December 8, 2023

Dear xxx:

I write to strongly urge you to revisit how your company will treat federal student loan obligations for purposes of credit reporting and credit scoring during the return to repayment. At the Department of Education and Federal Student Aid, our top priority is to support student loan borrowers as they transition back to repayment, and we are concerned that servicing errors and other unique factors could impact the accuracy of your credit models and consumer data about borrowers during the current special circumstances of the return to repayment.

In October 2023, 28 million federal student loan borrowers entered repayment for the first time in over three years. This is five times more borrowers returning to repayment status at the same time than during a typical year, and many of these borrowers are making payments for the very first time. These are unique circumstances, and the standard inferences that credit scoring models might normally draw from individual payment behavior should be considered differently than before the payment pause began. Additionally, creditors who rely on your data may not understand that various factors related to student loan payments now and in the near future do not carry the same creditworthiness implications as they do for other products.

I strongly urge you to abstain from making negative assumptions about missed student loan payments, including based on periods of forbearance and the corresponding tradeline information, in your credit scoring models. In recent months, the Department identified multiple errors loan servicers made in calculating and informing borrowers about their loan payments. For example, several loan servicers provided inaccurate disclosures to nearly 100,000 borrowers. Another loan servicer failed to provide timely billing statements to nearly 2.5 million borrowers, resulting in many borrowers not receiving a timely notice for when their payments were due. As a result, the Department directed servicers to place affected borrowers into an administrative forbearance, so they will be held harmless while these errors are resolved. As a result of these servicer errors, a borrower's lack of payment does not necessarily reflect their ability or intention to repay their loan.

Further, while the Department identified errors across all servicers, the specific types and frequency of errors are not uniform across the portfolio. Therefore, similarly situated borrowers are experiencing an unequal set of repayment experiences and I am concerned this could result in unequal credit outcomes based on their servicer. Therefore, creditors who rely on your data or scores may be assessing creditworthiness of similar consumers differently, which is likely to degrade predictiveness.

Borrowers are returning to a student loan system that is vastly different than when the payment pause began in March 2020. The Department directed the transfer of millions of borrower accounts from one loan servicer to another, due to several loan servicers exiting the program during the pandemic. Moreover, many borrowers' financial situations have changed – some as a result of the pandemic – since the payment pause began. These types of changes often require borrowers to apply for, or update, income-driven repayment plans. Many borrowers are placed into a forbearance during this process. We understand that credit scoring models and lenders can, in some cases, view these forbearances as an indication that borrowers are unable or unwilling to make loan payments. However, these instances actually suggest borrowers are taking proactive steps to engage with their loans and are on the path to successful repayment.

Finally, to support this transition, the Department instituted a 12-month "on-ramp" period. During this time, the Department is temporarily taking steps to help borrowers avoid delinquency and the associated negative credit reporting for borrowers who miss payments. The Department will not report borrowers as delinquent and no new loans will enter default during the on-ramp period; accounts already in default will not be subject to defaulted debt collection practices. During the on-ramp period, interest will still accrue, so borrowers who permissibly utilize the on-ramp are likely to see their account balances grow.

For the reasons outlined above, it would be inappropriate for creditors and credit scoring models to use marginal increases in loan balances, periods of forbearance, monthly payment amount, or other indicators of missed or reduced payments as factors in credit scoring, as these actions are taking place in a fundamentally different context than any other time and are a substantially less reliable indicator of unwillingness or inability to pay at this time.

These special circumstances I described make clear that standard credit reporting practices and credit scoring models are unlikely to accurately reflect the unique situation millions of borrowers are experiencing during this unprecedented return to repayment. As a result, we strongly urge you to reevaluate your approach, and ask that a borrower's creditworthiness not be evaluated by a system designed for pre-pandemic circumstances.

We welcome the opportunity to discuss this further with you and look forward to your response.

Sincerely,

Richard Cordray

Richard Cordray
Chief Operating Officer
Federal Student Aid