

# CFPB Takes Legal Action Against PHEAA for Chasing Debt on Discharged Student Loans

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On May 31, the CFPB [filed](#) suit in federal court in the Middle District of Pennsylvania against a Pennsylvania-based student loan servicer accusing it of illegally pursuing student loan debts discharged in bankruptcy and providing false information to credit reporting agencies. The CFPB's lawsuit asks the court to order the servicer to stop its illegal conduct, provide redress to borrowers, and pay a civil penalty.

Though student loans are harder to discharge through bankruptcy as compared to other types of debt, some private student loans called "non-qualified" loans can be discharged through the same legal mechanism as other types of unsecured consumer debt. These "non-qualified" private student loans include loans to pay for tuition at schools that do not qualify for federal Title IV funding, such as unaccredited trade or K-12 schools, loans for medical and dental residency, loans to students attending school less than half-time, or loans where the loan amount was higher than the cost of attendance. While the student loan servicer serviced both conventional and non-qualified student loans, it treated all the loans the same and refused to discharge the non-qualified student loans unless there was an explicit court order or other express instruction from the loan owner.

Specifically, the CFPB alleges the servicer harmed consumers by:

- Failing to maintain policies and procedures to identify when loans are discharged by bankruptcy;
- Illegally collecting on and furnishing inaccurate information about discharged loans; and,
- Falsely telling borrowers they still owe payments on discharged loans.

**Putting It Into Practice:** The student loan servicer's alleged failure to properly handle discharged student loans will likely lead to the continued scrutiny of loan servicers' compliance with bankruptcy discharge protocols, an issue the Bureau raised in a [March 2023 Bulletin](#). This enforcement action constitutes a part of a broader effort by regulators to rein in improper student loan servicing and debt relief practices (previously discussed [here](#), [here](#), and [here](#)). Student loan servicers should take note

of this enforcement action and adjust their compliance protocols accordingly. Those who do not may draw unwanted attention from regulators.

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***Amber Odell contributed to this article***

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