HUDSON COOK

CFS Bites of the Month - 2025 Annual Review - Student Lending

January 21, 2026 | Thomas P. Quinn, Jr., Eric L. Johnson, Justin B. Hosie and Kristen Yarows

In this article, we share a timeline of monthly "bites" for the past year applicable to student lending.

CFPB Takes Action Against Student Loan Trusts

On January 16, 2025, the CFPB and several student loan trusts filed a proposed stipulated judgment that requires the trusts to pay $2.25 million in redress. The proposed stipulated judgment also bars the trusts from collecting on certain debt. The trusts are a group of fifteen securitization trusts that acquire, pool, and securitize student loans that they service. The CFPB filed a lawsuit in 2017 alleging that the trusts brought improper debt collection lawsuits, filed false and misleading affidavits, and attempted to collect time-barred debts after the statutes of limitations had expired. The CFPB alleged that these practices were unfair and deceptive, violating the Consumer Financial Protection Act. In March 2024, the U.S. Court of Appeals for the Third Circuit held that the trusts were covered persons under the CFPA. The Supreme Court declined to hear the trusts' appeal.

DOJ and Bank Resolve Allegations that Bank's Student Loan Refinance Program Violated ECOA

On January 18, the U.S. Department of Justice entered into a $1.5 million consent order with a state-chartered community bank to resolve allegations that it discriminated based on race in connection with its student loan refinance program, in violation of the Equal Credit Opportunity Act and its implementing Regulation B. The refinance program required applicants to graduate from an "eligible school" to qualify. The bank defined an eligible school, in part, as one that fell below the Cohort Default Rate ("CDR") threshold that the bank's management periodically established based on annual, national CDR averages. The CDR is a number calculated by the U.S. Department of Education for institutions of higher education that represents the percentage of that institution's students who default on certain federal student loans within three years of starting repayment. Under this CDR policy, the bank automatically denied graduates of schools with CDRs above its established thresholds the ability to qualify for its refinance program.

The DOJ alleged that the bank's CDR policy disproportionately excluded Black and American Indian/Alaska Native bachelor's degree recipients as compared to similarly situated graduates of other demographic groups. According to the DOJ's complaint, Black bachelor's degree recipients were as much as 4.31 times more likely to be denied than bachelor's degree recipients who were not Black; American Indian/Alaska Native bachelor's degree recipients were as much as 2.98 times more likely to be denied than comparable degree recipients who were not American Indian/Alaska Native. In contrast, and with limited exception, bachelor's degree recipients of other races and national origins were more likely to be included in than excluded from the refinance program under the CDR policy. In addition, the

DOJ alleged that the bank's CDR policy disproportionately excluded graduates from majority-Black post-secondary institutions.

The DOJ's complaint went on to allege that the bank failed to provide applicants with proper notification of their denial of eligibility for the refinance program.

CFPB Dismisses Numerous Lawsuits

Following the change in administration, the CFPB dismissed numerous lawsuits that were filed under the Biden administration. From February into early March, the CFPB quickly filed dismissals in seven lawsuits, including a lawsuit against a large national bank, a student loan servicer, two mortgage lenders, a peer-to-peer lender, and an installment lender. Throughout the year, the CFPB continued to withdraw from several other lawsuits, including litigation against a lease-to-own company, a money transfer company, and an indirect auto company. It is estimated that the CFPB has dropped at least twenty-two cases throughout the year. In some cases, state attorneys general revived litigation that the CFPB dropped.

New York Amends Provisions Governing Private Education Debt Reporting

On February 14, 2025, New York Governor Kathy Hochul signed Assembly Bill 431, which requires student loan servicers to annually report private education debts to the Superintendent of the Department of Financial Services. "Private education debt" is defined under the new law as an extension of credit to, or debt or obligation owed or incurred by, a consumer to pay for higher education expenses.

The law requires each student loan servicer to submit an annual report containing a list of all private education creditors associated with the private education debts serviced by the student loan servicer that are owed by New York residents. The law amends the definition of "private education creditor" to mean "any person engaged in the business of extending a private education debt." The law removes the requirement for private education creditors to register with the state and to provide information to the superintendent about the creditor's private education debt portfolio related to consumers who reside in the state.

For each private education creditor listed in the annual report now required to be submitted by the student loan servicer, certain information must be included, such as: a list of the providers of higher education associated with the private education debts serviced by the student loan servicer; the total outstanding dollar amount and number of private education debts and the number of consumers who owe such private education debts; the total dollar amount and number of private education debts created in the prior calendar year; the number of private education debts that experienced a default and the percentage of such private education debts associated with each private education creditor; the total dollar amount and number of private education debts that defaulted for reasons other than non-payment; the total dollar amount and number of private education debts with a cosigner or guarantor; the total dollar amount and number of private education debts created to refinance other private education debts or federal student loans; and the total dollar amount and number of defaulted private education debts for which the student loan servicer commenced, maintained, or settled a lawsuit for collection.

Oregon Requires Consumer Finance License for Providers of Certain Private Education Loans and Income Share Agreements

The Oregon Department of Consumer and Business Services, Division of Financial Regulation, released a bulletin on February 19, 2025, notifying providers of private education loans and income share agreements (i.e., agreements requiring student borrowers to share a portion of future earnings to repay the loan) making loans of $50,000 or less with periodic payments and terms longer than 60 days that the consumer finance licensing requirements contained in Oregon Revised Statutes Chapter 725 apply to them. The consumer finance licensing requirements also apply to any person acting as an agent, broker, or facilitator for a person making such private education loans or offering income share agreements. ORS 725.010(2) defines a "consumer finance loan" as "a loan or line of credit that is unsecured or secured by personal or real property and that has periodic payments and terms longer than 60 days." The bulletin also states that, "[u]nder ORS 725.045, consumer finance loans made by private [education] lenders and persons offering income share agreements of $50,000 or less with periodic payments and terms longer than 60 days are void if, at the time the person made the loan, the person did not have a license issued under ORS chapter 725. Neither the person making the loan or offering the income share agreement, [n]or the person's successor, assignee[,] or affiliate[,] may collect, receive[,] or retain principal, interest, a fee[,] or a charge related to or in connection with the consumer finance loan."

CFPB Withdraws Sixty-Seven Guidance Documents

On April 11, 2025, CFPB Acting Director Vought wrote a memo that directed CFPB staff to cease issuing guidance documents, to review past guidance documents, and to flag only those that conform to his principles set forth in the memo. He instructed that any guidance that hadn't been flagged for retention would be reviewed and rescinded. On May 9, 2025, the CFPB published its withdrawal of sixty-seven guidance documents in the Federal Register. Those guidance documents date back to 2011, when the CFPB was in its infancy. This included: (a) eight Policy Statements, including the 2023 Statement of Policy regarding Abusive Acts or Practices and others; (b) seven Interpretive Rules such as the 2024 Truth in Lending Buy Now Pay Later Interpretation, the 2022 Authority of States to Enforce the CFPA Interpretation, the 2021 Equal Credit Opportunity Act Interpretation on Discrimination on the Bases of Sexual Orientation and Gender Identity, and others; (c) thirteen Advisory Opinions including several on earned wage access, one on collection of medical debt, one on pay-to-pay fees, one on background screening, one on private education loans, and others; and (d) thirty-nine other guidance documents addressing everything from whistleblower protections, unenforceable contract terms and conditions, steering by digital intermediaries, proper use of adverse action model forms, negative option marketing, and others. The CFPB statement withdrawing the sixty-seven guidance documents indicated that the CFPB was withdrawing all guidance documents to afford staff an opportunity to review and consider (1) "whether the guidance is statutorily prescribed," (2) whether the interpretation "is consistent with the relevant statute or regulation," and (3) whether it "imposes or decreases compliance burdens."

CFPB Resumes $4.2 Million in Redress from Sales-Training Company

On June 4, 2025, the California Department of Financial Protection and Innovation confirmed that the CFPB has resumed the distribution of $4.2 million in redress to former students of the now-closed sales-training company. The $4.2 million restitution comes from a 2023 settlement related to the company's bankruptcy case in Delaware federal court. Under the settlement agreement, the company was required to cease operations and refund payments collected from students under income share agreements. The contracts that financed the online job training contained allegedly controversial fine print that could require repayment regardless of job placement outcomes. Last month, the DFPI

alongside attorneys general from eleven states sent a formal letter expressing concern over the CFPB's lack of response and delays in issuing consumer checks from the agency's civil penalty fund. The CFPB finalized the distribution plan in May 2024, but actual payments had not been sent nearly a year later.

Massachusetts AG Takes Action Against Student Loan Company

On July 10, 2025, the Massachusetts Attorney General reached a settlement with a Delaware-based student loan company over allegations that the company's lending practices violated various consumer protection and fair lending laws. The Massachusetts Attorney General issued an Advisory in April 2024, clarifying that existing state consumer protection laws apply to emerging technology including artificial intelligence (AI). The Massachusetts Attorney General alleged that this student loan company used AI models that could lead to disparate harm to Black, Hispanic, and non-citizen applicants and borrowers. The Massachusetts Attorney General alleged that the company failed to take reasonable measures to mitigate fair lending risks in its underwriting practices, including failing to test its models for disparate impact and training its models on arbitrary, discretionary human decisions. The Massachusetts Attorney General also alleged that the company used a "knockout rule" to automatically deny applications based on immigration status and sent inaccurate adverse action notices that prevented applicants from understanding their own creditworthiness. The settlement agreement requires the company to pay $2.5 million, implement steps to mitigate risks of unfair lending, and regularly report compliance to the Attorney General.

Ninth Circuit Upholds Summary Judgment in CFPB Case

On August 7, 2025, the Ninth Circuit Court of Appeals upheld summary judgment for the CFPB, Minnesota Attorney General, North Carolina Attorney General, and California Attorney General, in a case involving a student loan debt relief company and its owner. In the 2019 lawsuit, government agencies alleged that companies operated as a common enterprise to deceive thousands of student-loan borrowers from more than $71 million in illegal fees. In 2023, the district court ruled that the companies violated the law when they charged consumers up to $1,899 to enroll in transactions that all eligible federal student-loan borrowers could seek for free, through the United States Department of Education. As part of the judgment that the Ninth Circuit upheld, the owner was ordered to pay a monetary judgment of over $95 million in restitution jointly with his co-defendants and $148 million in civil penalties.

Illinois Enacts Law Governing Educational Income Share Agreements

On August 15, 2025, Illinois Governor JB Pritzker signed Senate Bill 1537, which amends the Illinois Student Loan Servicing Rights Act to establish a framework for regulating educational income share agreements ("EISAs"). The new law defines an EISA as an agreement under which an EISA provider credits or advances a sum of money to a consumer, or to a third party on the consumer's behalf, for postsecondary educational expenses and the consumer makes periodic payments to the provider based on the consumer's future income.

The new law caps monthly payments under an EISA to 8% of a consumer's income, with the total obligation limited to a maximum of15% of the consumer's income over the agreement's duration. An EISA must state that when a consumer has income that is equal to or below the income threshold set forth in the EISA, the consumer's payment obligation is zero dollars; the income threshold must be equal to or greater than $47,000, adjusted for inflation each year beginning on January 1, 2026. An EISA must

specify that the maximum amount that a consumer could be required to pay under the agreement will not result in a consumer ever being required to pay an effective annual percentage rate that is greater than 9% or the high yield of the 10-year U.S. Constant Maturity Treasury Notes auctioned at the final auction held before the current calendar year in which the EISA is originated plus 6%, whichever is greater.

In addition, the new law limits the duration of EISAs. An EISA may not exceed 180 monthly payments and may not exceed 240 months total, excluding any months in which a consumer has requested and received a payment relief pause. The law requires an EISA to offer at least three months of voluntary payment relief pauses for every 30 income-determined payments required under the EISA.

The new law also sets limits on covered income that is used to calculate a consumer's payment obligation; limits fees a provider may contract for and receive; prohibits a provider from taking a security interest in any collateral in connection with an EISA; sets limits on refinancing a consumer's existing loan with an EISA; provides for the automatic discharge of an obligation in cases of total and permanent disability or death; prohibits cosigners; prohibits a provider from taking an assignment of wages of the consumer for payment or as security for payment; places limitations on garnishment of a consumer's wages; and mandates extensive disclosure requirements.

The new law also requires an EISA to include early completion options that allow the consumer to extinguish obligations under the EISA before the end of the EISA's duration.

Finally, the new law gives the Illinois attorney general enforcement powers under the Illinois Consumer Fraud and Deceptive Business Practices Act.

FTC Takes Action Against Debt Relief Operation Owners

On September 11, 2025, the FTC announced an action against debt relief operation owners, who agreed to the orders and permanent industry bans. The FTC had alleged that the companies charged upfront fees for debt relief services and falsely claimed to be affiliated with the Department of Education. According to the complaint, the debt relief operation misrepresented that consumers' monthly payments would be applied towards their student loans and that consumers who purchased the debt relief services would receive loan forgiveness. Two individual defendants agreed to settle the FTC's charges with proposed orders that permanently ban them from engaging in the debt relief industry. One of the individuals is banned from engaging in telemarketing, while the other is prohibited from violating the Telemarketing Sales Rule. The orders impose a monetary judgment of more than $45.9 million that will be partially suspended, due to the defendants' inability to pay, after they pay more than $1.6 million and turn over approximately $560,000 in personal and business assets.

FTC Takes Action Against Education Technology Provider

On September 15, 2025, the FTC settled a case with an education technology provider over allegations that the company made it difficult (and in some cases, nearly impossible) for customers to cancel recurring subscriptions and continued charging consumers after they submitted cancellation requests. The FTC alleged that the company continued to charge nearly 200,000 consumers after they submitted cancellation requests. The FTC also alleged that the cancellation processes for various subscription services were buried on the company's website, requiring consumers to navigate through several pages to find and initiate the self-cancellation process. The complaint alleged that despite overwhelming consumer feedback and internal recognition that consumers had difficulties with their cancellation

process, the company didn't improve the visibility of the cancellation of the cancellation link. The FTC alleged that the company violated the FTC Act and ROSCA. The proposed order requires the company to pay $7.5 million, which will be used to provide refunds to consumers, and also requires the company to maintain simple cancellation mechanisms for negative option features.

View all of the 2025 CFS Bites of the Month year-end recaps by topic on the 2025 Year-End Recap page.

Still hungry? Please join us for our next CFS Bites of the Month. Here is our lineup for 2026. If you missed any of our prior Bites, request a replay on our website.

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