State AG sues student loan company, alleging unfair and deceptive practices

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Washington Attorney General Bob Ferguson said the lender Navient "made the conscious decision to trap numerous subprime borrowers in student debt they would never escape." (Elaine Thompson/AP)

The state attorney general is suing the nation's largest servicer of student loans, alleging it steered students into expensive loans that they had little chance of repaying, then used unfair and deceptive collection tactics.

By David Gutman

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State Attorney General Bob Ferguson is suing the nation's largest servicer of student loans, alleging the companyused deceptive, unfair and predatory lending practices with thousands of Washington students.

The lawsuit, filed Wednesday in King County Superior Court, accuses Navient Corp., which was called Sallie Mae until a corporate split in 2014, of unfairly pushing expensive, high-interest-rate loans on borrowers who had little chance of repaying them.

The lawsuit follows a multiyear investigation in conjunction with the federal Consumer Financial Protection Bureau and the Illinois Attorney General's Office. Both the bureau and the state of Illinois filed similar lawsuits Wednesday.

Navient services more than $300 billion in student loans from more than 12 million borrowers across the country.

"In order to generate profits," Ferguson wrote in the lawsuit, "Sallie Mae made the conscious decision to trap numerous subprime borrowers in student debt they would never escape."

The lawsuit, which was filed after interviews with Navient executives, is partially redacted to protect what Navient claims are trade secrets.

It alleges the company loosened its credit standards to give loans to students who could not afford them and lent money to students attending for-profit schools with graduation rates below 50 percent.

According to the lawsuit, Sallie Mae's former CEO allegedly summed up its standards in a 2007 internal meeting as: "If the borrower can create condensation on a mirror, they need to get a loan this year."

The company, according to the lawsuit, protected itself from borrowers' defaulting by getting schools to cover a certain percentage of the loan.

"We are not going to allow private entities to pad their bottom line on the backs of struggling students," Ferguson said. He also has proposed new legislation — a student-loan bill of rights, to create baseline standards for loan servicers to comply with and to try to resolve complaints.

Nearly 60 percent of Washington college students who graduated in 2015 had student-loan debt, according to the Institute for College Access and Success, a nonprofit. Their average debt was more than $24,000, a 25 percent increase since 2005.

Navient, in a statement, called the lawsuits unfounded and politically motivated and said that its borrowers are 31 percent less likely to default than those at other loan servicers.

"The suits improperly seek to impose penalties on Navient based on new servicing standards applied retroactively and applied only against one servicer," the company wrote.

Ferguson's lawsuit also accuses Navient of using deceptive and aggressive collection practices once students had taken out loans.

The suit alleges that if a borrower made a payment ahead of time — for instance paid $200 when only $100 was due — the extra payment would be credited and the next month the borrower would get a bill saying $0 was due. If, in response to that $0 bill, the borrower made no payment that month, Navient would reset the borrower's streak of "consecutive, on time" payments, resulting in potential penalties.

Borrowers who get federally backed loans must recertify their incomes and family sizes annually. But when Navient sent reminders about this annual requirement, the lawsuit says, the company sent only a generic email saying there was a document waiting to be viewed on Navient's website.

Because the company tracked how many borrowers clicked through to the website, the lawsuit says, it knew that many borrowers never realized the significance of those emails — that they could be subject to penalties and increased payments for not following through.

Ferguson said the lawsuit would be seeking "many millions" of dollars in restitution, loan forgiveness and potential penalties.

The lawsuit, he said, could affect any Washingtonian who took out a loan with Sallie Mae before 2010 or who has a student loan serviced by Navient. Ferguson encouraged anyone with a complaint about the company to contact his office at www.atg.wa.gov/file-complaint.

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