Does not have to be repaid.

Scholarships- Aid that gets awarded on basis of academic merit, talent, or a particular area of study. Does not have to be repaid. Awarded by college or other organization.

Loans- Money that is borrowed and must be paid back with interest. Lender sets the terms. Federal loans carry more protections.

Students should exhaust grants and scholarships prior to obtaining loans.

Federal Loans

The U.S. Department of Education's main federal student loan program is the William D. Ford Federal Direct Loan (Direct Loan) Program. Under this program, the U.S. Department of Education is your lender. Interest rate is fixed.

TYPES OF LOANS

- Direct loans (Stafford Loans)
 - Subsidized-The government pays the interest while you're in school
 - Unsubsidized- Borrower pays all the interest. These loans add the accrued interest to the loan balance, increasing the size and ultimate cost of the loans.

- Direct PLUS Loans- All PLUS loans have a fixed interest rate and are not subsidized. Credit check is required.
 - Grad- Available to students pursuing graduate degrees
 - Parent- Available to parents of undergraduate students

- Direct Consolidation Loans- Allows you to combine all your eligible federal student loans into a single loan with a single loan servicer with a fixed interest rate. No cost to borrower but may increase the total balance of loan.

FFEL Loans – A subsidized loan made by a private lender and insured by the government. Discontinued in 2010.

Perkins Loans - A subsidized loan available to undergraduate students and is based on financial need. Discontinued in 2017.

Private Loans

- Private loans are made by a lender such as a bank, credit union, state agency, or a school.
- Private loans are not funded or subsidized by the federal government.
- These loans do not offer the flexible repayment terms and forgiveness options provided by federal student loans.
- Often require an established credit record or a cosigner.
- Private student loans are generally riskier than federal student loans.

Students and parents should always exhaust federal student loan options first before considering a private loan.

Federal Student Loan Updates

- Under CARES Act, federal student loan payments were paused, and interest rates were set to 0% for eligible federal student loans.
 - Borrowers with Direct Loans or loans owned by Department of Education.
 - Required servicers to report to credit reporting agencies as if regularly scheduled payments were occurring and are reporting monthly payments of \$0.
 - Regardless of relief or forgiveness, borrowers should prepare for repayment.

- Borrowers will receive credit towards Income Driven Repayment (IDR) and PSLF Forgiveness through a one-time account adjustment of qualifying payments.
 - Direct Loans and Federal Family Education Loan (FFEL) loans (will have to consolidate)
 - Any months in which borrowers made payments, regardless of repayment plan.
 - 12 or more months of consecutive forbearance or 36 or more months of cumulative forbearance
 - Months spent in deferment prior to 2013

Fresh Start Program

- Loans eligible for Fresh Start
 - Defaulted Direct Loans
 - Defaulted FFEL Loans
 - Perkins Loans held by the US Department of Ed

- Fresh Start Benefits:
 - Borrowers will be taken out of default when they opt into the program.
 - Will have access to IDR plans that provide more affordable monthly payments.
 - Will regain access to Title IV federal student aid including; federal student grants,
loans or work-study funds.
 - Will not be subject to any collection efforts or collection fees.
 - Will be eligible to rehabilitate a defaulted federal student loan if rehabilitated during the payment pause.

FS Credit Reporting Features and Protections

- Delete delinquent loans from credit report after seven years.
- Report all other defaulted loans as “current” and not in collections status.
- Use a loan’s original date of delinquency if borrower becomes delinquent or goes into default again. Will not reset the borrower’s seven-year timeline on credit report.
- As of July 10, 2022, ED removed default notations from the federal Credit Alert Verification Reporting System (CAIVRS).
- Program will last for a period of one year from the end of repayment pause.

Borrowers have to take action and make arrangements with ED or guaranty agency to benefit from initiative.

Biden's Student Loan Cancellation

LOAN REQUIREMENTS

- Federal loans
 - Undergraduate and Graduate Direct Loans
 - Parent PLUS and Grad PLUS Loans
 - FFEL and Perkins Loans held by ED
 - Defaulted Loans
 - Commercially-held FFEL loans borrowers need to consolidate their loans to benefit from cancellation.
- Loans disbursed on or before June 30, 2022.

INCOME REQUIREMENTS

- Less than \$125,000 for individuals or \$250,000 for married or head of households.
- ED will be looking at lowest AGI from either the 2020 or 2021 tax year

Biden's Student Loan Cancellation

- Will provide \$20,000 in debt cancellation to Pell Grant recipients and \$10,000 in debt cancellation to non-Pell Grant recipients.
- Department of Education has information of everyone who ever received a Pell Grant.

HOW TO APPLY:

- Create an account on [Log In | Federal Student Aid](#)
- There will be an application available on the FSA website starting early October for those whose cancellation is not automatic. Borrowers can receive notification of application.
<https://www.ed.gov/subscriptions>.
- Some borrowers will automatically receive a refund if they made payments during COVID forbearance.
- <https://studentaid.gov/debt-relief-announcement/one-time-cancellation>

Public Service Loan Forgiveness (PSLF)

Program created in 2007 to encourage individuals to enter and remain in public service.

Student loan forgiveness granted after satisfying certain criteria for 10 years

Requirements:

- Right Type of Loan
- Right Type of Repayment Plan
- Right Type of Employment
- Right number of Qualifying Payments



Limited PSLF Waiver

Expires 10/31/2022

- Borrowers may receive credit for payments that previously did not qualify for PSLF by consolidating FFEL, Perkins or other federal loans into Direct Loans
- CARES Act forbearance counts towards PSLF
- Past periods of repayment whether or not borrowers made that payment on time, for the full amount due, or on a qualifying repayment plan.
- Current qualifying employer not necessary

Borrowers need to take action before October 31!





Take Action!

- Is employer a qualified public service employer?
- What loans does borrower have?
- Consolidate loans if necessary
- Complete the Public Service Loan Forgiveness Certification & Application

Borrowers should apply even if they were denied before or do not have 120 qualifying payments.

Borrowers don't have to finish the process- just submit PSLF form by deadline.



PUBLIC SERVICE LOAN FORGIVENESS (PSLF) & TEMPORARY EXPANDED PSLF (TEPSLF) CERTIFICATION & APPLICATION

William D. Ford Federal Direct Loan (Direct Loan) Program

OMB No. 1845-0110
Form Approved
Exp. Date 08/31/2023
PSFAP - XBCR

WARNING: Any person who knowingly makes a false statement or misrepresentation on this form or on any accompanying document is subject to penalties that may include fines, imprisonment, or both, under the U.S. Criminal Code and 20 U.S.C. 1097.

SECTION 1: BORROWER INFORMATION

Please enter or correct the following information.

Check this box if any of your information has changed.

SSN _____

Date of Birth _____

Name _____

Address _____

City _____ State _____ Zip Code _____

Telephone - Primary _____

Telephone - Alternate _____

Email _____

For more information on PSLF, visit StudentAid.gov/publicservice. To apply online, visit StudentAid.gov/PSLF.

SECTION 2: BORROWER REQUEST, UNDERSTANDINGS, AND CERTIFICATION

I request (1) that the U.S. Department of Education (the Department) determine whether I qualify for PSLF or TEPSLF, and discharge any qualifying loans that I have, and (2) if none of my loans qualify for PSLF or TEPSLF when I submit this form, determine how many qualifying payments I have made towards PSLF and TEPSLF.

I just want to find out how many qualifying payments I have made or if my employer is a qualified employer.

I believe I qualify for forgiveness under PSLF or TEPSLF right now.

If I indicated that I believe I qualify for forgiveness now, I want a forbearance while my application is being processed, but understand that periods of forbearance do not count towards forgiveness.

I understand that:

- 1. To qualify for forgiveness, I must have made 120 qualifying payments on my Direct Loans while employed full-time by a qualifying employer. Neither the 120 qualifying payments nor employment have to be consecutive.
- 2. To qualify for forgiveness, I must be employed full-time by a qualifying employer when I apply for and get forgiveness.
- 3. By submitting this form, my student loans held by the Department may be transferred to FedLoan Servicing.
- 4. If the Department determines that I appear to be eligible for forgiveness, the Department may contact my employer before granting forgiveness to ensure that I continue to work for the employer.
- 5. If I am eligible for forgiveness, the amount forgiven will be the principal and interest that was due on my eligible Direct Loans when I made my final qualifying payment. Any amount that I pay on those loans after I have made my final qualifying payment will be treated as an overpayment. I must continue to make payments on any of my other loans.
- 6. If I am not eligible for forgiveness, I will be notified of the determination, why it was made, and how many qualifying payments I have made towards PSLF and TEPSLF.

I certify that all of the information I have provided on this form and in any accompanying document is true, complete, and correct to the best of my knowledge and belief and that if I cease to be employed by a qualifying employer after I submit this application, but before forgiveness is granted, I will notify the Department (see Section 7) immediately.

Check this box if you cannot obtain certification from your employer because the organization is closed or because the organization has refused to certify your employment. The Department will follow up to assist you in getting documentation of your employment. **Complete Section 3, but do not complete Section 4.**

Borrower's Signature _____ Date _____

SECTION 3: EMPLOYER INFORMATION (TO BE COMPLETED BY THE BORROWER OR EMPLOYER)

1. Employer Name
State of California

2. Federal Employer Identification Number (FEIN)
946001347

3. Employer Address:
2101 Arena Blvd
Sacramento, CA 95834 US

4. Employer Website (if any):

5. Employment Begin Date:
08/07/2018

6. Employment End Date:
_____ OR Still Employed

7. Employment Status: Full-Time Part-Time

8. Hours Per Week (Average) 40

Include vacation, leave time, or any leave taken under the Family Medical Leave Act of 1993.

9. Is your employer a governmental organization?

A governmental organization is a Federal, State, local, or Tribal government organization, agency, or entity, a public child or family service agency, a Tribal college or university, or the Peace Corps or AmeriCorps. Federal service includes military service.

Yes - Skip to Section 4.
 No - Continue to item 10.

10. Is your employer tax-exempt under Section 501(c)(3) of the Internal Revenue Code (IRC)?
If your employer is tax-exempt under another subsection of 501(c) of the IRC, such as 501(c)(4) or 501(c)(6), check "No" to this question.

Yes - Skip to Section 4.
 No - Continue to Item 11.

11. Is your employer a not-for-profit organization that is not tax-exempt under Section 501(c)(3) of the Internal Revenue Code?

Yes - Continue to Item 12.
 No - Your employer does not qualify.

12. Is your employer a partisan political organization or a labor union?

Yes - Your employer does not qualify.
 No - Continue to Item 13.

13. Which of the following services does your employer provide? Check all that apply and then continue to Section 4. If you check "None of the above", do not submit this form.

- Emergency management
- Military service (See Section 6)
- Public safety
- Law enforcement
- Public interest legal services (See Section 6)
- Early childhood education (See Section 6)
- Public service for individuals with disabilities
- Public service for the elderly
- Public health (See Section 6)
- Public education
- Public library services
- School library services
- Other school-based services
- None of the above - the employer does not qualify.

SECTION 4: EMPLOYER CERTIFICATION (TO BE COMPLETED BY THE EMPLOYER)

By signing, I certify (1) that the information in Section 3 is true, complete, and correct to the best of my knowledge and belief, (2) that I am an authorized official (see Section 6) of the organization named in Section 3, and (3) that the borrower named in Section 1 is or was an employee of the organization named in Section 3.

Note: If any of the information is crossed out or altered in Section 3, you must initial those changes.

Official's Name _____ Official's Phone _____

Official's Title _____ Official's Email _____

Authorized Official's Signature _____ Date _____



[Student loan payment pause extended through Aug. 31, 2022](#)

An official website of the United States government.

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An OFFICE of the U.S. DEPARTMENT of EDUCATION

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You Are America's Smartest Investment

The U.S. Department of Education's office of Federal Student Aid provides approximately \$112 billion in financial aid to help pay for college or career school each year.

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Considering School

I'm thinking about going to college or a career school.

In School

I'm in the process of earning a degree or certificate.

Parent

I want to help my child pay for college.

In Repayment

I have loans I need to repay.



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Student Loan Scams



- Scammers are reaching borrowers by phone, email and mail with official looking logo.
- Promise to reduce or eliminate your student debt.
- Offer quick loan forgiveness and say you will miss out on eligibility.
- Promise special access to repayment plans, new federal loan consolidations, or loan forgiveness programs.
- They ask for advance payment to process the application.
- They ask for your FSA ID username and password to steal your identity.

Tips to Protect Yourself

- There is nothing a debt relief company can do for you that you can't do on your own for free.
- Loan servicers and the federal government do not call borrowers on the phone.
- Verify the information and research the company.
- Go directly to [StudentAid.gov](https://studentaid.gov) to see the status of your loan.
- Call your servicer to ask for help with payments.
- Do not subscribe to any monthly service offering help.
- File a complaint if you have been a victim of fraud.

Contact Us

celina.damian@dfpi.ca.gov

<https://dfpi.ca.gov/file-a-complaint/>

www.dfpi.ca.gov/backontrack/

www.dfpi.ca.gov/subscribe

YouTube: [@cadfpi](#)

Federal Student Aid (FSA)

www.studentaid.gov

<https://studentaid.gov/manage-loans/forgiveness-cancellation/public-service>

[One-Time Student Loan Debt Relief \(studentaid.gov\)](http://studentaid.gov)



THANK YOU