



STATE OF CONNECTICUT
DEPARTMENT OF BANKING
Consumer Credit Division

260 CONSTITUTION PLAZA – HARTFORD, CT 06103-1800



Student Loan Service Standards

In 2015, Connecticut became the first state to require licensing of student loan servicers pursuant to Public Act 15-162, now codified at Sections 36a-846 to 36a-854, inclusive, of the Connecticut General Statutes. The legislation required that any person who services student education loans in Connecticut become licensed with the Banking Commissioner effective July 1, 2016, unless exempt pursuant to Section 36a-847(a)(2). The statutory scheme prohibits several practices, such as misapplying student education loan payments and reporting of inaccurate information to credit bureaus.

In addition to the prohibited practices set forth in Section 36a-850, Section 59 of Public Act 16-65 requires that the Commissioner set service standards for licensed student loan servicers and post them on the Department's website on or before July 1, 2017. The Department is aware that since regulation of this industry is relatively new, no uniform set of servicing standards for student loan servicers currently exists.¹ Upon review of various resources concerning loan servicing, including existing standards in the mortgage servicing industry, information provided by the Consumer Financial Protection Bureau concerning the student loan servicing industry and the United States Department of Education's Policy Direction on Federal Student Loan Servicing dated July 20, 2016, the Commissioner hereby sets forth the following standards:

1. **Default Aversion Services** – Student loan servicers shall develop and implement policies and procedures to identify borrowers at risk of default, notify borrowers of the possibility of default and make reasonable efforts to assist borrowers in avoiding default. Such practices may include, upon delinquency, providing advance notice to borrowers of:
 - The anticipated date that the loan will be charged-off or assigned to collections if no payment is made, and consequences to the borrower of such actions;
 - Possible actions that can be taken by the borrower to avoid the loan being charged off or assigned to collection, including the minimum payment that the borrower must make to bring the loan current; and
 - Any services available to the borrower to avoid default, including forbearance, deferment, alternative repayment plans or loan modification options.
2. **Notice of Transfer** – Student loan borrowers shall be conspicuously and timely notified when the servicing of their student loan is transferred to a new servicer by both the off-boarding and on-boarding servicer. Student loan servicers shall implement policies and procedures to facilitate the transfer and receipt of all pertinent loan information in a timely manner when on-boarding or off-boarding a loan.

¹See Federal Register, 80 Fed. Reg. 98, 29302, 29305 (May 21, 2015), “[f]or student loan borrowers, there is no existing, comprehensive federal statutory or regulatory framework providing uniform standards for the servicing of all student loans.”

3. Application of Payments – Borrower payments shall be applied to the outstanding loan balance upon the date of receipt of payment by the servicer in accordance with the student loan agreement and in the manner that is most beneficial to the borrower. Servicers who service more than one loan for a borrower shall notify borrowers at least annually of the manner in which partial payments are allocated across multiple loans and provide an opportunity for borrowers to direct that payments be allocated in a different manner. Student loan servicers shall adhere to any alternative payment allocation instructions provided by the borrower.
4. Books and Records – Student loan servicers shall keep records that clearly identify amounts and dates of all payments received from borrowers, all interest and fees charged and the application of payments across principal, interest and fees. Such records shall comply with generally accepted accounting principles. Student loan servicers shall also retain or have immediate access to the original or an exact copy of the student loan agreement and supporting documentation evidencing the borrower's obligations to the current loan holder and maintain records of all communications made to and received from the student loan borrower in connection with the servicing of the loan. Student loan servicers shall implement policies and procedures to ensure that personal information of borrowers is accurate and timely updated.
5. Periodic Billing Statements – Student loan servicers shall provide, no less than quarterly, statements to borrowers that clearly identify the servicer and current loan holder, and detail the outstanding balance of the student loan debt, monthly payment, current loan term and interest rate, date of origination, and any interest and fees charged and payments received since the last statement. Student loan servicers shall also provide timely and accurate annual statements concerning student loan interest paid for tax reporting purposes. Upon consent of the borrower, such statements may be provided electronically.
6. Payoff Statements – Upon request by a borrower, a student loan servicer shall promptly provide a borrower with a complete and accurate payoff statement. The statement shall clearly indicate the date on which it was prepared and any circumstances which may change the amount required to pay-off the debt.
7. Responding to Borrower Inquiries – Student loan servicers shall implement policies and procedures to ensure that all borrower inquiries are responded to in a timely, accurate and complete manner, and shall maintain adequate levels of competent staffing for such purposes. Borrower inquiries relating to student loans in delinquent or default status shall be primarily handled by dedicated personnel with specialized training in default aversion services.
8. Fees – Student loan servicers shall maintain and keep current a schedule of fees that it may charge to borrowers and shall clearly indicate the circumstances that will cause such fees to be incurred. Servicers shall comply with such schedule and the terms of the student loan agreement when charging fees on an account. Servicers shall disclose to borrowers any potential fees that it may charge, including late fees, as part of its initial communication with the borrower and upon any revision of the terms or conditions of such fees.
9. Credit Reporting – Student loan servicers shall provide timely and accurate information to credit bureaus and shall reasonably investigate any complaint received from a borrower concerning inaccurate credit reporting in a timely manner. Student loan servicers shall promptly correct any negative information previously reported to a credit bureau found to be inaccurate as a result of subsequent investigation by the servicer.

10. *Compliance with Applicable Federal Laws* – Student loan servicers shall develop and implement policies and procedures to comply with all applicable federal laws and regulations, including, but not limited to, the Fair Credit Reporting Act, 15 USC 1681 *et seq.*, Truth in Lending Act, 15 USC 1601 *et seq.*, Fair Debt Collection Practices Act, 15 USC Section 1692 *et seq.*, Electronic Fund Transfer Act, 15 USC 1693 *et seq.*, and Servicemembers Civil Relief Act, 50 USC 3901 *et seq.*

Dated: June 30, 2017