In August 2019, the Massachusetts Attorney General announced the fourth in a series of actions that have been brought in the last several years. In January 2017, Washington’s Attorney General announced that it had recovered more than $1.2 million after bringing legal action or resolving allegations against fifteen out-of-state companies for violating Washington’s Debt Adjustment Act and Consumer Protection Act. These companies are now barred from conducting business in the state of Washington. In March 2018, the FTC filed an action—naming a number of years.”

Recently, states and federal regulators have begun filing suits against student loan “debt relief” companies. For example, the Illinois Attorney General sued several of these companies in 2014 and 2015, alleging violations of state consumer protection and other laws. In January 2015, the CFPB and the Florida Attorney General obtained a stipulated order in a case against College Education Services providing for monetary penalties and injunctive relief. In January 2017, Washington’s Attorney General announced that it had recovered more than $1.2 million after bringing legal action or resolving allegations against fifteen out-of-state companies for violating Washington’s Debt Adjustment Act and Consumer Protection Act. These companies are now barred from conducting business in the state of Washington. In March 2017, the Attorney General of North Carolina obtained an injunction against a number of debt relief entities that were alleged to have collectively “engaged in a scheme offering illegal debt adjusting services and unauthorized legal services to North Carolina consumers in violation of the statutes prohibiting debt adjusting, the unauthorized practice of law, and unfair and deceptive trade practices.”

In April 2017, the Massachusetts Attorney General obtained a settlement that will provide refunds to eighteen affected student loan borrowers from a student loan “debt relief” company that allegedly charged illegal fees to Massachusetts borrowers. The $6500 in refunds obtained in that case brought the Massachusetts Attorney General’s total recovery to more than $260,000, as this settlement was the fourth in a series of actions that have been brought in the last several years. In June 2018, a fifth case settled for $44,593, bringing the total recovery to over $300,000 as of that date. In August 2019, the Massachusetts Attorney General announced that an unlicensed finance company had been banned from selling student loan debt relief services in the state and would provide $100,000 in restitution and $340,000 in loan relief to more than 600 student borrowers to settle allegations that the company violated numerous state laws. In September 2019, New York’s Department of Financial Services announced that it had begun an investigation into certain debt relief companies that charge improper fees and engage in misleading advertising. The Department indicated that the investigation would center on whether the companies at issue charge “hefty, improper fees structured as monthly subscriptions” without informing student borrowers that such programs are available free of charge through the Department of Education.

In June 2015, the CFPB sent letters to several search engine providers to alert them that their products were potentially being used by student loan debt relief scammers. In 2016, the CFPB took action to bring an end to a company’s scam that tricked borrowers into paying fees for federal loan benefits and misrepresented that it was affiliated with the Department of Education. As a result of this action, Student Aid Institute, Inc. and its CEO were ordered to pay penalties, cease debt relief activities, and cease charging customers affected by the scheme. Also in 2016, the Federal Trade Commission (FTC) and the state of Florida took action against two entities—Consumer Assistance Project and Student Aid Center Inc.—that had been charged with operating student loan debt relief scams. In a separate matter, the FTC settled with the perpetrators of another debt relief scheme in which consumers were charged upfront fees for sham promises to renegotiate, settle, or modify payment terms on student loan debt. In January 2017, the CFPB filed a complaint alleging that a group of law firms and attorneys collaborated to charge consumers millions of dollars in illegal debt relief fees. This case culminated in a consent judgment of $35,256,275 as compensation for the unlawful advance fees charged and paid, as well as a civil penalty in the amount of $40,000,000.

In October 2017, the FTC—along with eleven states and the District of Columbia—announced the launch of “the first coordinated federal-state law enforcement initiative targeting deceptive student loan debt relief scams.” This initiative, dubbed “Operation Game of Loans,” initially involved a total of thirty-six enforcement actions “against scammers alleged to have used deception and false promises of relief to take more than $95 million in illegal upfront fees from American consumers over a number of years.” In five actions involving thirty defendants, the FTC obtained temporary restraining orders in the fall of 2017, thereby freezing the offending parties’ assets and bringing the scams to a halt. In March 2018, the FTC filed an action alleging that an operation deceived borrowers into paying over $28 million as part of a debt relief scam. In May 2018, the FTC announced two settlements that were reached as a result of the “Operation Game of Loans” initiative. In June 2018, the FTC announced another such settlement—including a monetary judgment of $11,694,347.49—and two more settlements.
were reached in November 2018.\footnote{387}

On September 12, 2019, the FTC announced that it had taken action against the operators of two student loan debt relief schemes, along with the financing company that assisted them. In the first action, which was brought jointly with the state of Minnesota, both the debt relief company and the financing company agreed to a ban from the debt relief business.\footnote{388} The stipulated order in that action imposed a $4.2 million judgment, in which all but $156,000 was suspended due to inability to pay.\footnote{389} In the second action, the financing company agreed to pay $24 million to settle the claims.\footnote{390} In August 2019, Massachusetts and New York sued the financing company, Equitable Acceptance, and it has been permanently banned from selling student loan debt relief services in each of those states.\footnote{391}

In some cases, “debt relief” counselors appear to act mainly as brokers, claiming that they can help arrange loan consolidation for a borrower. The companies may require the borrower to sign a statement indicating awareness that these sources may be available without the use of the company’s services but that the borrower has determined it is in his or her best interest to hire the company. Generally, these companies make no guarantees. In some cases, they will assist only with federal loans, and in some cases they will not assist borrowers if their loans were previously in default.

These companies often charge high fees. In many cases, they are only offering to do work that the borrower can do on his or her own. Despite disclaimers to the contrary, these non-attorney counselors may very well be crossing over the line and engaging in the unauthorized practice of law.\footnote{392} Many pressure borrowers to provide FSA IDs.

There is also a thriving business of “default management” companies hired by schools to track down former students and get them into forbearances or other programs that will not impact the school’s default rates and help them avoid sanctions.\footnote{393}

Default management and debt relief companies often use lead generators to get business. In a June 2010 lawsuit, a for-profit financial aid website company sued a lead generator for allegedly failing to provide quality leads.\footnote{394} The lead generator was supposed to provide the company with names of qualified individuals to solicit for student loan consolidations.

Footnotes


367 \footnote{355} Consumer Fin. Prot. Bureau, Consumer advisory: You don’t have to pay someone to help with your student loan (July 3, 2013).


372 \footnote{360} Press Release, Att’y Gen. of Mass., AG Healey Prohibits Unlawful Student Loan “Debt Relief” Company from...
1.12.4 Potential Problems with For-Profit Counselors

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Fed. Trade Comm’n v. Am. Student Loan Consolidators L.L.C. et al., No. 0:17-cv-61862-DPG (S.D. Fla. Nov. 30, 2018) (stipulated order for permanent injunction and monetary judgment; defendants ordered to pay $1.3 million as part of partially suspended $23 million judgment); Fed. Trade Comm’n v. Student Debt Doctor L.L.C., No. 0:17-cv-61937-WPD (S.D. Fla. Nov. 30, 2018) (stipulated order for permanent injunction and monetary judgment; defendant ordered to pay $2.2 million as part of partially suspended $13,224,856.15 judgment).


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