FACT SHEET: MODERNIZING CREDIT REPORTING FOR STUDENT LOANS

Today, the Departments of Education and the Treasury, in consultation with the Consumer Financial Protection Bureau, have launched a new initiative to modernize the way student loans appear on borrowers' credit reports. In September, the agencies released a joint statement of principles calling for consistency in student loan servicing practices. Today's initiative is consistent with this work. Borrowers depend on the credit reporting system to fairly, consistently, and accurately reflect their experience when repaying student loans. Borrowers have a right to high-quality credit reporting standards for student loans to protect against erroneous or harmful conclusions being drawn from their credit histories.

BACKGROUND

Credit reports play an important role in the financial lives of Americans, affecting our ability to get a home, buy a car, get a job, or even open a bank account. For some consumers, student loans are their first entry into credit markets. Consequently, repaying student loans and accurately documenting payment is an important step to help pave the way for millions of consumers to access safe and affordable credit. In addition, federal student loans are a key social policy tool intended to promote educational opportunity. The government provides without underwriting and with flexible repayment terms, in most cases.

Over the last seven years, the Obama Administration has made a number of different repayment options available that help keep student loan debt manageable by considering a borrower's income when determining the monthly payment. Unique and flexible student loan repayment features include rights to income-driven repayment (IDR), deferral, forbearance, and in special cases, forgiveness or discharge, that differ from those available for other kinds of loans. Likewise, federal student lending has moved away from a bank-based system, where private lenders provided loans with federal guarantees. In 2010, Congress enacted the President's student loan reform ending the Federal Family Education Loan Program (FFELP), and making the U.S. government, through the Direct Loan Program the lender of federal student loans. The federal student loan program is the biggest source of student lending. Despite these changes, credit reporting for student loans has not been updated to reflect the features of the federal student loan program.

IMPROVING CONSISTENCY AND ACCURACY IN CREDIT REPORTING ON STUDENT LOANS TO ENSURE FAIR TREATMENT OF BORROWERS

The Department of Education and the Department of the Treasury, in consultation with the Consumer Financial Protection Bureau, are working collaboratively with the credit reporting industry to develop guidance for servicers, lenders, and others who furnish data to the credit bureaus to determine how best to report student loan data to ensure that credit reporting for student loans fairly, consistently, and accurately reflects repayment activity. In the coming months, the Department of Education will implement this effort as part of its new vision for serving student loans. An updated credit reporting system should include the following elements:

Credit reporting will reflect recent changes in the way federal student loans are made.

- **Reporting of Direct Loans and guaranteed loans will be based on common standards for common loan features.** While there are some important programmatic differences between Direct and guaranteed loans made through the FFELP, there are also many common loan and repayment features. The loan program type should not significantly affect how common features of student loans appear on borrowers' credit reports.

- **Where material differences do exist, credit reporting for FFELP and Direct Loans will be accurate.** Fundamental changes to the process of lending, repaying, and collecting on federal student loans may alter repayment in important ways that should be captured in borrowers' credit histories. Servicers should provide information that clearly indicates the important programmatic differences between guaranteed loans and Direct Loans, where they exist.

Credit history will be reported in the same way for each borrower so individuals in similar circumstances are treated similarly.

- **Servicers will use the same basic reporting framework**. Standardized reporting of loan details like original loan balance, current balance, and repayment history will ensure that borrowers' credit histories are a product of their borrowing and repayment behavior.

- **When servicers provide additional information about borrowers' credit histories, this information will be clearly defined and consistently applied.** In addition to reporting basic repayment information about payment history, loan term, and outstanding balance, servicers have the option to provide 'special comment codes' to document other types of borrower behavior. For example, servicers might use a 'special comment code' to document a change in servicer or to indicate that a borrower defaulted on a guaranteed loan. Clear requirements for reporting these codes will help ensure that similar borrowers look the same to creditors.

Credit histories will accurately reflect the unique characteristics and terms of federal student loans.

- **Expected duration of the loan will reflect the repayment terms for both fixed-amortization repayment schedules and income-driven repayment plans**. For loans being paid under an IDR plan, the duration of the loan should be reported as no more than the maximum number of payments a borrower would be required to make before the remaining balance becomes eligible for loan forgiveness at the time the repayment plan was entered. This reporting will allow for a more accurate indication of how long a consumer will have to pay on his or her student loan.

- **Borrowers and creditors will be able to follow payment history easily, even when servicers change**. Servicing transfers are a common feature of the student loan market, occur without a borrower's control or consent, and in many instances do not reflect any specific repayment behavior. Care should be taken to ensure that information about transfers reported to the credit reporting agencies is accurate.

- **Borrowers who invoke their right under federal law to reduce or postpone their monthly payments will be distinguishable from borrowers experiencing financial distress.** For federal student loan borrowers, forbearance is provided for under federal law in specific circumstances, often unrelated to financial hardship. For example, borrowers may use forbearance to take a break from making payments in order to pursue a national service program or complete a medical residency. In other cases, servicers may apply forbearance administratively to a borrowers' account without their knowledge. In contrast, use of forbearance is more limited in other credit contexts, such as mortgages or credit cards, and generally signifies financial hardship. Creditors should be able to distinguish borrowers who cannot pay from borrowers whose payments are reduced or postponed for reasons unrelated to financial distress.

Student loan borrowers have a right to a credit reporting system that fairly, consistently, and accurately reflects repayment history; ensures that creditors and other users of credit reports can easily understand borrowers' student loan credit information; and empowers student loan borrowers to participate in the financial services marketplace. This initiative will ensure that borrowers no longer risk credit damage or denials because of student loan servicers' outdated practices and inconsistent furnishing policies.