Education Department Must Retract Policies that Preempt States’ Student Lending Oversight

Jul 7, 2021

Washington, D.C. — State financial regulators today urged the U.S. Department of Education to rescind recent policies that interfere with state regulation of federal student loan servicers and debt collectors.

Under the Trump Administration, the Education Department enacted policies that prevented state financial regulators from supervising federal student loan servicers and providing consumer protections available under state law.

In a letter to Education Secretary Miguel Cardona, the Conference of State Bank Supervisors (CSBS), joined by the North American Collection Agency Regulatory Association (NACARA), applauded recent steps by the Education Department toward recognizing state authority. However, more action is needed.

“We appreciate that the Education Department has indicated that it recognizes state authority. However, more definitive action is necessary to better protect federal student loan borrowers, to allow effective supervision of student loan lenders and to respect the authority of the state system,” said CSBS President and CEO John Ryan.

In particular, state regulators asked Secretary Cardona to rescind a notice issued in 2018 that broadly preempts state regulation of federal student loans servicers, to formally recognize that state regulation of federal student loans is independent from federal law and to enable state financial regulators to access federal student loan servicer and debt collection records.

The need to rescind this preemption policy is particularly pressing as most federal student loan repayments, which were paused during the Covid-19 pandemic, are expected to resume in September, the letter says. State regulatory authority should be clarified to ensure borrowers in their states are protected during this period of transition.

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The Conference of State Bank Supervisors (CSBS) is the national organization of bank regulators from all 50 states, American Samoa, District of Columbia, Guam, Puerto Rico and U.S. Virgin Islands. State regulators supervise 79% of all U.S. banks and are the primary supervisor of nonbank financial services. CSBS, on behalf of state regulators, operates the Nationwide Multistate Licensing System to license and register non-depository financial service providers in the mortgage, money services businesses, consumer finance and debt industries.

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