

Student Loan Sidebar

by: Christie Arkovich
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Why Do We Need the Student Loan Management Program?

To ensure debtors receive a “fresh start” and not a “false start,” the Bankruptcy Court for the Middle District of Florida (MDFL) has implemented a Student Loan Management Program (SLMP), which utilizes a transparent portal to obtain relief from federal and private student loans. The SLMP attempts to tackle the \$1.5 trillion student loan debt currently owed by 44 million Americans. The goals of SLMP are threefold: 1) increase communication presently lacking between federal and private student loan borrowers and their servicers; 2) raise awareness among borrowers and their counsel of available options; and 3) end unnecessary and costly forbearance during bankruptcy.

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Rather than simply leaving these loans on hold to accrue capitalizing interest in a Chapter 13, the SLMP enhances communication and availability of options and end needless forbearance that causes larger loan balances. For instance, a debtor who owes \$100,000 in student loans with an interest rate of 8 percent owes over \$148,000 after a five-year plan if the loan is simply put on hold. The portal is also designed to accommodate settlements of private student loans via mediation. The automatic stay will be lifted on matters addressed via the portal. The SLMP started October 1, 2019.

In a similar vein, in 2010, the MDFL implemented a Mortgage Modification Mediation (MMM) program to assist debtors in seeking mortgage

modification. The MMM program uses a portal to exchange documentation and communicate with mortgage servicers. The debtor would file a Notice of Participation and upload the appropriate documents using the portal. It has been a great success, has reduced litigation, and is recommended by mortgage creditors as a “model” for bankruptcy loss mitigation programs. It has been duplicated in many bankruptcy courts across the country and has saved thousands of borrowers from homelessness. The secure portal provided by DMMPortal at <https://www.dclmwp.com> has added a dropdown menu for student loan options now available in the Middle District of Florida.

Neither the MMM program nor the SLMP program REQUIRE servicers to modify these loans. They merely encourage the parties to communicate effectively using a portal for transparency. Our experience has been that when a debtor files bankruptcy, he or she cannot submit the applications through the student loan servicer’s website and only the debtor receives notifications of the progress of the process. Without an advocate on their side, loan balances continue to rise, as debtors fail to take advantage of various forgiveness programs or inadvertently default, which adds an additional 25 percent in collection costs to the often already high balance.

Why is there a need for such a program?

In 2017, the Consumer Financial Protection Bureau (CFPB) and five State Attorneys General

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sued the largest of the Department of Education's (ED) servicers, Navient, in which they alleged that Navient misallocated payments, steered borrowers away from Income Driven Repayment Program Plans (IDR), and failed to provide clear information on how to re-enroll in IDR plans.

According to an Inspector General's Audit of Federal Student Loan Servicers, it was found that 61 percent of the time, student loan servicers are non-compliant with Federal Loan Servicing Requirements regarding forbearances, deferments, income driven repayment plans, etc. (February 12, 2019 ED-OIG/A05Q0008). We believe it would be beneficial for the debtors to have their own advocate to review their options with them and then apply for the appropriate programs.

The report states that one of Federal Student Aid's (FSA) objectives is to include the implementation of processes, tools, and methods that protect the interests of students, and to support FSA in making service providers accountable. The objective further states that FSA would ensure that its processes for resolving student issues are simple for customers to use and sophisticated enough to capture insights that can be used to refine student aid operations. SLMP has all of these ideas wrapped into one program.

To us, this is a replay of the mortgage crisis: There are affordable student loan repayment plans available from the government, but student loan servicers have not been able to properly assist borrowers, just as the mortgage servicers could not do so. And there are multiple student loan repayment plans that often are confusing to borrowers. This led to the idea that we could use the same MMM process when debtors have student loan debt.

This is largely needed as Congress' intent is for debtors in bankruptcy to receive a "fresh start." Since most student loans are non-dischargeable, this is not the result when debtors have student loan debt. We believe a process is needed that works for all parties to assist debtors to enroll in an available IDR. This would ultimately provide a greater income stream for the government as student loans are abated during bankruptcy and receive little pro-rata distribution from the trustee. This program will encourage debtors to sign repayment plans, which will cause increased distribution from the trustee, and such repayment will match the lender's requirements in the Department of Education's process.

We all agree there are significant problems that debtors face when they are in a bankruptcy case that has federally guaranteed student loans. Leaving this to the debtors to figure it out on their own, the government's website is not working. Leaving it to the servicers, who do not represent the borrowers, is not working. Leaving Chapter 13 borrowers in forbearance, for five years, is not working. We should stop abating these loans and make progress towards a "fresh start" and not a "false start" with student loans. As acknowledged, ED and its servicers place these loans on a "HOLD" while in bankruptcy. This is a sad state of affairs that needs to be fixed.

Just lifting the bankruptcy automatic stay alone will not work. The court and the trustee must supervise the debtor's Chapter 13 plan payments, considering many factors such as disposable income, unfair class treatment, and feasibility, to name a few. The government and the debtor cannot resolve these issues by themselves; it must be within the confines of the bankruptcy process. SLMP is the best way to achieve this goal.

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Tampa Efforts to Allow Income Driven Plans for Federal Student Loans for Chapter 13 Debtors

We are spearheading a movement this Fall in the Tampa Division, Middle District of Florida, to allow debtors to participate in Income Driven Plans allowing for eventual forgiveness of federal student loan debt as opposed to the standard forbearance when a debtor files bankruptcy.

Presently, a debtor who files bankruptcy can expect that his or her federal student loans to be placed in administrative forbearance. No collection actions are taken, but interest continues to accrue. The problem with a simple forbearance is that a \$100,000 federal student loan accruing interest at 8% would total \$148,984.57 at the end of a 60-month plan. Even though the debtor's house and vehicle would be saved, the end result is that sometimes a much larger problem is created when the debtor is left with a significantly higher non-dischargeable student loan balance.

Several people raised this student loan issue during the comment period regarding revisions to the Middle District's Model Chapter 13 Plan. Judge Delano advised in a letter to the undersigned that one possibility is to include student loans that are subject to an Income Driven Plan, Public Service Loan Forgiveness Program or other program in Section E "Nonstandard Provisions". Judge Delano noted if the student loan creditor is not receiving a greater distribution than other unsecured creditors, there is unlikely to be an objection to this plan treatment.

We would go one step further and assert that as long as a non-student loan creditor was receiving a meaningful payment and was not unfairly discriminated against, even a small reduction in their dividend would not outweigh the severe detriment to the debtor of being prohibited from participation in IDR and Public Service Loan Forgiveness if they otherwise qualified for such relief.

We have two such cases underway now both of which are pre-confirmation. If anyone would like a copy of our Memo of Law to allow for this non-standard provision and for possible separate classification,

please email me. I understand that Orlando has been allowing Chapter 13 debtors to separately classify their federal student loan debt and apply for IDR, following the seminal case in *In re Buchanan*, in North Carolina, which received the Department of Education's blessing and was confirmed on June 12, 2015 (Case No. 6:14-bk-51161).

CFPB Consent Orders for NCSLT and TSI include a Halt of Collection Activity for Private Student Loans

On September 19, 2017, the CFPB entered into two Consent Orders with NCSLT and TSI which affect the vast majority of private student loan debt. The Orders require a halt to all collection activities for NCSLT trusts for private student loans while an audit takes place, but what might it mean for pending bankruptcies?

First, the Consent Orders require the payment of millions of dollars in damages in some cases, so Schedule B should reflect the possibility of recovery against NCT, collectors and law firms. It may be awhile before the Judge signs off on the Proposed Judgment due to several Motions to Intervene filed by various involved parties. But the Agreed Consent Orders themselves make certain admissions of liability in the meantime.

The debt should be listed as disputed pending outcome of an audit (required to be completed within 180 days for accounts currently in litigation, within 365 days for all other accounts).

For all proofs of claims that are already filed, debtors' counsel may want to file objections pending the outcome of the audit — there are deadlines to filing Proofs of Claims that will be shorter than the audit time period to complete.

Motions can be filed to withhold payment on allowed claims.

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New Florida precedent: *In re Lysiuk* (Case No. 6-16-ap-00124-CCJ (discharge of private student loans for attendance at a non-accredited, non-eligible Caribbean medical school)).

In re Decena Update: We now have Florida precedent allowing for the discharge of private student loan debt for an unaccredited foreign medical school that is non-eligible for federal funding.

On March 23, 2017, Judge Cynthia Jackson ruled in *In re Mark Lysiuk*, Case No. 6-16-ap-00124-CCJ, that private student loans were discharged when they were not made, insured or guaranteed by the government to attend an unaccredited foreign medical school. Defendant's loans were found not to be student loans that should be excepted from discharge pursuant to Bankruptcy Code §523 (a)(8), nor were they "qualified education loans" as that term is defined by the Internal Revenue Code.

We represented the debtor in this case of first impression in Florida and I am pleased to report that our client will benefit tremendously from the discharge of several hundred thousand in private student loans. Our client was unable to pass his medical boards and works a job in an unrelated field now making \$10-\$12

an hour. At least now he can get on with his life and utilize an income based plan for his remaining federal loans with debt forgiveness.

Navient Admits it is a Debt Collector for the Department of Education in a pending CFPB lawsuit.

In perhaps the worst marketing decision next to United's violent removal of its overbooked passenger this month,

Navient's response to the CFPB lawsuit is that it isn't being paid enough to explain to borrowers the various income based/debt forgiveness plans. Navient responded to the CFPB lawsuit that "there is no expectation that the servicer will act in the interest of the consumer." Bloomberg reports that Navient said its job is to get the DOE paid, and that it never agreed to offer the customer service

the CFPB wants.

There are several income based plans (ISR, IBR, Paye, RePaye, ICR and IBR for New Borrowers) and not all of them have debt forgiveness. The terms of each vary. Please help to explain to student loan clients that IBR is not a one size fit all proposition and that they should fully understand the differences between the plans to make their own decision as to what is best for their family. Trusting

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their servicer to choose for them is giving control to “the debt collector”.

Navient Now Requires Borrowers to Be Current in Payments or to Specifically Request a Forbearance Separately Before An Income Based Plan Can Be Approved.

In a March 21, 2017 Fact Sheet released by Navient, it now requires borrowers to **separately request a forbearance** if they are late in payments when seeking an income based plan. Unfortunately, the current Income-Driven Repayment (IDR) Plan Request form (available at ifap.ed.gov) despite being 10 pages in length does not have a section addressing this. Many borrowers will likely send in this form only to have it denied if they are late in payments. This change will likely result in an uptick in unnecessary defaults of borrowers whose income is low enough to otherwise qualify for an income based plan with debt forgiveness – which adds 25% to the loan balance.

IDR Certification IRS data retrieval tool down for 2017.

Borrowers seeking approval of an IDR plan will have a longer wait than usual as the IRS data retrieval tool is anticipated to be down for much of 2017 as the system is being revamped to address privacy concerns. This will require that paper applications be mailed which will lead to servicing related delays and errors.

The 2016 Defense to Repayment Regulations are Safe for Now.

A key deadline passed in April that would have allowed Secretary DeVos and the Trump administration to roll back the final regulations that were announced November 1, 2016. No action was taken to reverse the new regulations. A portion of the regulations is already in effect with borrowers filing DTR applications for false representations from schools such as ITT and Corinthian, with the remainder of the regulations going into effect this summer.

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The purpose of this column which will appear in each Cramdown issue will be to report on new judicial, administrative and legislative developments in student loan debt that may help your clients. Many of these items are not sufficient to warrant an independent article but may lead to significant ways to address student loan debt on behalf of your clients.

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ABI Feb 2-3, 2016 Seminar: FDCPA/Student loans

For those wanting to learn more about consumer FDCPA/FCCPA violations relating to student loans, this was one of the topics to be discussed at the ABI seminar on February 3, 2017 and you can probably order the materials if you missed it.

ACICS – For-Profit Accreditor Shut Down

The fall quarter saw the demise of the Accrediting Council for Independent Colleges and Schools (“ACICS”) which was the accreditor for approximately 750 for-

profit schools with nearly 800,000 students including the failed Corinthian, Everest and ITT Tech. In September 2016, they lost their federal recognition (which decision is under appeal). Schools formerly accredited by ACICS will now be scrambling to find a new accreditor within 18 months. This may lead to a lot more closures.

Defense to Repayment (“DTR”) Process

In November 2016, the new regulations were published for the Department of Education’s new process to discharge federal student loans for students who were defrauded by schools. Generally this will be used for the closed for-profit schools, but the process can be utilized for any school and does not require a closure. This program is designed to help those who are no longer in attendance within 120 days of the school closing.¹

The application for DTR is rather lengthy and requires specific allegations of fraud that were relied upon by the borrower in making the decision to enroll. The borrower has to show a state law violation that is within the applicable statute of limitations which will vary state to state. Prior to the regs being finalized, it was uncertain whether the DOE would apply a SOL, since it is often years before the fraud is discovered and federal loans themselves do not have an SOL. In Florida, the statute of limitations for fraud and the Deceptive and Unfair Trade Practices Act is four years. However, fraud is one of very few categories of law that allows for extension of the SOL under the discovery rule. In that event, provided the person discovered the fraud in the past four

years, he can then go back up to 12 years to seek relief. The first of these applications were granted in November and many more are expected in the next couple years.

Legal Definition of Student Loan Under Attack

In the fall quarterly issue of the Cramdown, Lara McGuire authored Signs of Change? Recent Dischargeability Exceptions under § 523(a)(8) about recent discharge cases, *In re Campbell* (Bar Exam Loan) and *In re Decena* (foreign non-eligible institution). Unfortunately in late November 2016, *In re Decena* was reversed on other grounds for improper service. Despite its reversal, *In re Decena* has been cited favorably in at least two other cases *In re: Meyer*, Case No. 15-13193 (Bankr. N.D. Ohio 2016) and *In re: Swenson*, Case No. 16-00022 (Bankr. W.D. Wis. 2016). While student loans are normally not dischargeable without a showing of undue hardship, other grounds do exist to discharge student loans. This may include student loans which involve:

- 1) co-borrowers who are siblings or friends – any situation where the student was not borrower, borrower’s spouse or a dependent of the borrower;
- 2) loans that exceed the cost of education (including room and board) for accredited schools; and
- 3) private loans for non-accredited schools such as the enormous number of medical schools in the Caribbean – most of which are not eligible for federal funds.

There are more than 50 medical schools in the Caribbean. Most of which are not accredited by the U.S. and are not on the authorized Federal Schools list eligible for Title IV funding. Therefore most student loans for these schools are private and may be dischargeable under the cases cited above.

There may also be some instances whereby federal loans were used as a conduit to fund education at these non-accredited medical schools through a joint degree with a U.S. based institution.

As more for-profit schools close, particularly those with non-transferrable credits, there may be a challenge to the “educational benefit” requirement for a non-dischargeable student loan. I have heard from many former ITT students who feel they did not obtain any value from their education and some employers have even advised them to leave their ITT degree off their resume. The Court in *In re Campbell* rejected a broad reading that assumed that an “educational benefit” encompassed any loan that is tangentially related to education in its decision to discharge the Bar Study Loan.

While arguments like this may only apply to private student loans which represent only 10% of the \$1.4 trillion in outstanding student loan debt, it also represents some of the most difficult debt to repay. Private student loans often demand high interest and high monthly payments without recourse to any of the income based debt forgiveness plans available for federal loans.

The takeaway from these 2016 cases is that bankruptcy attorneys should spend some time determining if the private student loans their clients are facing were actually Qualified Educational Loans under IRS 221(d)(1) and, if not, consider bringing or recommending adversary proceedings to determine if those debts are excepted from the bankruptcy discharge.

1 It is a simple matter to apply for a School Closure Discharge if your client was in attendance within 120 days by using this form: <https://ifap.ed.gov/dpclatters/attachments/GEN1418AttachLoanDischargeAppSchoolClosure.pdf>

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