FOR IMMEDIATE RELEASE:
April 24, 2017

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Trump Trashes Protections for Students and Taxpayers

Changes to Student Loan Repayment Plans Benefit Multi-Million Dollar Companies and Hurt Taxpayers, Students

SPRINGFIELD - Private companies that service college loans will profit at the expense of students because the Trump administration killed commonsense changes to reduce the default rate among college borrowers, Illinois State Treasurer Michael Frerichs said today.

"Let's be clear about what President Trump's changes mean. These service centers, when speaking with college graduates who want to work out a payment plan, will not have to tell the truth," Frerichs said. "It will needlessly result in more college defaults for individuals and higher profits for corporations at the expense of every-day taxpayers."

For years, college borrowers received poor service and inaccurate information when they called loan servicing centers with questions about their loans, including how to change repayment plans to lower monthly payments until their earnings improved. These service centers act as middlemen between lenders and borrowers. The poor service led to students paying higher fees and an increase in default rates.

Higher fees needlessly burden students, causing them to pay more than is necessary. This reduces discretionary spending when we know consumer spending makes up nearly two-thirds of our economy. Further, defaulting on these college loans hurts all taxpayers because the loans are federally funded. Current estimates peg $137.4 billion in federal student loans are in default.

Trump's education secretary, Betsy DeVos, scrapped the reforms initiated by the Obama administration before they could be fully implemented. In doing so, DeVos did not indicate what would be done to address the poor service and inaccurate information that led to some defaults.

The information gap is significant. A 2015 study by the General Accountability Office (GAO) concluded half of those making student loan payments could have paid less under government rules that consider income when formulating payment plans. Only 13 percent of borrowers, however, knew to ask for lower payments. The GAO is an independent, non-partisan agency that works for Congress.

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Trump's changes mean higher profits for loan servicing companies that manage $1.2 trillion in government-funded loans. The Trump administration is issuing new contracts to these middlemen charged with helping borrowers find the best repayment plan and avoiding default. The Obama administration's contracts included customer service requirements. Companies balked at the demands and called them unnecessary, time consuming and, therefore, expensive. As a result, Trump dropped them.

For example, gone now are provisions that would tie compensation to promptly answering telephone calls, providing accurate information, completing applications for income-driven repayment plans, and payment processing times.

"Their profit-margins just increased because they do not have to take the time to make sure that they are providing accurate information that would keep an honest individual in payment status rather than default," Frerichs said. "These are federal loans. By writing a memo to rescind a commonsense rule, DeVos and Trump just ripped money from taxpayers' pockets and handed it to the executives managing these multi-million dollar companies."

The issue is important to Frerichs in his role as a champion of college savings in Illinois. Bright Start and Bright Directions are private-sector college savings investment tools managed by the state treasurer's office. Together, there is more than $8 billion in 450,000 active accounts. This money is completely separate from Illinois' other investments and cannot be used by the state to pay any other obligations.

About the Illinois Treasurer

The Illinois Treasurer is the state's chief investment officer and Frerichs is a Certified Public Finance Officer. He protects consumers by encouraging savings plans for college or trade school, increasing financial education among all ages, and removing barriers to a secure retirement. As the state's Chief Investment Officer, he actively manages approximately $25 billion. The portfolio includes $13 billion in state funds, $7 billion in college savings plans and $5 billion on behalf of local and state governments. The investment approach is cautious to ensure the preservation of capital and returns $28 to the state for every $1 spent in operations. The Treasurer's Office predates Illinois incorporation in 1818. Voters in 1848 chose to make it an elected office.

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