



OFFICE OF THE ATTORNEY GENERAL
STATE OF ILLINOIS

Lisa Madigan
ATTORNEY GENERAL

June 1, 2015

The Honorable Arne Duncan
United States Department of Education
400 Maryland Avenue, SW
Washington, DC 20202

Dear Secretary Duncan:

I write today to urge you to consider a proposal that would increase protections for the millions of student loan borrowers needing assistance with repaying their federal student loans. Struggling student loan borrowers are increasingly falling prey to the rising number of con artists who profit from borrowers' lack of information on the loan repayment options available to them to manage their student loan debt effectively.

These scammers are using tactics similar to what I saw in the mortgage relief industry before and throughout the financial crisis. They claim in online, television and radio advertisements that their experts will provide borrowers "free" consultations to dramatically reduce loan payments or obtain loan forgiveness. The ads often allude to government affiliations and suggest they can help borrowers navigate government bureaucracy when seeking repayment plans. What these advertisements fail to disclose is that this supposed consultation service is not free but will cost the borrower an upfront fee ranging between \$650 to \$1,250 and usually ongoing monthly payments. These fees, which struggling student loan borrowers cannot afford, are often paid in exchange for little to no assistance in return.

My office has been investigating for-profit student loan debt relief operations for over a year. Our investigations have revealed that the only steps that most of these companies take to assist borrowers is to mail out paperwork that borrowers can already obtain and submit for free. Our investigations have also found that these companies advise students they are eligible for debt forgiveness programs but fail to inform students about the conditions to participate. For example, one Illinois consumer, a high school teacher, responded to a radio ad offering to help teachers

obtain student loan debt forgiveness. She was told both orally and in writing that she qualified to have her debt forgiven. However, three months later, after paying the company \$898.60, she learned that, in fact, she was not eligible for loan forgiveness because the school where she teaches is not a qualified low-income school.

This is not an isolated example. Last July, as the result of these investigations, I became the first state Attorney General in the country to file lawsuits against two for-profit student loan debt relief operations.¹ Last month, I filed five more lawsuits against these scam operations.² The Consumer Financial Protection Bureau and the Attorneys General of Washington and Florida also have filed similar complaints against for-profit student loan debt companies.³

Student loan borrowers are turning to these sham operations offering "free" help because they are struggling to make their payments and need assistance understanding their loan repayment options. Student loan servicers should be providing this assistance, but they are failing to adequately counsel borrowers about available options. This vacuum of information and legitimate assistance has provided an opportunity for scammers to fill the gap.

The servicers' failure to inform borrowers about their repayment options is consistent with my experience with mortgage servicers during the financial crisis. I am currently leading a multistate investigation into Sallie Mae over suspect servicing and debt collection practices. While I will continue to investigate and sue scammers who take advantage of Illinoisans struggling with unsustainable student loan payments, we cannot simply litigate away this problem. Because these scams continue to proliferate, we must address this problem on multiple fronts.

We must provide student loan borrowers somewhere to turn to access legitimate information and assistance. It is critical that borrowers understand the terms of their loans and what repayment options they have if their monthly payments become unaffordable. This is where Department of Education can play an important role.

During the financial crisis, the U.S. Department of Housing and Urban Development's certification of counseling agencies (HUD Approved Housing Counseling Agencies) provided

¹ *People of the State of Illinois v. First American Tax Defense, LLC; People of the State of Illinois v. Broadsword Student Advantage, LLC.*

² *People of the State of Illinois vs. Interactiv Education, LLC, d/b/a/ Direct Student Aid; People of the State of Illinois vs. Consumer Financial Resources, LLC d/b/a Student Loan Resolve; People of the State of Illinois vs. Federal Student Loan Alliance, LLC; People of the State of Illinois vs. Nationwide Student Aid, LLC; People of the State of Illinois vs. Student Consulting Group, Inc. f/k/a University of One, Inc., f/k/a "Help Assist Me Default Resolution Services".*

³ *Consumer Financial Protection Bureau and Office of the Attorney General; State of Florida, Department of Legal Affairs v College Education Services, LLC; State of Washington v. Irvinewebworks, Inc. d/b/a Student Loan Processing, US.*

and continues to provide an invaluable service to homeowners, especially those struggling to make their mortgage payments and needing assistance to receive loan modifications. HUD requires training and certification of housing counselors, which provides a level of competence that is critical to the borrower. The certification process also allows borrowers to identify legitimate counselors and easily distinguish them from an uncertified entity that is most likely a costly sham operation.

I urge you to implement a certification program, even on a pilot basis, for nonprofit credit counseling agencies to advise student loan borrowers about their repayment options, particularly when borrowers are in default. We must give student loan borrowers a lifeline before they make costly mistakes by turning to scam artists for help. More importantly, we must give student loan borrowers a reason to believe that they can emerge from their overwhelming debt loads and to pursue the bright future that they envisioned when they first enrolled in school.

Thank you for your consideration of this proposal.

Respectfully,

A handwritten signature in black ink that reads "Lisa Madigan". The signature is written in a cursive, flowing style.

Lisa Madigan

Illinois Attorney General