OSPIRG
Standing Up
To Powerful Interests

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February 2, 2021

TO: Senate Committee on Labor & Business
FR: Charlie Fisher, State Director, Oregon State Public Interest Research Group (OSPIRG)
RE: SB 485

OSPIRG is a statewide, citizen-based public interest group that represents thousands of Oregonians.

OSPIRG supports SB 485 as a step in the right direction and urges the adoption of two critical improvements:

1) **Include affirmative duties for student loan servicers that mirror those adopted in other states.**
2) **Expand access to student loan counseling.**

Higher education in Oregon continues to be critical for both individual success and the social and economic health of our state. While college attendance has grown over the past two decades, state appropriations and federal aid have failed to keep pace with the rising cost of college, shifting more costs to students. As a result, more students than ever must rely on student loans to pay for a college degree, with the average borrower now graduating with over $26,000 in loan debt.

Heavy student loan debt carries negative consequences for borrowers, who must make monthly payments with their hard-earned dollars rather than save up and get ahead. High debt can affect where graduates live, the kind of careers they pursue, when they start a family or purchase a home, and whether they can save for retirement. The combination of high student debt and low earnings can lead to default, ruined credit and wage garnishment. Such distress runs counter to the goal of higher education.

Loan servicers are the companies that many borrowers interact with directly, rather than the lending institutions themselves. Given the amount of money involved and the complicated nature of student loans, it's especially important that these servicers act in the best interest of borrowers. SB 485 will empower Oregon to hold servicers accountable when they mismanage payments, deceive borrowers, or knowingly provide the wrong information. By creating a student loan ombudsman, SB 485 will also give borrowers a trusted source of information and ensure proactive enforcement of consumer protections.

That being said, we want to highlight an important area of improvement. While creating a regulatory apparatus for student loan servicers and putting in place basic consumer protections for borrowers is a critical first step, we think it still remains a low bar.

In addition to prohibiting certain acts, the legislature should also set affirmative duties that servicers must follow in order to operate in Oregon. Similar provisions have been included in laws enacted in recent years by Maine, New Jersey, Colorado, and other states.

Affirmative Duties:

- Evaluate the borrower for an income-driven repayment program prior to placing the borrower in forbearance or default.
- Inquire of a borrower how to apply an overpayment to a student loan.
- Apply partial payments in a manner that minimizes late fees and negative reporting.

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- Adopt procedures to verify that the student loan servicer has received all records regarding the student loan borrower.
- Adopt policies related to the transfer of a loan to a new servicer.

To illustrate the importance of regulating student loan servicers generally, and creating affirmative duties specifically, I want to share the story of a woman who reached out to us last year about her experience with her student loan servicer. She called her servicer after losing her job and without too many questions being asked was placed into forbearance.

About a year later was when we first heard from her. She had gotten a job and was ready to start making payments on her loan, but realized she had accrued an additional $19,000 in interest, which was then capitalized and added to the principal of the loan. After calling us and speaking with a loan counselor, she was finally placed in an income-based repayment (IBR) plan that will cap her monthly payments at no more than 10% of her income and forgive her loan balance after 20 years. If her servicer had put her in an income-based repayment plan in the first place, she would have still been able to pay $0 in monthly payments while she was unemployed, but wouldn't have had an additional $19,000 added to the balance of her loan. Requiring servicers to at least evaluate borrowers for IBR will make sure problems like this don't happen in the future.