Consumer Financial Protection Bureau

# CFPB Takes Action Against Citibank For Student Loan Servicing Failures That Harmed Borrowers

## Company Deceived Borrowers About Tax Benefits, Incorrectly Charged Late Fees and Interest, Sent Misleading Monthly Bills and Incomplete Notices

NOV 21, 2017

**WASHINGTON, D.C.** – The Consumer Financial Protection Bureau (CFPB) today took action against Citibank, N.A. for student loan servicing failures that harmed borrowers. Citibank misled borrowers into believing that they were not eligible for a valuable tax deduction on interest paid on certain student loans. The company also incorrectly charged late fees and added interest to the student loan balances of borrowers who were still in school and eligible to defer their loan payments. Citibank also misled consumers about how much they had to pay in their monthly bills and failed to disclose required information after denying borrowers' requests to release loan cosigners. The Bureau is ordering Citibank to end these illegal servicing practices, and to pay $3.75 million in redress to consumers and a $2.75 million civil money penalty.

"Citibank's servicing failures made it more costly and confusing for borrowers trying to pay back their student loans," said CFPB Director Richard Cordray. "We are ordering Citibank to fix its servicing problems and provide redress to borrowers who were harmed."

Citibank, based in Sioux Falls, South Dakota, is one of the world's largest banks with over $1.4 trillion in assets. Citibank provides a variety of products to consumers, including credit cards, mortgages, personal loans, and lines of credit. For years, Citibank made private student loans to consumers and also serviced these loans. As a loan servicer, Citibank manages and collects payments, and provides customer service for borrowers. They are also responsible for providing borrowers with accurate periodic account statements and supplying year-end tax information. The servicer also keeps track of the borrower's in-school enrollment status and is responsible for granting and maintaining deferments when appropriate.

For the student loan accounts that Citibank was servicing, the Bureau found that Citibank misrepresented important information on borrowers' eligibility for a valuable tax deduction, failed to refund interest and late fees it erroneously charged, overstated monthly minimum payment amounts in monthly bills, and sent faulty notices after denying borrowers' requests to release a loan cosigner. Specifically, the Bureau found that Citibank:

- **Misled borrowers about their tax-deduction benefits:** Federal law allows some borrowers to deduct up to $2,500 in student loan interest paid on "qualified education loans" annually. On its website and periodic account statements, Citibank made statements that suggested borrowers had not paid qualified interest, or that the borrowers were not eligible for the qualified interest tax deduction. Consequently, borrowers did not seek this tax benefit, even though they may have been able to benefit from it.
- **Incorrectly charged late fees and interest on loan balances to students still in school:** Current students are eligible for in-school deferments, which postpone repayment until six months after they are no longer enrolled in school. Citibank erroneously canceled in-school deferments for certain borrowers based on inaccurate information about their enrollment status. In doing so, Citibank charged late fees when the borrowers did not make payments, even though payments should not have been due. Citibank also erroneously added interest to the loan principal, and failed to refund late fees and erroneously charged interest after discovering that in-school deferments had been terminated in error.
- **Overstated the minimum monthly payment due on account statements:** Citibank serviced some loans for "mixed-status borrowers," who had multiple student loans with Citibank, some of which were in repayment status, while other loans were in deferment status. While loans were in deferment, no payment was required, though borrowers had the option to make payments on those loans. For mixed-status borrowers with student loans in or approaching repayment, Citibank overstated the minimum amount due on the mixed-status account statements.
- **Failed to disclose required information after refusing to release a cosigner:** Many consumers applied for student loans from Citibank with a cosigner to help guarantee the loan. Some of these borrowers later requested that these cosigners be released for some or all of their student loans with Citibank. When Citibank received an application from a student loan borrower to release a

cosigner and place the loan in the borrower's name only, Citibank would make a determination based on information in the borrower's credit report and score. When Citibank denied a cosigner release application, it failed to provide the borrower with all of the information required under the Fair Credit Reporting Act.

## Enforcement Action

Under the Dodd-Frank Wall Street Reform and Consumer Protection Act, the Bureau has the authority to take action against institutions violating consumer financial laws, including engaging in unfair, deceptive, or abusive acts or practices. The CFPB's order requires Citibank to:

- **Refund $3.75 million to harmed consumers:** The Bureau's order requires Citibank to pay $3.75 million in restitution to harmed consumers who were charged erroneous interest or late fees, paid an overstated minimum monthly payment, or received inadequate notices as a result of Citibank's faulty servicing.
- **Make changes to their servicing practices:** The Bureau's order requires Citibank to provide accurate information regarding student loan interest paid, implement a policy to reverse erroneously assessed interest or late fees, and to provide borrowers who were denied a cosigner release with their credit scores, the phone number of the credit reporting agency that generated the credit report, and disclosure language confirming that the credit reporting agency did not make the decline decision.
- **Pay a $2.75 million fine:** The Bureau's order requires Citibank to pay a $2.75 million penalty to the CFPB's Civil Penalty Fund.

A copy of the Bureau's consent order is available at: http://files.consumerfinance.gov/f/documents/cfpb_citibank-n.a._consent-order_112017.pdf

The CFPB previously addressed many of these issues in a related 2015 enforcement action against Discover for servicing practices related to the loans it acquired from Citibank beginning in late 2010. Today's enforcement action applies to the private student loans that Citibank retained, and continued to service, after that period.

Earlier this year the Bureau issued a consumer advisory warning student loan borrowers to watch out for similar servicing errors driven by faulty information about whether a borrower was enrolled in school. This advisory highlighted complaints from consumers about surprise late fees and other charges driven by inaccurate college enrollment information.

The Bureau's consumer advisory is available at: https://www.consumerfinance.gov/about-us/blog/consumer-advisory-bad-information-about-your-college-enrollment-status-can-cost-you/

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*The Consumer Financial Protection Bureau is a 21st century agency that helps consumer finance markets work by making rules more effective, by consistently and fairly enforcing those rules, and by empowering consumers to take more control over their economic lives. For more information, visit consumerfinance.gov.*

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