

United States Senate

WASHINGTON, DC 20510

December 18, 2024

The Honorable Rohit Chopra
Director
Consumer Financial Protection Bureau
1700 G Street, NW
Washington, D.C. 20552

The Honorable Miguel Cardona
Secretary
U.S. Department of Education
400 Maryland Avenue, SW
Washington, D.C. 20202

Dear Director Chopra and Secretary Cardona:

We write to share the alarming findings of our investigation into millions of consumer credit reporting errors that occurred as a result of the faulty transfer of student borrower accounts from NelNet to MOHELA last year.¹ The results of our investigation suggest that MOHELA failed to provide advanced notice of the transfer to the credit reporting agencies (“CRAs”), contributing to nearly two million duplicate student loan records appearing on borrowers’ credit reports and hundreds of thousands of borrowers’ credit scores being wrongly reported for up to 1.5 years. We urge the Consumer Financial Protection Bureau (CFPB) and Department of Education (ED) to thoroughly review this matter and determine if MOHELA, NelNet, and the CRAs failed to comply with applicable guidance and federal law—and if so, to hold the relevant companies accountable.

In May 2024, alarming public reports indicated that an error in the 2023 transfer of millions of accounts² from NelNet to MOHELA resulted in borrowers’ student loan balances appearing twice on their credit reports, and, in some cases, reducing their credit scores and their ability to obtain mortgages, car loans, and other credit.³ At the time, it was unclear how many borrowers had been affected and whether the problems had been resolved.⁴ Accordingly, in August 2024, our offices opened an investigation into this matter, sending inquiries to NelNet, MOHELA, and

¹ Washington Post, “How a paperwork glitch is hurting student loan borrowers’ credit scores,” Danielle Douglas-Gabriel, May 29, 2024, <https://www.washingtonpost.com/education/2024/05/29/student-loan-balance-duplicates-credit-reports/>; Letters from Senators Elizabeth Warren, Jeff Merkley, Ron Wyden, and Richard Blumenthal to NelNet, MOHELA, Experian, Equifax, and TransUnion, August 8, 2024, <https://www.warren.senate.gov/imo/media/doc/20240808lettertomohelanelnetandcreditagenciesreloanbalanceduplicationerrorcombinedpdf.pdf>.

² Letter from MOHELA to Senators Elizabeth Warren, Ron Wyden, Richard Blumenthal and Jeff Merkley, p. 3, https://www.warren.senate.gov/imo/media/doc/mohela_response_to_senators_-_082224.pdf.

³ Washington Post, “How a paperwork glitch is hurting student loan borrowers’ credit scores,” Danielle Douglas-Gabriel, May 29, 2024, <https://www.washingtonpost.com/education/2024/05/29/student-loan-balance-duplicates-credit-reports/>.

⁴ *Id.*

the three largest credit reporting agencies, Equifax, Experian, and Transunion.⁵ We inquired about what had gone wrong, how many borrowers had been affected, and what actions each party had undertaken to resolve the issues.⁶

After reviewing the companies' responses and soliciting supplemental responses where appropriate, we write to share the results of this investigation—which suggest that MOHELA's failure to provide advanced notice of the transfer to the CRAs contributed to nearly two million credit reporting errors.⁷ Our investigation revealed that:

- 1. MOHELA allegedly failed to inform the CRAs of the loan transfers from NelNet, contributing to nearly two million credit reporting errors.** According to the CRAs, there is an established protocol (codified by ED) for data furnishers (institutions that reports consumer credit information to one or more of the major credit bureaus)⁸ when reporting transferred loans, using a mechanism called the “L1 Segment.”⁹ As one of the CRA's explained, “data furnishers are expressly instructed to provide advance notice to CRAs prior to reporting the transfer of large loan portfolios. Data furnishers are instructed to include in this notice information about the number of loans being transferred, the timing of the transfer, and the characteristics of the loans.”¹⁰ The CRAs explained that these practices are laid out in the Credit Reporting Resource Guide (CRRG), which is updated each year and referenced in ED's package of materials for the current federal student loan servicing contracts.¹¹ However, all of the CRAs reported that they did not always receive such notice from MOHELA.

As a result, the CRAs identified nearly two million credit duplication errors stemming from loan transfers to MOHELA. One of the CRAs indicated that all of the approximately 1.5 million loan transfers from NelNet to MOHELA resulted in errors

⁵ Letters from Senators Elizabeth Warren, Jeff Merkley, Ron Wyden, and Richard Blumenthal to NelNet, MOHELA, Experian, Equifax, and TransUnion, August 8, 2024, <https://www.warren.senate.gov/imo/media/doc/20240808lettertomohelanelnetandcreditagenciesreloanbalanceduplicationerrorcombinedpdf.pdf>.

⁶ Letters from Senators Elizabeth Warren, Jeff Merkley, Ron Wyden, and Richard Blumenthal to NelNet, MOHELA, Experian, Equifax, and TransUnion, August 8, 2024, <https://www.warren.senate.gov/imo/media/doc/20240808lettertomohelanelnetandcreditagenciesreloanbalanceduplicationerrorcombinedpdf.pdf>.

⁷ *Note:* At the request of the credit reporting agencies, we have anonymized the CRAs' responses because the companies have asserted that their responses contain confidential and proprietary information. Herein, when this letter references data in the companies' responses, all of the CRAs will be referred to as “one of the CRAs” or “one of the companies,” so as to protect their anonymity.

⁸ Business Insider, “What Is a Data Furnisher? Understanding Their Impact on Credit Reporting,” Carter Kilman, July 17, 2024, <https://www.businessinsider.com/personal-finance/credit-cards/credit-furnisher>.

⁹ Washington Post, “How a paperwork glitch is hurting student loan borrowers' credit scores,” Danielle Douglas-Gabriel, May 29, 2024, <https://www.washingtonpost.com/education/2024/05/29/student-loan-balance-duplicates-credit-reports/>.

¹⁰ Response on file with the office of Senator Elizabeth Warren.

¹¹ *See:* MOHELA contracts attachments, “3000 Student Loan Credit Reporting Guide,” copyright 2019, <https://sam.gov/opp/47886c81fdc84d1990f63ab513e8af98/view>; Consumer Data Industry Association, “2020 Credit Reporting Resource Guide®,” 2020, p. 6-61, <https://autodealerplus.com/dealerzone/metro2.pdf>; FAQ 46 states, in relevant part “[i]f accounts are being transferred from one data processor to another, contact the data representative at each consumer reporting agency to facilitate transfer of the accounts.”

since advanced notice was not given.¹² This company explained that, “MOHELA did not provide any advanced notice for the Loan Transfers as required by the protocol. In addition, loans with L1 Segments were reported commingled with loans without L1 Segments in the same large data files reported to [the CRA]. This commingling limited [the CRA]’s ability to identify loans with L1 Segments. Moreover, because advanced notice was not given, testing was not set up to confirm proper completion.”¹³ Consequently, all of the approximately 1.5 million loan transfers processed by this CRA were not processed correctly.¹⁴

Another CRA identified “approximately 119,000 tradelines for about 26,000 consumers reported by both NelNet and MOHELA without an instruction to update the current servicer.”¹⁵ And a third CRA’s review, which covered duplicate student loan records reported by all of the large federal student loan servicers (Nelnet, MOHELA, EdFinancial, and AidVantage), found that 95 percent of duplicate records were accounts transferred to MOHELA—a total of 241,382 duplicate student loan records.¹⁶ This company also noted that it believes that many of the errors involved the incorrect use of the L1 segment—if MOHELA used information in the L1 segment that was missing or did not correctly match with existing information, this “can result in the creation of a duplicate tradeline for potential inclusion in subsequent consumer reports.”¹⁷

2. **Hundreds of thousands of borrowers¹⁸ were affected by these errors, which were not corrected for as long as 1.5 years.**¹⁹ Between the time when the duplicate errors began to occur (in January 2023) and when the CRAs claim to have fixed all the errors (by the end of August 2024), the CRAs collectively identified over 200,000 consumers affected by these mistakes. According to one CRA, “[a] total of 215,662 individual consumers had at least one duplicate loan on their credit file” as a result of the approximately 1.5 million loan transfers that were not processed correctly.²⁰ The duplicate tradelines identified by another CRA represented approximately 26,000 affected consumers.²¹ And a third CRA reported that their duplicate records “involved approximately 55,650 individuals, a number that includes student loan borrowers, as well as coborrowers, and cosigners.”²²
3. **Overall, the CRAs identified over 100,000 cases in which the errors resulted in incorrect credit scores appearing on borrowers’ accounts.** The three CRAs each provided information on the number of customers that had incorrect credit scores because

¹² Response on file with the office of Senator Elizabeth Warren.

¹³ *Id.*

¹⁴ *Id.*

¹⁵ *Id.*; *Note:* a tradeline is a credit account listed on a credit report, and each account has its own tradeline. Thus, an error in the loan transfer between NelNet to MOHELA may have resulted in multiple tradelines being affected for each individual borrower.

¹⁶ Response on file with the office of Senator Elizabeth Warren.

¹⁷ *Id.*

¹⁸ *Note:* Because there could be overlapping errors for individuals across the three ratings agencies, it is not clear exactly how many unique individuals were affected.

¹⁹ Responses on file with the office of Senator Elizabeth Warren.

²⁰ *Id.*

²¹ *Id.*

²² *Id.*

of this error. One reported that 25,132 customers had incorrect scores, one reported 5,340 customers with incorrect scores, and one reported 79,882 with incorrect scores.²³ According to the CRAs, the vast majority of consumers saw no change to their credit scores. While the majority of consumers whose credit scores did change as a result of these errors experienced an increase, approximately 14,000 borrowers experienced decreased credit scores, dropping from important benchmarks, including from credit scores above 800 to below 800 and from above 700 to below 700.²⁴ The vast majority of the borrowers who experienced declines saw significant declines in their scores: according to one CRA, “there were...approximately 4,400 borrowers who may have had their credit score decrease by more than twenty points.”²⁵ Another CRA found 294 consumers who “had a lower credit score when both accounts were present.”²⁶ Of those borrowers, the average reduction in credit score was approximately 18 points.²⁷ And a third CRA found that 2,915 individuals saw their credit score tier decrease.²⁸

- 4. Borrowers submitted approximately 7,500 complaints and disputes in attempts to correct the errors.** When borrowers notice an error on their credit report, they may submit a dispute with the CRAs regarding the error. One CRA reports having received “approximately 2,500 disputes over an 11-month period.”²⁹ A second CRA received and processed “915 unique disputes cases (with 1,516 accounts disputed) regarding potential duplicate reporting of MOHELA or NelNet student loans from January 1, 2023, to July 31, 2024.”³⁰ Between the beginning of 2023 through August 2024, a third CRA received “2,539 tradeline disputes concerning duplicate reporting involving student loan accounts serviced by MOHELA.”³¹ In addition, MOHELA reported receiving 1,554 borrower complaints regarding the duplicate loans.³²

All of the CRAs reported that the duplicates have been resolved now.³³ One CRA reported that, after it discovered the issue in May 2024, it resolved all issues within 45 days.³⁴ A second said it resolved disputes within 12 calendar days.³⁵

- 5. None of the servicers or CRAs took responsibility for the credit reporting errors.** In its August 22, 2024 response to my office, MOHELA claimed that it “implemented and follows the applicable process required under its federal loan servicing contract.”³⁶ When asked how MOHELA prepared for the transfer—including what instructions it gave to

²³ Response on file with the office of Senator Elizabeth Warren. *Note*: Because there may have been overlap in the affected borrowers, the estimates provided by the CRAs cannot be added to find the maximum number of affected borrowers.

²⁴ Response on file with the office of Senator Elizabeth Warren.

²⁵ *Id.*

²⁶ *Id.*

²⁷ *Id.*

²⁸ *Id.*

²⁹ *Id.*

³⁰ *Id.*

³¹ *Id.*

³² Letter from MOHELA to Senators Warren, Wyden, Blumenthal and Merkley, p. 3, https://www.warren.senate.gov/imo/media/doc/mohela_response_to_senators_-_082224.pdf.

³³ Response on file with the office of Senator Elizabeth Warren.

³⁴ *Id.*

³⁵ *Id.*

credit reporting agencies regarding the transfer— MOHELA simply responded that it “accurately provided the L1 Segment files to CRAs” but did not say that it had submitted advanced notice, as outlined by the CRRG, to the CRAs.³⁷

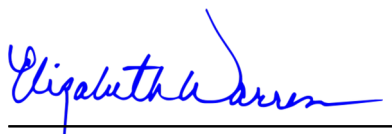
The CRAs also did not take responsibility for the credit reporting errors. As described above, they attributed the errors to the loan servicers’—and particularly MOHELA’s— failure to provide advanced notice regarding the loan transfers from NelNet to MOHELA.

- 6. NelNet, MOHELA and the CRAs have no plans to compensate affected borrowers.** When asked how each company planned to compensate borrowers harmed by the reporting errors, NelNet, MOHELA, and the CRAs all reported having no plans to compensate affected borrowers. MOHELA and NelNet reiterated that they each believed they had done nothing wrong. One company expressed remorse, saying it “regrets any negative impact [the errors] may have had on [] borrowers,”³⁸ but outlined no plans to compensate borrowers. Another said it “has not been made aware of any direct harm to consumers.”³⁹ The third CRA did not answer this question.

We respectfully request that the CFPB and ED use their supervisory and enforcement authority to ensure that the appropriate parties are held accountable for these errors. We also recognize that the scope of our review was limited to loans transferred from NelNet to MOHELA and encourage you to investigate duplicate student loan reporting errors across federal student loan servicing in order to determine the scope of the problem and ensure safeguards are in place such that similar mistakes do not occur again.

Thank you for your attention to this important matter.

Sincerely,



Elizabeth Warren
United States Senator



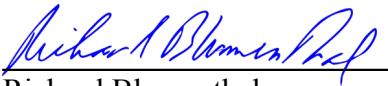
Jeffrey A. Merkley
United States Senator

³⁶ Letter from MOHELA to Senators Warren, Wyden, Blumenthal and Merkley, p. 2, https://www.warren.senate.gov/imo/media/doc/mohela_response_to_senators_-_082224.pdf.

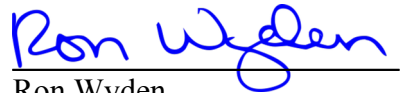
³⁷ Letter from MOHELA to Senators Warren, Wyden, Blumenthal and Merkley, p. 3, https://www.warren.senate.gov/imo/media/doc/mohela_response_to_senators_-_082224.pdf.

³⁸ Response on file with the office of Senator Elizabeth Warren.

³⁹ *Id.*



Richard Blumenthal
United States Senator



Ron Wyden
United States Senator