

AB 424 (Stone)

Private Student Loan Collection Reform Act



SUMMARY

AB 424 will protect private student loan borrowers from unsubstantiated lawsuits and collection on illegitimate debts. The bill requires private student loan lenders and debt collectors to comply with common sense evidentiary standards when bringing debt collection lawsuits against borrowers.

NEED FOR THIS BILL

As of June 2020, more than 650,000 Californians owed \$10.3 billion in private student loan debt. Banks, for-profit colleges, and other private lenders provide these loans without the involvement of the federal government. Consequently, private student loans often have higher interest rates and offer fewer consumer protections than federal student loans. Low-income and students of color are more likely to take out these private loans and are often subjected to predatory practices that increase their debt burden and decrease their likelihood of pay-off.

When a borrower falls behind on loan payments, student loan lenders and debt collectors pursue aggressive litigation, characterized as an “assembly line of lawsuits” against the borrower. The plaintiffs in these cases are typically not the original lenders; rather, they are trusts, loan servicers, or debt collectors that purchase and bundle debts.

Plaintiffs may claim to be the holder of the loan, yet routinely fail to provide critical paperwork documenting the loan’s chain of ownership. The National Collegiate Student Loan Trust (NCT) holds 800,000 private student loans and is one of the nation’s largest holders of these loans. An audit on a sample of 400 NCT loans revealed that NCT could not establish the chain of ownership for *any* of these loans. In 2014, National Consumer Law Center found that creditors consistently brought lawsuits for debt beyond the statute of limitations

for collection, failed to comply with court requests for additional information, and were not licensed to conduct business in the specified jurisdiction.

Plaintiffs, such as NCT, automatically win many of these lawsuits because borrowers are unfamiliar with the judicial system, and often are unable to afford legal representation. Court rulings in favor of debt collectors result in garnished wages or seizure of federal benefits deposited in bank accounts. These lawsuits have a devastating impact on student borrowers, many of whom are already economically disenfranchised.

EXISTING LAW

The California Legislature passed SB 233 (2013), the Fair Debt Buying Practices Act, which greatly reduced the flood of lawsuits from debt buyers seeking to collect on defaulted credit card debts with junk evidence. However, this Act and other fair debt collection laws generally do not cover education-related debts.

AB 424 will build upon AB 2251 (2016), AB 38 (2018), and AB 376 (2020); bills which brought the predatory practices of California’s \$141 billion student loan industry out of the shadows.

SOLUTION

AB 424 will:

- Establish minimum evidentiary standards for private education lenders or loan collectors filing a lawsuit against borrowers.
- Require lenders and collectors to provide specified records including, but not limited to: documentation establishing the chain of ownership, records of negotiations, and a log of collection attempts, which will be made available at the request of the borrower.

- Allow a borrower to pursue avenues of enforcement if a lender or collector fails to comply with provisions of this bill.

SUPPORT

Consumer Reports Advocacy (co-sponsor)
NextGen California (co-sponsor)
Student Borrower Protection Center (co-sponsor)
Student Debt Crisis (co-sponsor)
Young Invincibles (co-sponsor)

CONTACT

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