

The Long Legacy of Predatory Private Student Loans: Defrauding Maryland Borrowers and Lying to Courts

“If the borrower can create condensation on a mirror, they need to get a loan this year.”

—Sallie Mae CEO, 2007

Just over a decade ago, some of the nation’s biggest banks saddled millions of students with predatory private student loans, mirroring the worst lending practices of the pre-crisis mortgage market. These lenders pushed high-rate loans onto vulnerable borrowers, piling on billions of dollars in debt knowing that it would never be repaid. At the peak of the subprime student lending boom, the then-CEO of Sallie Mae, Thomas Fitzpatrick, boasted about his firm’s predatory lending, telling an internal meeting of executives: “If the borrower can create condensation on a mirror, they need to get a loan this year.”

Subprime went to college. In the early 2000s, lenders like Sallie Mae and banks like JPMorgan Chase, US Bank, and Bank of America packaged loans into trusts and sold stakes in these trusts. This allowed lenders to offload the risk to investors from these predatory loans as borrowers were saddled with debts the creditors knew they could not repay.

“The worst-performing student loan investment vehicles ever created by Wall Street.” The worst of these trusts, known as the National Collegiate Student Loan Trusts, or NCSLT, packaged unaffordable loans made by banks to borrowers across the country, including many predatory loans made to students at for-profit colleges. Because these loans were knowingly made to people who could not pay them and later defaulted, NCSLT has been described as the “worst-performing student loan investment vehicles ever created by Wall Street.” But it gets worse. The companies managing NCSLT were grossly incompetent and eventually lost the documents proving ownership of the loans in the trusts. This includes embattled student loan giant the Pennsylvania Higher Education Assistance Agency, which remains responsible for maintaining loan documents and account records for NCSLT.

“Robo-Signing” Redux. In a move reminiscent of the mortgage crisis, NCSLT tried to remedy this nightmare by lying to courts across the country in thousands of lawsuits. NCSLT used mass-produced documentation, also known as robo-signing, to drag borrowers into court for debts they did not owe. Investors in NCSLT were so worried about this brewing scandal that they conducted—and then suppressed—a shocking audit finding that 100 percent of a random sample of NCSLT’s portfolio lacked proper ownership documentation. The federal government ordered NCSLT to pay over \$20 million for its deceptive acts up to 2017, but NCSLT’s problems continue to this day.

Time for Action. Abuses are not limited to one bad actor or set of trusts— companies like Sallie Mae, Jefferson Capital, Arrowood Indemnity, and Turnstile Capital Management are abusing consumers through similar schemes. However, state lawmakers can step in to protect borrowers from what has been described as “systemic malfeasance, gross negligence and willful misconduct” by creditors and collectors pursuing consumers in default on private student loans.

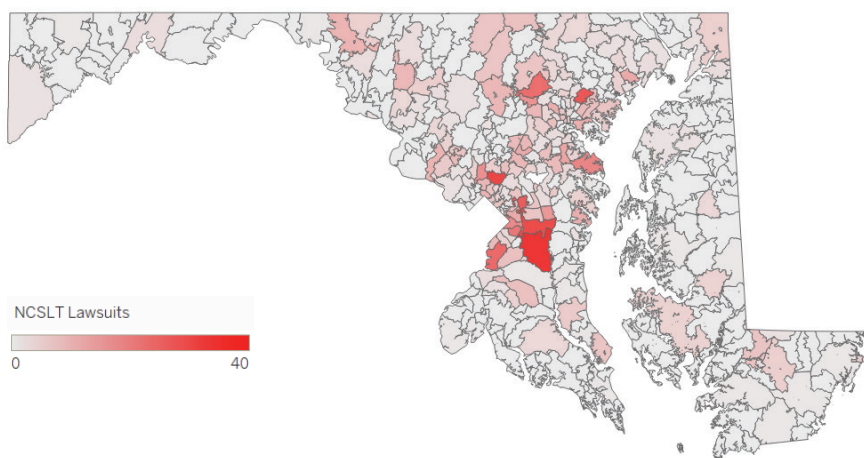
Student Loan Lawsuit Machine Targets Borrowers Across Maryland

More than half of all NCSLT lawsuits filed in Maryland are against borrowers in majority-minority zip codes.

relentless in its use of the state's court system to pursue these defaulted debts. NCSLT filed 1,257 cases against Maryland borrowers in the past five years alone. These lawsuits disproportionately target communities of color in the state. More than half of all NCSLT lawsuits filed in Maryland are against borrowers in majority-minority zip codes. Additionally, more than 25 percent of all NCSLT lawsuits filed in Maryland were filed in Prince George's County, a majority-Black county.

Court filings show that predatory collection tactics, including abuse of the courts, are widespread in the private student loan industry. The following case study examines the practices of NCSLT across the state of Maryland, documenting how NCSLT's practices have hit Maryland borrowers particularly hard. To examine the scope of the issue, SBPC reviewed SEC filings and court filings from 2015 through 2019. Public filings show that over the past two decades, NCSLT owned more than 15,000 separate loans totaling more than \$190 million made to borrowers in Maryland. When Marylanders defaulted on these loans, NCSLT was

NCSLT-Initiated Lawsuits by Zip Code Since 2015



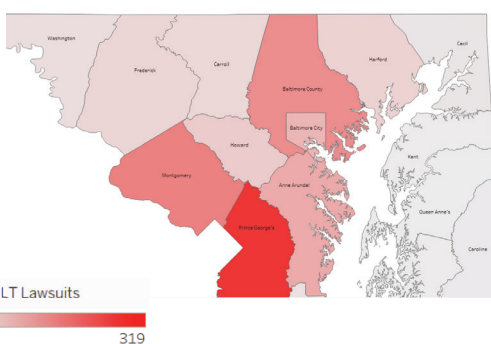
"National Collegiate . . . has been pursuing a case about a student loan they said I owe. Over time I have asked them to submit the proof and nothing has been done. Since [that date] they called and harassed me by phone and mail. . . ."

-MD Borrower Pursued by NCSLT
Consumer Financial Protection Bureau,
Consumer Complaint 3210042

DC Metro Area by County



Baltimore Metro Area by County



To see a full version of the report, please visit <https://protectborrowers.org/wp-content/uploads/2020/03/SBPC-PSL-Issue-Brief-Maryland-.pdf>.