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[EXEMPT FROM FILING FEES  
UNDER GOV. CODE, § 6103]

9 *Attorneys for the People of the State of California*

10  
11 SUPERIOR COURT OF THE STATE OF CALIFORNIA  
12 FOR THE COUNTY OF SAN FRANCISCO  
13

14  
15 **THE PEOPLE OF THE STATE OF  
CALIFORNIA,**

16 Plaintiff,

17 v.

18  
19 **NAVIENT CORPORATION; NAVIENT  
SOLUTIONS, LLC; PIONEER CREDIT  
20 RECOVERY, INC.; AND GENERAL  
REVENUE CORPORATION,**

21 Defendants.  
22

Case No. CGC-18-567732

**CONDITIONALLY REDACTED FIRST  
AMENDED COMPLAINT FOR  
PERMANENT INJUNCTION, CIVIL  
PENALTIES, RESTITUTION, AND  
OTHER EQUITABLE RELIEF**

(BUS. & PROF. CODE, § 17200 et seq.)

[VERIFIED ANSWER REQUIRED  
UNDER CODE CIV. PROC., § 446]

23  
24 The People of the State of California (“People”), by and through Xavier Becerra, Attorney  
25 General of the State of California, allege the following on information and belief:

26 **INTRODUCTION**

27 1. Navient and its debt-collection subsidiaries have committed significant and  
28 pervasive violations of California’s consumer-protection laws against thousands—if not hundreds

1 of thousands—of student-loan borrowers in California. Navient is the largest student-loan  
2 servicer in the country, servicing the loans of more than 12 million borrowers nationwide with  
3 more than \$300 billion in federal and private student loans.

4 2. At every turn, Navient has failed to live up to its responsibilities in servicing  
5 federal student loans. For example, for years, Navient promised borrowers that it would counsel  
6 them on various reduced-repayment options in light of their financial situation. In reality, Navient  
7 steered borrowers facing long-term financial distress into short-term forbearances rather than  
8 informing them of options that could have saved borrowers thousands of dollars. Navient did this  
9 to save itself time and money. For borrowers that were able to ultimately enroll in a reduced-  
10 repayment plan, Navient provided them with deficient and misleading notices regarding renewal  
11 of those plans. And when, as a result, borrowers failed to timely renew, their monthly repayment  
12 amount would immediately increase. Navient also promised borrowers that they could reduce  
13 their principal by making extra payments but applied overpayments first to fees and interest.  
14 These and other systematic violations of California’s consumer-protections laws have harmed  
15 numerous California borrowers with federal student loans serviced by Navient.

16 3. When borrowers default on their federal student loans—often as the inevitable  
17 result of Navient’s servicing misconduct—Navient’s wholly owned debt-collection subsidiaries,  
18 Pioneer and GRC, engaged in further violations of California law that have likewise harmed  
19 Californian borrowers. For example, Pioneer and GRC have exaggerated the benefits of  
20 rehabilitation plans on borrowers’ credit reports and misrepresented the amount of fees that are  
21 forgiven if borrowers succeed in rehabilitating their loans. Pioneer has also misstated to  
22 delinquent borrowers the standard for total and permanent disability.

### 23 **DEFENDANTS**

24 4. In 1972, Congress created the Student Loan Marketing Association (commonly  
25 referred to as “Sallie Mae”), a government-sponsored enterprise, to support the student-loan  
26 program created by the Higher Education Act of 1965. (20 U.S.C. § 1001 et seq.) In 1984, Sallie  
27 Mae became a publicly traded company, and from approximately 1997 to 2004, Sallie Mae  
28 transitioned into a private company.

1           5.           By 2005, Sallie Mae was fully privatized, with SLM Corporation as the parent  
2 company and subsidiary Sallie Mae, Inc. responsible for most of the company’s student-loan  
3 servicing and debt-collection businesses. From 2004 until April 2014, SLM Corporation and its  
4 subsidiaries conducted the full spectrum of student-lending activities—including originating loans  
5 under the Federal Family Education Loan (“FFEL”) Program (34 C.F.R. § 682.100 et seq.);  
6 developing and implementing lending policies; marketing student loans and loan packages to  
7 schools and students; funding and distributing loans; and then servicing and collecting loans. In  
8 April 2014, SLM Corporation split into two publicly traded entities: (a) a servicing and debt-  
9 collection business (Navient Corporation); and (b) a student-lending business (a new SLM  
10 Corporation).

11           6.           Defendant Navient Corporation (“Navient Corp.”) is a Delaware corporation. After  
12 the 2014 split described above, Navient Corp. assumed responsibility for liabilities resulting from  
13 certain pre-split conduct of the former SLM Corporation and its subsidiaries, including the  
14 servicing and debt-collection misconduct alleged in this Complaint. Defendant Navient Corp. is  
15 therefore included in this Complaint for servicing and collection-related conduct prior to the 2014  
16 split.

17           7.           Also as part of this split, Sallie Mae, Inc. was transferred to Navient Corp. and its  
18 subsidiaries. Sallie Mae, Inc. then changed its name to Navient Solutions, Inc. Navient Solutions,  
19 Inc. later converted from a corporation into a limited liability company and became known as  
20 Navient Solutions, LLC.

21           8.           Defendant Navient Solutions, LLC (“Navient Solutions”), a Delaware limited-  
22 liability company, is a wholly owned subsidiary of Navient Corp.

23           9.           In this Complaint, Sallie Mae, Inc.; Navient Solutions, LLC; and Navient Corp. are  
24 referred to collectively as “Navient.” Today, Navient services more than \$300 billion in student  
25 loans for more than 12 million borrowers nationwide, including hundreds of thousands of federal  
26 student-loan borrowers in California.

27           10.          Defendant Pioneer Credit Recovery, Inc. (“Pioneer”), a Delaware corporation, is a  
28 wholly owned subsidiary of Navient Corp. Pioneer principally engages in debt-collection

1 activities related to student loans. Pioneer is a “debt collector” under the Rosenthal Fair Debt  
2 Collection Practices Act, Civil Code section 1788 et seq. (“Rosenthal Act”). (Civ. Code,  
3 § 1788.2, subd. (c).)

4 11. Defendant General Revenue Corporation (“GRC”), an Ohio corporation, is a  
5 wholly owned subsidiary of Navient Corp. GRC engages in debt-collection activities related to  
6 outstanding and delinquent student loans on behalf of several owners of federal student loans.  
7 GRC is a “debt collector” under the Rosenthal Act. (Civ Code, § 1788.2, subd. (c).)

8 12. Navient Corp., Sallie Mae, Inc., Navient Solutions, Pioneer, and GRC act and have  
9 acted as a single enterprise, including having identical equitable ownership and identical directors  
10 and officers. The following examples are illustrative:

11 a. One person simultaneously served as President and Chief Executive  
12 Officer of both Navient Corp. and Navient Solutions;

13 b. Another person simultaneously served as Chief Operating Officer for both  
14 Navient Corp. and Navient Solutions;

15 c. Another person simultaneously served as Chief Financial Officer for both  
16 Navient Corp. and Navient Solutions;

17 d. Another person simultaneously served as Chief Risk Officer for both  
18 Navient Corp. and Navient Solutions;

19 e. Another person simultaneously served as Senior Vice President and  
20 Treasurer for both Navient Corp. and Navient Solutions;

21 f. Another person simultaneously served as Vice President and Secretary for  
22 Navient Corp. and Vice President, Associate General Counsel, and Assistant Secretary for  
23 Navient Solutions;

24 g. Another person is a current Director of Pioneer and GRC, and also serves  
25 as Senior Vice President for Navient Corp.; and

26 h. Another person is the current President of Pioneer, and also serves as Vice  
27 President of Operations for Navient Corp. and GRC.

28 13. Navient Corp. issues consolidated annual reports and SEC filings which include

1 Navient Solutions, Pioneer, and GRC. In addition, Navient Corp. issues consolidated financial  
2 statements and balance sheets for itself and its wholly owned subsidiaries, including Navient  
3 Solutions, Pioneer, and GRC.

4 14. Navient Corp. owns or leases the offices used by its wholly owned subsidiaries,  
5 including Navient Solutions, Pioneer, and GRC.

6 15. At all relevant times, each Defendant acted individually and jointly with every  
7 other named Defendant in committing all acts alleged in this Complaint.

8 16. At all relevant times, each Defendant acted (a) as a principal; (b) under express or  
9 implied agency; or (c) with actual or ostensible authority to perform the acts alleged in this  
10 Complaint on behalf of every other named Defendant.

11 17. At all relevant times, some or all Defendants acted as the agent of the others, and  
12 all Defendants acted within the scope of their agency if acting as an agent of another.

13 18. At all relevant times, each Defendant knew or realized, or should have known or  
14 realized, that the other Defendants were engaging in or planned to engage in the violations of law  
15 alleged in this Complaint. Knowing or realizing that the other Defendants were engaging in such  
16 unlawful conduct, each Defendant nevertheless facilitated the commission of those unlawful acts.  
17 Each Defendant intended to and did encourage, facilitate, or assist in the commission of the  
18 unlawful acts, and thereby aided and abetted the other Defendants in the unlawful conduct.

19 19. Defendants have engaged in a conspiracy, common enterprise, and common  
20 course of conduct, the purpose of which is and was to engage in the violations of law alleged in  
21 this Complaint. The conspiracy, common enterprise, and common course of conduct continue to  
22 the present.

### 23 **JURISDICTION AND VENUE**

24 20. This Court has jurisdiction over Defendants because Defendants, by servicing and  
25 collecting the federal student loans of California borrowers, intentionally availed themselves of  
26 the California market so as to render the exercise of jurisdiction over Defendants by the  
27 California courts consistent with traditional notions of fair play and substantial justice.

28 21. The violations of law alleged in this Complaint occurred in the County of San

1 Francisco and throughout California.

2 22. Venue is proper in this Court under Code of Civil Procedure section 395.5 because  
3 Defendants' servicing and debt-collection activities included the San Francisco region and  
4 therefore Defendants' liability arises in the County of San Francisco.

5 23. Venue is also proper in this Court under Code of Civil Procedure section 393,  
6 subdivision (a), because violations of law that occurred in the County of San Francisco are a "part  
7 of the cause" upon which the Plaintiff seeks the recovery of penalties imposed by statute.

### 8 **DEFENDANTS' BUSINESS PRACTICES**

9 24. Navient serviced and services federal student loans for hundreds of thousands of  
10 borrowers living in California. Pioneer and GRC have also collected on numerous defaulted  
11 federal student loans of borrowers living in California. Upon information and belief, Navient,  
12 Pioneer, and GRC engaged in the business acts and practices described below when servicing and  
13 collecting the federal student loans of California borrowers. The allegations in this Complaint  
14 relate only to federal student loans. This Complaint does not allege misconduct related to  
15 servicing and collecting private student loans.

#### 16 **I. BACKGROUND ON FEDERAL STUDENT LOANS**

17 25. On November 8, 1965, President Johnson signed into law the Higher Education  
18 Act of 1965 (20 U.S.C. § 1001 et seq.), which was intended "to strengthen the educational  
19 resources of our colleges and universities and to provide financial assistance for students in  
20 postsecondary and higher education." (Pub. L. No. 89-329, 79 Stat. 1219.) The 1972  
21 reauthorization of the Higher Education Act expanded aid to students entering junior colleges as  
22 well as trade schools and career colleges. (Pub. L. 92-318, 86 Stat. 235.)

23 26. As used in this Complaint, "federal student loans" refer to loans offered through  
24 programs administered by the U.S. Department of Education ("ED"), including "direct loans"  
25 under the William D. Ford Direct Student Loan Program and "guaranteed-insured loans" under  
26 the FFEL Program. Federal student loans come in two main forms: subsidized and unsubsidized.  
27 For subsidized loans, the government generally pays the interest while the borrower is in school.  
28 For unsubsidized loans, the borrower must pay all of the interest.

1           27.       Federal student loans have unique characteristics and features, including that (a)  
2 they are primarily need-based and made to borrowers regardless of credit history, so that approval  
3 is automatic if the student meets certain requirements; (b) their interest rate is capped by the  
4 federal government; and (c) they offer borrowers a variety of repayment options.

5           28.       Due to these features, borrowers typically access federal student loans before  
6 private student loans. At the end of 2017, federal student loans made up over 80% of the student-  
7 loan market.

8           29.       The management or “servicing” of federal student loans is handled by private  
9 entities, like Navient. Federal student-loan servicers handle a multitude of issues for borrowers,  
10 including collecting payments, providing repayment options to borrowers, and facilitating loan  
11 payoff.

12           30.       Federal student loans come with a vast array of repayment options to fit a  
13 borrower’s short-term and long-term financial situation. For instance, for borrowers experiencing  
14 long-term or permanent financial difficulty who are unable to pay the standard monthly payments  
15 under the original terms of the loan, Congress created income-driven repayment programs, which  
16 can significantly reduce the borrower’s monthly payment.

17 **II.   DEFENDANTS’ CONDUCT RELATED TO THE SERVICING OF FEDERAL STUDENT**  
18 **LOANS**

19 **A.   Navient Illegally Steers Federal Student-Loan Borrowers into**  
20 **Inappropriate and Harmful Forbearances, Rather than Income-Driven**  
21 **Repayment Plans**

22           31.       When federal student-loan borrowers first enter repayment, they are assigned to or  
23 select a specific repayment plan. Borrowers can change their repayment plan at any time,  
24 including when they experience financial hardship or distress.

25           32.       ED offers a number of repayment plans designed to help borrowers manage their  
26 federal student-loan debt by making monthly payments more affordable. These repayment plans  
27 include several income-driven repayment plans, such as Income-Based Repayment (“IBR”) and  
28 Pay As You Earn Repayment (“PAYE”). Most federal student loans are eligible for at least one  
income-driven repayment plan. The monthly payment under an income-driven repayment plan

1 depends on the borrower's income and family size and is intended to be more affordable for  
2 borrowers who would struggle to make payments under a standard repayment plan. In some  
3 circumstances, depending on a borrower's financial situation, he or she may pay as little as \$0 per  
4 month when enrolled in one of these plans.

5 33. Most income-driven repayment plans offer additional benefits for federal student-  
6 loan borrowers, especially borrowers experiencing long-term financial hardship. The following  
7 examples are illustrative:

8 a. For borrowers with subsidized loans whose monthly payment amount does not  
9 fully cover accrued interest, the federal government pays any unpaid interest that accrues on those  
10 loans during the first three consecutive years of enrollment in the income-driven repayment plan.  
11 This interest subsidy significantly benefits these borrowers because they generally have no  
12 obligation to ever pay the unpaid interest that accrues during those three years. Because that  
13 interest is paid in full by the federal government as it accrues, it is not added to the principal  
14 balance of the loan, or "capitalized."

15 b. Borrowers who are enrolled in an income-driven repayment plan can also receive  
16 forgiveness of the remaining balance of their federal student loan, either after making 20 to 25  
17 years of qualifying payments for most income-driven repayment plans or ten years of qualifying  
18 payments while employed in certain public-service professions.

19 34. Federal student loans are generally also eligible for forbearance, which is a short-  
20 term, temporary postponement of payment. With forbearance, a borrower experiencing temporary  
21 financial hardship or illness may be able to stop making payments or reduce his or her monthly  
22 payment for a defined period of no more than 12 months at a time.

23 35. Navient's website states that forbearance is appropriate for borrowers experiencing  
24 "a problem making on-time payments due to a temporary financial difficulty." The website also  
25 states: "Forbearance is intended to help you out in times of temporary need."

26 36. Borrowers placed in forbearance face significant costs, including the accumulation  
27 of unpaid interest and the capitalization of that unpaid interest to the principal balance of the loan.  
28 In some cases, a loan in forbearance may be re-amortized, meaning the monthly payments are



1 recalculated, which can lead to an increase in the borrower’s monthly payment. These costs  
2 generally increase the longer a borrower is in forbearance.

3 37. Long-term placement in forbearance can permanently increase the borrower’s  
4 monthly payment after the forbearance period ends and increase the total amount the borrower  
5 repays over the life of the loan. Forbearance is therefore unsuitable for borrowers experiencing a  
6 long-term or chronic inability to make their monthly payments under a standard repayment plan.

7 38. Because income-driven repayment plans enable borrowers to avoid or reduce the  
8 costs associated with forbearance, enrolling in these plans is usually a better option than  
9 forbearance for borrowers facing long-term financial hardship.

10 39. ED publicly encourages borrowers to consult with their federal student-loan  
11 servicer, such as Navient, to determine the best repayment option. For example, ED’s website  
12 includes the following statements:

13 Although you may select or be assigned a repayment plan when you first begin repaying  
14 your student loan, you can change repayment plans at any time—for free. [¶] Contact your  
15 loan servicer if you would like to discuss repayment plan options or change your repayment  
plan.<sup>1</sup>

16 A loan servicer is a company that handles the billing and other services on your federal  
17 student loan. The loan servicer will work with you on repayment plans and loan  
18 consolidation and will assist you with other tasks related to your federal student loan. It is  
important to maintain contact with your loan servicer. If your circumstances change at any  
time during your repayment period, your loan servicer will be able to help.<sup>2</sup>

19 Before you apply for an income-driven repayment plan, contact your loan servicer if you  
20 have any questions. Your loan servicer will help you decide whether one of these plans is  
right for you.<sup>3</sup>

21 Always contact your loan servicer immediately if you are having trouble making your  
student loan payments.<sup>4</sup>

22 Contact your loan servicer if you would like to discuss repayment plan options or change  
23 your repayment plan.<sup>5</sup>

24 40. Navient also repeatedly and affirmatively encourages borrowers experiencing  
25 financial hardship to contact Navient for help in evaluating their repayment options. For example,

26 <sup>1</sup> <http://studentaid.ed.gov/sa/repay-loans/understand/plans>

<sup>2</sup> <http://studentaid.ed.gov/sa/repay-loans/understand/servicers>

<sup>3</sup> <http://studentaid.ed.gov/sa/repay-loans/understand/plans/income-driven>

<sup>4</sup> <http://studentaid.ed.gov/sa/repay-loans/deferment-forbearance>

<sup>5</sup> <http://studentaid.ed.gov/sa/repay-loans/understand/plans>

1 Navient’s website currently displays the following statements, which invite borrowers to call for  
2 guidance in finding long-term repayment solutions and promise that Navient will take specific  
3 actions to help those borrowers:

4 [I]f you’re having trouble, there are options for assistance, including income-driven  
5 repayment plans, deferment, forbearance, and solutions to help you avoid  
6 delinquency and prevent default. . . . [¶] We can work with you to help you get back  
7 on track, and are sometimes able to offer new or temporarily reduced payment  
8 schedules. [¶] **Contact us at 800-722-1300 and let us help you make the right decision  
9 for your situation.**<sup>6</sup>

10 If you’re experiencing problems making your loans [sic] payments, please contact us.  
11 [¶] Our representatives can help you by identifying options and solutions, so you can  
12 make the right decision for your situation.<sup>7</sup>

13 **Navient is here to help. [¶] We’ve found that, 9 times out of 10, when we can talk  
14 to a struggling federal loan customer we can help him or her get on an  
15 affordable payment plan and avoid default.**<sup>8</sup>

16 41. For years, Navient’s website has included other, similar statements and promises.  
17 For example, its website previously stated that Navient was “committed to giving you the  
18 information and tools you need to understand and evaluate your student loan payment options.  
19 We can help you find an option that fits your budget, simplifies payment, and minimizes your  
20 total interest cost.”

21 42. [REDACTED]  
22 [REDACTED]  
23 [REDACTED]  
24 [REDACTED]  
25 [REDACTED]  
26 [REDACTED]  
27 [REDACTED]  
28 [REDACTED]

<sup>6</sup> <http://www.navient.com/loan-customers/postponing-payments/if-you-are-having-trouble>  
(red in original)

<sup>7</sup> <http://www.navient.com/loan-customers/postponing-payments/avoiding-default>

<sup>8</sup> <http://www.navient.com/loan-customers/getting-started/successful-student-loan-borrowers>  
(bold in original)

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43. [REDACTED]

[REDACTED]

[REDACTED]

44. [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

45. [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED] Navient representatives

therefore knew that they were supposed to inform borrowers struggling with long-term financial distress or hardship about alternative repayment plans.

46. In spite of these training-manual instructions, and despite publicly promising to help borrowers identify and enroll in an appropriate, affordable repayment plan, Navient’s representatives instead steered borrowers experiencing long-term distress or hardship into forbearance. In some cases, Navient representatives failed to mention the availability of income-driven repayment plans at all. Instead, representatives falsely and routinely told borrowers that forbearance was the only option even after the borrowers had, over the span of several years, repeatedly informed Navient that their income was insufficient to make their loan payments. In other words, Navient affirmatively “steered” borrowers into harmful and inappropriate forbearances, reducing Navient’s operational costs while causing serious financial harm to borrowers.

47. Navient’s compensation policies for customer service representatives incentivized this misconduct. Because of the number and complexity of income-driven repayment plans available for federal student loans, a conversation about alternative repayment plans and the

1 borrower's financial situation is usually time consuming. Counseling a struggling borrower to  
2 enroll in one of these plans often takes much longer for a Navient representative than simply  
3 placing the borrower in a forbearance. Navient's compensation policies exacerbated the problem  
4 by financially rewarding representatives for shorter average-call times. Representatives therefore  
5 often rushed struggling borrowers into improper forbearances rather than engaging in the lengthy  
6 and detailed conversations needed to adequately counsel and enroll them into an income-driven  
7 repayment plan.

8 48. Navient used a comprehensive set of incentive-compensation plans for its  
9 customer-service representatives and pre-default collections employees, including those who  
10 made calls to California consumers. An incentive-compensation plan is a reward strategy that  
11 compensates employees based on criteria other than pay for time worked. An incentive-  
12 compensation plan is designed to supplement base pay and drive behaviors that align the  
13 employee's interests with the strategy of the company.

14 49. [REDACTED]

17 50. [REDACTED]

25 51. [REDACTED]

1 [REDACTED]  
2 [REDACTED]  
3 [REDACTED]  
4  
5 52. To enroll in an income-driven repayment plan, borrowers must submit a paper or  
6 online application along with certain income-tax documentation. Enrolling a borrower in these  
7 plans can require multiple, lengthy conversations with a Navient representative, especially when  
8 the borrower has questions or difficulty with the application process. In contrast, borrowers can  
9 obtain a forbearance over the phone, usually in a matter of minutes, and without submitting any  
10 paperwork. Placing borrowers in forbearance costs Navient less than enrolling them in an  
11 income-driven repayment plan, and Navient incentivizes its employees to do so.

12 53. Due to the incentive structure described above, Navient representatives have  
13 routinely failed and continue to fail to do what the company promised: counsel financially  
14 distressed borrowers about the repayment options available to them and enroll them in the most  
15 appropriate and affordable repayment plan for their particular financial situation.

16 54. Between January 1, 2010 and March 31, 2015, nearly 25% of Navient federal  
17 student-loan borrowers who were ultimately enrolled in IBR with a \$0 monthly payment had been  
18 placed in forbearance within the 12-month period immediately preceding that enrollment.  
19 Similarly, during that same time period, 16% of borrowers who ultimately enrolled in PAYE with  
20 a \$0 monthly payment had been placed in forbearance within the 12-month period immediately  
21 preceding their enrollment. Navient placed the majority of borrowers who enrolled in an income-  
22 driven repayment plan into forbearances more than three months prior to their enrollment in the  
23 plan, indicating that Navient was not simply using the forbearances as a stop-gap to suspend  
24 unaffordable payments while the borrowers' income-driven repayment applications were  
25 pending.

26 55. By placing these borrowers into inappropriate forbearances before ultimately  
27 enrolling them in an income-driven repayment plan with a \$0 payment, Navient delayed  
28 borrowers' access to the benefits of these plans. Borrowers also suffered the unnecessary

1 capitalization of unpaid interest accrued during the forbearances, which they might have avoided  
2 had they enrolled in the appropriate income-driven repayment plan from the start.

3 56. [REDACTED]  
4 [REDACTED]  
5 [REDACTED]  
6 [REDACTED]  
7 [REDACTED]  
8 [REDACTED]  
9 [REDACTED]  
10 [REDACTED]

11 57. Navient also placed numerous borrowers into multiple consecutive forbearances,  
12 even though the borrowers had clearly demonstrated a long-term inability to repay their loans. [REDACTED]

13 [REDACTED]  
14 [REDACTED]  
15 [REDACTED]  
16 [REDACTED]  
17 [REDACTED]  
18 [REDACTED] Therefore,  
19 as a result of Navient's steering practices, hundreds of thousands of borrowers were continuously  
20 enrolled in forbearance for a period of two or three years, or more. These borrowers' long-term  
21 inability to repay should have been increasingly apparent to Navient as each forbearance period  
22 expired. By nevertheless continuing to place these borrowers into multiple consecutive  
23 forbearances, Navient caused them significant financial harm.

24 58. Navient has an obligation to fulfill the promises on its website and adequately  
25 counsel borrowers about all their repayment options. Instead, Navient affirmatively  
26 misrepresented and continues to misrepresent struggling borrowers' options, steering them into  
27 harmful and unnecessary voluntary forbearances, and deceptively concealing the long-term  
28 financial harm that those unnecessary forbearances would cause.

1           **B. Navient Failed to Provide Proper Notice of the Procedure for and**  
2           **Consequences of Not Recertifying Income-Driven Repayment Eligibility**

3           59.       After enrolling in an income-driven repayment plan, each federal student-loan  
4 borrower must certify his or her income and family size to qualify for an affordable payment  
5 amount. The affordable payment amount expires after 12 months unless the borrower “recertifies”  
6 his or her income and family size by submitting updated information and documentation.

7           60.       Failure to timely recertify income and family size can lead to the following  
8 negative consequences:

- 9                   a.       An immediate increase in the borrower’s monthly payment to the amount  
10 dictated by a “standard” repayment plan;
- 11                   b.       The capitalization of unpaid interest into the principal balance of the loan;
- 12                   c.       For subsidized loans in the first three years of enrollment in an income-  
13 driven repayment plan, the loss of an interest subsidy from the federal government for each  
14 month until the borrower renews his or her enrollment; and
- 15                   d.       Delayed progress towards loan forgiveness.

16           61.       When a borrower first enrolls in an income-driven repayment plan, Navient sends  
17 an “initial disclosure notice,” which identifies the beginning and end dates of enrollment. The  
18 notice also promises borrowers, “You’ll be notified in advance when your loan(s) is up for  
19 renewal for the IBR plan. At that time, you’ll be provided with a date to submit a new  
20 application.” The notice does not itself list a specific renewal deadline.

21           62.       The “initial disclosure notice” also outlines certain potential consequences if  
22 borrowers “choose not to renew” or “request to leave the plan,” including the recalculation of the  
23 borrower’s monthly payment amount and capitalization of unpaid interest into the principal  
24 balance of the loan. The notice does not warn the borrower about the potential consequences of  
25 failing to timely submit a renewal application or of submitting an incorrect or incomplete  
26 application.

27           63.       Despite the promise in the “initial disclosure notice” to provide a renewal deadline,  
28 between at least January 2010 and mid-December 2012, Navient’s annual income-driven

1 repayment renewal notices sent through U.S. mail failed to state a date by which borrowers had to  
2 submit their recertification paperwork. Instead, Navient’s pre-December 2012 mailed notices  
3 stated vaguely that the borrower’s income-driven repayment period would “expire in  
4 approximately 90 days” and that the “renewal process may take at least 30 days.” In other words,  
5 Navient broke its promise to give borrowers a specific deadline for submitting their renewal  
6 application and supporting documentation of income to avoid expiration of the 12-month period.

7 64. Reasonable borrowers cannot, based on this notice, determine the deadline by  
8 which they must submit the required package in order to timely recertify enrollment in their  
9 income-driven repayment plans. The statement that the “renewal process may take at least 30  
10 days” is qualified twice—with the terms “may” and “at least.” Navient therefore obscures how  
11 long the recertification process is actually likely to take or even the maximum number of days the  
12 process could take. Navient’s statement that a borrower’s plan will expire in “approximately 90  
13 days” is likewise unhelpful. Navient provides no date from which the borrower could count  
14 backwards to calculate the deadline. Even with such a date, the deadline would only be  
15 “approximate[.]”

16 65. Finally, the notice conceals from borrowers the likely consequences of failing to  
17 timely submit their recertification application. The notices state that failure to timely submit, such  
18 as providing incorrect or incomplete information, will result in a “delay.” This falsely suggests  
19 that the only consequence of failing to timely submit is a “delay” in the renewal “process,” and  
20 that as long as the deficiencies were rectified, no other consequences would result. This was false.

21 66. By 2015, more than 75% of Navient’s federal student-loan borrowers consented to  
22 receiving electronic communications. These borrowers were to receive electronic renewal notices  
23 instead of notices by mail.

24 67. Between at least mid-2010 and March 2015, however, Navient did not actually  
25 send the electronic renewal notice by email. Instead, Navient sent an email directing borrowers to  
26 access the notice separately through a website. Notably, neither the subject line of the email nor  
27 its contents provided any indication of the purpose or importance of the notice. From at least  
28 January 1, 2010, through November 15, 2012, the subject line of the email simply read: “Your



1 Sallie Mae Account Information.” Likewise, from at least November 16, 2012, through March 18,  
2 2015, the subject line of the email was, “New Document Ready to View.” And as recently as  
3 August 9, 2017, the subject line of the email was, “Your Navient account information,” with the  
4 body of the email stating only that “A new education loan document is available online. Please  
5 log in to your account to view it.”

6 68. To access the notice, borrowers had to follow a hyperlink in the email, log in to  
7 Navient’s secure website with their user ID and password, and open an electronic version of the  
8 same renewal notice that Navient sent other borrowers via U.S. mail.

9 69. Tellingly, during the same time period, Navient’s email notices seeking payments  
10 through these same electronic communications did not suffer from these defects. In contrast with  
11 the deceptive renewal-notice emails described above, Navient’s payment-request emails clearly  
12 informed borrowers of the nature and importance of the communication. For example, the subject  
13 line of one such email was “Your Sallie Mae – Department of Education Statement is Available,”  
14 and the body of the email stated “Your monthly statement is now available. Please log in to your  
15 account at Sallie Mae.com to view and pay your bill.” Another email about loan terms had the  
16 subject line “Change in Loan Terms,” with body text stating, “The payment term for your loan(s)  
17 has changed. Please log in to your account to view the document with your updated payment  
18 schedule.” When Navient sought money from borrowers, it crafted straightforward and  
19 informative email communications. But when tasked with helping financially distressed  
20 borrowers recertify their eligibility for income-driven repayment, Navient’s representations were  
21 vague and deceptive.

22 70. Navient has the ability to track the number of borrowers who click on the  
23 hyperlinks contained in the company’s emails. Navient therefore knew or should have known that  
24 borrowers often did not click on the recertification hyperlink described above and, as a result,  
25 never saw the electronic renewal notices on its website.

26 71. During the period of Navient’s deficient email notices, a large percentage of  
27 Navient’s federal student-loan borrowers did not timely recertify their plan enrollment in income-  
28 driven repayment. For example, between January 2015 and March 2015, the percentage of

1 Navient’s federal student-loan borrowers who did not timely recertify—and suffered the negative  
2 consequences described above—regularly exceeded 60%. Navient was aware of this.

3 72. Beginning in or around March 2015, Navient attempted to improve its email  
4 notices. The email subject line said, “Your Payment Will Increase Soon!” The text of the email  
5 stated, “in order to keep your lower payment amount, it’s important that you apply soon to renew  
6 your repayment plan.” After these changes, Navient’s recertification rate more than doubled.  
7 Despite knowing that the improved notice emails result in improved recertification rates, even up  
8 to August 9, 2017, Navient nonetheless still sometimes sent email notices with the deficient and  
9 deceptive information.

10 **C. Navient Misrepresented Its Method for Applying Payments to Borrowers’**  
11 **Loans**

12 73. Navient affirmatively misrepresents its payment-application method to borrowers.  
13 As a loan servicer, one of Navient’s primary functions is to process borrowers’ monthly  
14 payments. Payment processing includes properly allocating each payment to accrued interest,  
15 principal balance, and fees due at the time of the payment. Navient deceived borrowers about how  
16 it allocated payments.

17 74. In a standard repayment plan (i.e., not income-driven), a borrower’s monthly  
18 payment amount is calculated to pay down the borrower’s loan on an amortized basis across a  
19 fixed term, with each monthly payment covering some combination of principal, interest, and  
20 fees. Interest is calculated as a percentage of the unpaid principal amount borrowed and accrues  
21 daily, meaning a borrower technically owes some new outstanding interest every day of the  
22 month other than the due date itself. This daily accrual method is disclosed in the initial  
23 promissory note that borrowers sign when they take out the loan (usually months or years before  
24 borrowers enter repayment) but is not commonly known or understood by most borrowers.

25 75. Since interest is a percentage of the unpaid principal amount borrowed, a lower  
26 principal amount means that the amount of interest is also lower. Thus, borrowers can decrease  
27 the lifetime cost of their loan if they pay the principal balance down ahead of their amortization  
28 schedule. To do so, borrowers can submit a monthly payment that exceeds the amount due or

1 submit an extra payment in between their regular monthly payments.

2 76. Navient encouraged borrowers to pay down their principal balances with the  
3 following statements, which were printed on the back of every paper bill Navient sent to federal  
4 student-loan borrowers:

5 **What happens if I pay more than my monthly payment?** We offer two options  
6 when it comes to allocating additional payments to your loan(s): applying it toward  
7 your principal balance and applying it toward your next payment due. Regardless of  
8 either option you choose, there's no penalty for making an additional payment or  
9 paying more than your minimum monthly payment.

10 **Applying Extra Payments Toward your Principal Balance:** If you pay more than  
11 your minimum monthly payment due, and choose to have the extra funds applied  
12 toward your principal balance, you'll reduce the total amount of interest you'll pay  
13 because less interest will accrue on your lower outstanding principal balance. By  
14 choosing this option, your due date will not change and your regular monthly  
15 payment will still be due the following month.

16 77. On or around October 2013, Navient changed the language printed on the back of  
17 every paper bill that Navient sent to federal student-loan borrowers, but nonetheless still  
18 encouraged borrowers to pay down their principal balances:

19 **If my account is current, what happens if I pay more than my monthly  
20 payment?** When you pay more than your minimum payment, the extra funds will  
21 be applied to your balance. If the extra funds are less than the amount of your next  
22 month's payment, your next payment will not be reduced and will be due as usual.  
23 If the extra funds are equal to or more than the amount of your next month's  
24 payment, we will advance your payment due date by the number of full payments  
25 that are covered by the extra funds. For example, if the extra funds are equal to four  
26 additional monthly payments, you would not have another payment due for four  
27 months.

28 You have the option to instruct us to not advance your due date. Not advancing  
your due date may result in a shorter repayment term, less interest accruing on your  
loan, and a lower total cost of repaying your loan as compared to your due date  
being advanced.

78. Similarly, in letters sent to borrowers to provide information about interest accrual  
and how payments are applied when borrowers pay ahead, Navient made the following  
statements:

**Applying Extra Payments Toward Your Principal Balance**

If you pay more than your minimum monthly payment due, and choose to have the  
extra funds applied toward your principal balance, you'll reduce the total amount of  
interest you'll pay because less interest will accrue on your lower outstanding  
principal balance. By choosing this option, your due date will not change and your

1 regularly monthly payment will still be due the following month.

2 **Applying Extra Payments Toward Your Next Payment Due**

3 If you pay more than your minimum monthly payment due (enough to fully satisfy  
4 one or more of your upcoming scheduled monthly payments), and choose to have  
5 the extra funds applied toward your next payment(s) due, a payment will not be due  
6 until the due date specified on your next billing statement, which may not be  
7 generated until your next payment due date (depending on your notification  
8 settings). By choosing this option, your due date will be pushed ahead one month  
9 for every monthly payment you satisfy with the extra funds; however, interest will  
10 continue to accrue.

11 If you pay more than your minimum monthly payment due, but not enough to  
12 satisfy the next month's payment, the extra funds will automatically go toward your  
13 principal balance and next month's regularly scheduled payment will still be due.

14 There's no penalty for making an additional payment or paying more than your  
15 minimum monthly payment. In fact, by doing either of the two options mentioned  
16 above, you'll save yourself money in the long run.

17 79. Navient's statements misrepresented its method for applying excess payments to a  
18 borrower's loan. Despite using broad language such as "Applying Extra Payments Toward Your  
19 Principal Balance," Navient does not tell borrowers that this language applied only to one date:  
20 the date the borrower's monthly payment was due. Rather than applying the excess payment to  
21 borrower's principal balance, Navient applies all payments according to a strict waterfall method:  
22 first to fees, then to interest, and lastly to principal. If a borrower submits an extra payment on a  
23 day other than the day on which his or her usual monthly payment is due, the extra payment is  
24 applied first to whatever fees and interest have accrued up to the day the payment was processed,  
25 as opposed to being applied exclusively to principal balance.

26 80. By applying the excess payments first toward accrued fees and interest, rather than  
27 exclusively to principal balance, borrowers do not reduce their principal amount by the amount  
28 reasonably expected and as Navient represented to them.

29 **D. Navient Misrepresents the Amount Needed to Bring Delinquent  
30 Borrowers' Loans Current**

31 81. Navient begins collection calls as soon as borrowers are past due on their account.  
32 But instead of attempting to collect the amount required to bring the account current, Navient  
33 instructs its representatives to demand the "Present Amount Due." This amount deceptively  
34 includes both "the amount due plus the next monthly payment." Navient does not disclose to  
35

1 borrowers that Present Amount Due includes both payments and intentionally conceals the fact  
2 that borrowers can actually pay a lower amount to bring their accounts current.

3 82. [REDACTED]

4 [REDACTED]  
5 [REDACTED]  
6 [REDACTED]  
7 [REDACTED]  
8 [REDACTED]  
9 [REDACTED]  
10 [REDACTED]  
11 [REDACTED]

12 83. [REDACTED]

13 [REDACTED]  
14 [REDACTED]  
15 [REDACTED]

16 [REDACTED]  
17 [REDACTED]  
18 [REDACTED]  
19 [REDACTED]  
20 [REDACTED]  
21 [REDACTED]

22 84. [REDACTED]

23 [REDACTED]  
24 [REDACTED]  
25 [REDACTED]  
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[REDACTED]

85.

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[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

86.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

87.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

88.

[REDACTED]

[REDACTED]

[REDACTED]

1 [REDACTED]  
2 [REDACTED]  
3 [REDACTED]  
4 [REDACTED]

5 89. Upon information and belief, Navient’s representatives follow the training  
6 manuals and respond to these incentives by consistently requesting the Present Amount Due  
7 instead of only the amount required to bring borrowers current. Call-center representatives do not  
8 explain that Present Amount Due includes the next month’s payment, which in most cases is not  
9 due immediately on the day of the call.

10 90. Upon information and belief, even when a borrower does discover that the Present  
11 Amount Due is more than they currently owe and offers payment for the lower amount actually  
12 due, Navient often still demands the full Present Amount Due and resists the borrower’s attempts  
13 to pay “merely the amount delinquent” over the phone.

14 91. Upon information and belief, borrowers who pay the Present Amount Due do not  
15 understand that they can pay a lower amount to clear the delinquency on their account. Borrowers  
16 whom Navient convinces to pay the Present Amount Due using a credit card may end up paying  
17 more in interest on the credit card balance taken out to cover their next month’s payment than  
18 they would have paid on the loan had they waited until the payment’s scheduled due date.  
19 Additionally, causing borrowers to shift debt to their credit card balances can harm borrowers’  
20 credit scores.

21 92. In sum, Navient deceptively represents to delinquent borrowers that the Present  
22 Amount Due is the amount required to bring their accounts current, when in fact, it includes both  
23 the past due amount required to bring them current plus their next monthly payment. This practice  
24 harms Navient borrowers who are induced into making larger payments earlier than necessary.

25 **E. Navient Improperly Reported Total and Permanent Disability Discharges**  
26 **to Consumer Reporting Agencies as Defaults**

27 93. As a student-loan servicer, Navient routinely furnishes information about its  
28 student-loan accounts to consumer reporting agencies.

1           94.       ED allows borrowers with a “total and permanent disability” to have their federal  
2 loans discharged, relieving them of any obligation to pay the loans. (12 C.F.R. § 685.213.) These  
3 include loans held by veterans whom the U.S. Department of Veterans Affairs has determined are  
4 unemployable because of disabilities connected to their military service. (*Id.*, § 685.213(c).)

5           95.       In 2006, ED issued guidance regarding appropriate credit reporting when a loan is  
6 discharged. That guidance instructs that, when a non-defaulted loan is discharged due to a  
7 borrower’s total and permanent disability, servicers should use only reporting code “05” and a  
8 payment rating code applicable to the status of the loan. The instructions also indicate that the  
9 reporting code “AL” (signaling that the loan is being “assigned to the government”) may be used  
10 (a) only by schools holding Perkins loans, not by servicers, and (b) only when the loan is in a  
11 default status prior to being discharged due to the disability of the borrower.

12           96.       Consistent with the instructions from ED, the operative credit-reporting guide,  
13 issued by the Consumer Data Industry Association in 2012, contains a section on “Total and  
14 Permanent Disability Discharge Procedures” for student loans. That section authorizes only the  
15 use of the reporting code “AL” for defaulted Perkins loans (which again are held only by schools,  
16 not by servicers such as Navient).

17           97.       From at least October 2012 until approximately June 2014, Navient improperly  
18 used the “AL” reporting code to report loans that had been discharged due to the borrower’s total  
19 and permanent disability, despite the fact that Navient is not an educational institution that holds  
20 Perkins loans, and that some of the borrowers who received a loan discharge due to a total and  
21 permanent disability had not defaulted.

22           98.       Navient’s incorrect credit reporting regarding loans that had been discharged due  
23 to the borrower’s total and permanent disability was both inaccurate and harmful. Navient should  
24 have used a different reporting code available specifically to servicers responsible for non-  
25 defaulted loans discharged due to a borrower’s total and permanent disability. Navient’s  
26 misreporting made it appear that some borrowers had defaulted, when, in fact, these borrowers  
27 had not defaulted and their loans had been discharged due to a total and permanent disability.

28           99.       Navient’s use of the wrong reporting code erroneously and negatively impacted



1 the credit reports of borrowers that received a discharge based on a total and permanent disability  
2 but who had not defaulted on their loans. Navient was well aware of the severe harms that would  
3 result from negative credit reporting. For example, Navient’s website warns: “Defaulting on your  
4 federal or private loans may result in serious consequences that might lead to a long lasting and  
5 harmful impact to you as the borrower or cosigner.”

6 **III. DEFENDANTS’ CONDUCT RELATED TO THE DEBT COLLECTION OF FEDERAL**  
7 **STUDENT LOANS**

8 100. Despite the availability of income-driven repayment plans, a significant number of  
9 federal student loans, including those owed by California borrowers, go into default. A federal  
10 loan is generally considered in default after 270 days of non-payment, at which point the servicer  
11 sends the loan to a private debt collector. These private collection agencies, which include  
12 Pioneer and GRC, Navient’s wholly owned subsidiaries, contract with ED’s office of Federal  
13 Student Aid to collect federal student loans originated under the Direct Loan and FFEL Programs.

14 101. Borrowers who default on their federal student loans have a right to participate in  
15 certain programs which, under specific conditions, can return their loans to a non-default  
16 repayment status. In particular, borrowers may “rehabilitate” or “consolidate” their defaulted  
17 loans. In some instances, borrowers may have their loans discharged in their entirety because of a  
18 disability or due to problems with the school they attended.

19 102. The student-loan debt-collection system has been plagued by problems involving  
20 private collectors’ conduct. In March 2014, for instance, the Government Accountability Office  
21 noted significant problems with private collection agencies including, “providing borrowers with  
22 inaccurate or misleading information about rehabilitation-program requirements and options.” In  
23 2015, ED terminated its contract with Pioneer after finding that Pioneer had made materially  
24 inaccurate statements while enrolling borrowers in the federal loan-rehabilitation program.  
25 Undersecretary Ted Mitchell explained the termination by stating that federal borrowers “are  
26 entitled to accurate information as they make critical choices to manage their debt . . . Every  
27 company that works for the Department must keep borrowers’ best interests at the heart of their  
28 business practices by giving borrowers clear and accurate guidelines.”

1           **A. Pioneer and GRC Misrepresented the Credit-Reporting Benefits of**  
2           **Rehabilitating a Defaulted Federal Student Loan**

3           103.       When borrowers are in a normal repayment status on their federal student loans,  
4 they have a related tradeline on their credit report. If a borrower ceases making payments,  
5 eventually he or she enters default status, prompting the addition of a new and separate default  
6 tradeline to his or her credit report. Accordingly, a borrower in default has two tradelines related  
7 to his or her student loan: (a) one reflecting the late payments and delinquencies leading up to  
8 default (the “original tradeline”); and (b) another reflecting the default itself (the “default  
9 tradeline”).

10           104.       Certain defaulted federal student-loan borrowers have the option of restoring their  
11 loans to good standing through “rehabilitation,” in which the borrower agrees to make a series of  
12 timely payments calculated to fit his or her financial circumstances. Rehabilitation restores a  
13 defaulted Direct Loan or FFEL loan to good standing once the borrower makes nine voluntary,  
14 reasonable, and affordable payments received within 20 days of each due date within a ten-month  
15 period.

16           105.       Once a borrower completes the rehabilitation program, the owner of the loan  
17 removes the default tradeline from the borrower’s credit report. The original tradeline reflecting  
18 the pre-default delinquency is not removed.

19           106.       ED instructs debt collectors, including Pioneer, not to state or imply to borrowers  
20 that the information related to the original tradeline showing late and delinquent payments  
21 reported will be removed from the borrower’s credit report as a result of rehabilitation.  
22 Specifically, the manual for private collection agencies furnished by ED to debt collectors  
23 instructs: “Adverse information reported by the original lender will not be expunged or excluded  
24 from credit reports before the 7-year period that runs from the lender’s report of that default, even  
25 if the loan is rehabilitated.”

26           107.       Pioneer ignored this instruction. From at least January 2012 through December  
27 2014, Pioneer collectors told or implied to borrowers that all negative information—including  
28 pre-default delinquencies—would be removed from their credit reports after rehabilitation.

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108. [REDACTED]

[REDACTED]

109. In fact, rehabilitation does not erase all negative information related to borrowers' defaulted loans. The original tradeline, reflecting a serious delinquency, remains on a borrower's credit report after rehabilitation.

**B. Pioneer Misrepresented the Impact of Rehabilitating Defaulted Federal Student Loans on Collection Fees**

110. After a borrower defaults on a federal student loan, collection fees are calculated based on a formula of about 25% of the outstanding principal and interest.

111. When a borrower makes a rehabilitation payment, the collector utilizes a portion of the payment to satisfy collection fees and applies the rest to the loan's outstanding interest and principal. For example, out of a \$50 payment, about 20%, or \$10, is used to satisfy collection fees and the remaining \$40 is applied towards the defaulted principal and interest.

112. After the borrower submits his or her ninth rehabilitation payment, ED waives any remaining collection fees. But the borrower does not recover the collection fees paid as a part of each rehabilitation payment.

113. [REDACTED]

**C. Pioneer Misrepresented the Requirements for Discharge Due to Total and Permanent Disability**

114. From at least 2012 to 2014, Pioneer made false statements to borrowers about the

1 requirements for obtaining a disability-related discharge of a federal loan.

2 115. At all times relevant to this complaint, a federal student-loan borrower could  
3 obtain a “total and permanent disability discharge” (12 C.F.R. § 685.213) if the borrower was  
4 “unable to engage in any substantial gainful activity by reason of a medically determinable  
5 physical or mental impairment that (i) can be expected to result in death; (ii) has lasted a  
6 continuous period of not less than 60 months; or (iii) can be expected to last for a continuous  
7 period of not less than 60 months.” (12 C.F.R. § 685.102(b).) Substantial gainful activity means a  
8 “level of work performed for pay or profit that involves doing significant physical or mental  
9 activities or a combination of both.” (*Ibid.*) In other words, work is not prohibited entirely.

10 116. Pioneer ignored this standard. [REDACTED]

11 [REDACTED]  
12 [REDACTED]  
13 [REDACTED]  
14 [REDACTED]  
15 [REDACTED]

16 117. By holding borrowers to an inaccurate and unduly restrictive discharge standard,  
17 Pioneer obstructed borrowers from obtaining a discharge to which they might have been entitled.

18 **CLAIM 1**

19 **VIOLATIONS OF BUSINESS AND PROFESSIONS CODE SECTION 17200**

20 **(Unfair Competition in Servicing of Federal Student Loans)**

21 118. The People reallege and incorporate by reference each of the paragraphs above as  
22 though fully set forth herein.

23 119. Navient has engaged in, and continues to engage in, acts or practices that  
24 constitute unfair competition as defined in Business and Professions Code section 17200. These  
25 acts or practices include, but are not limited to, the following:

- 26 a. Misrepresenting that Navient will counsel borrowers about their repayment  
27 options, when in fact, little to no counseling, or deceptive counseling, actually occurs;
- 28 b. Misrepresenting to borrowers the repayment options available to them;

1 c. Steering borrowers who express a long-term inability to repay into  
2 forbearances (including misrepresenting that forbearance was the borrower's best or only option),  
3 when, in fact, a forbearance is intended only for a temporary hardship;

4 d. Misrepresenting to borrowers that Navient will provide a date certain by  
5 which a borrower must submit materials to timely recertify an income-driven repayment plan  
6 when, in fact, no such date is provided;

7 e. Misrepresenting to borrowers the consequences of their failure to timely  
8 recertify an income-driven repayment plan; and

9 f. Misrepresenting to borrowers that Navient will apply payments according  
10 to borrowers' instructions;

11 g. Misrepresenting to delinquent borrowers that the "Present Amount Due" is  
12 the amount required to bring the borrower's account current when, in fact, the "Present Amount  
13 Due" is the past-due amount plus the next monthly payment;

14 h. Violating 12 C.F.R. § 1022.42(a) by failing to establish and implement  
15 reasonable written policies and procedures regarding the accuracy and integrity of information  
16 that Navient furnishes to consumer reporting agencies relating to borrowers who have received a  
17 discharge of their federal student loans due to total and permanent disability; and

18 i. Violating Business and Professions Code section 17500 et seq., as alleged  
19 in Claim 3.

## 20 CLAIM 2

### 21 VIOLATIONS OF BUSINESS AND PROFESSIONS CODE SECTION 17200

#### 22 (Unfair Competition in Debt Collection of Federal Student Loans)

23 120. The People reallege and incorporate by reference each of the paragraphs above as  
24 though fully set forth herein.

25 121. Pioneer has engaged in, and continues to engage in, acts or practices that constitute  
26 unfair competition as defined in Business and Professions Code section 17200. These acts or  
27 practices include, but are not limited to, the following:

28 a. Misrepresenting to borrowers that rehabilitation will erase a defaulted loan

1 from a borrower's credit report, when, in fact, some negative payment history may remain; and

2 b. Violating Business and Professions Code section 17500 et seq., as alleged  
3 in Claim 4.

4 122. GRC has engaged in, and continues to engage in, acts or practices that constitute  
5 unfair competition as defined in Business and Professions Code section 17200. These acts or  
6 practices include, but are not limited to, the following:

7 a. Misrepresenting to borrowers that rehabilitation will erase a defaulted loan  
8 from a borrower's credit report when, in fact, some negative payment history may remain;

9 b. Misrepresenting to borrowers that Pioneer would waive all collection fees  
10 if a borrower successfully rehabilitates his or her loan when, in fact, the borrower pays fees out of  
11 each rehabilitation payment and not all fees are actually waived;

12 c. Misrepresenting to borrowers that to qualify for "total and permanent  
13 disability discharge," the borrower must be 100% disabled and never able to work again when, in  
14 fact, that is not the proper standard for this discharge; and

15 d. Violating Business and Professions Code section 17500 et seq., as alleged  
16 in Claim 4.

### 17 CLAIM 3

#### 18 VIOLATIONS OF BUSINESS AND PROFESSIONS CODE SECTION 17500

#### 19 (False or Misleading Statements in Servicing of Federal Student Loans)

20 123. The People reallege and incorporate by reference each of the paragraphs above as  
21 though fully set forth herein.

22 124. Navient has engaged in, and continues to engage in, acts or practices that  
23 constitute violations of Business and Professions Code section 17500 et seq., by making or  
24 causing to be made untrue or misleading statements concerning services performed by Navient.  
25 Navient's untrue or misleading representations include, but are not limited to, the following:

26 a. Misrepresenting that Navient will counsel borrowers about their repayment  
27 options when, in fact, little to no counseling, or deceptive counseling, actually occurs;

28 b. Misrepresenting to borrowers the repayment options available to them;

1 c. Misrepresenting to borrowers that forbearance was the borrower's best or  
2 only option when, in fact, a forbearance is intended only for a temporary hardship;

3 d. Misrepresenting to borrowers that Navient will provide a date certain by  
4 which a borrower must submit materials to timely recertify an income-driven repayment plan  
5 when, in fact, no such date is provided;

6 e. Misrepresenting to borrowers the consequences of their failure to timely  
7 recertify an income-driven repayment plan;

8 f. Misrepresenting to borrowers that Navient will apply payments according  
9 to borrowers' instructions; and

10 g. Misrepresenting to delinquent borrowers that the "Present Amount Due" is  
11 the amount required to bring the borrower's account current, when in fact, the "Present Amount  
12 Due" is the past-due amount plus the next monthly payment.

13 125. At the time these representations were made, Navient knew or by the exercise of  
14 reasonable care should have known that these representations were untrue or misleading.

15 **CLAIM 4**

16 **VIOLATIONS OF BUSINESS AND PROFESSIONS CODE SECTION 17500**

17 **(False or Misleading Statements in Debt Collection of Federal Student Loans)**

18 126. The People reallege and incorporate by reference each of the paragraphs above as  
19 though fully set forth herein.

20 127. Pioneer has engaged in, and continues to engage in, acts or practices that constitute  
21 violations of Business and Professions Code section 17500 et seq., by making or causing to be  
22 made untrue or misleading statements concerning services performed by them. Pioneer's untrue  
23 or misleading representations include, but are not limited to, misrepresenting to borrowers that  
24 rehabilitation will erase a defaulted loan from a borrower's credit report, when, in fact, some  
25 negative payment history may remain;

26 128. GRC has engaged in, and continues to engage in, acts or practices that constitute  
27 violations of Business and Professions Code section 17500 et seq., by making or causing to be  
28 made untrue or misleading statements concerning services performed by them. GRC's untrue or

1 misleading representations include, but are not limited to, the following:

2 a. Misrepresenting to borrowers that rehabilitation will erase a defaulted loan  
3 from a borrower's credit report when, in fact, some negative payment history may remain;

4 b. Misrepresenting to borrowers that Pioneer would waive all collection fees  
5 if a borrower successfully rehabilitates his or her loan when, in fact, the borrower pays fees out of  
6 each rehabilitation payment and not all fees are actually waived; and

7 c. Misrepresenting to borrowers that to qualify for "total and permanent  
8 disability discharge," the borrower must be 100% disabled and never able to work again when, in  
9 fact, that is not the proper standard for this discharge.

10 129. At the time these representations were made, Pioneer and GRC knew or by the  
11 exercise of reasonable care should have known that these representations were untrue or  
12 misleading.

### 13 **PRAYER FOR RELIEF**

14 Wherefore, the People pray for judgment as follows:

15 1. That Defendants, their successors, agents, representatives, employees, assigns, and  
16 all persons who act in concert with them be permanently enjoined from engaging in unfair  
17 competition as defined in Business and Professions Code section 17200, including, but not  
18 limited to, the acts and practices alleged in this Complaint, under the authority of Business and  
19 Professions Code section 17203;

20 2. That Defendants, their successors, agents, representatives, employees, assigns, and  
21 all persons who act in concert with them be permanently enjoined from making any untrue or  
22 misleading statements in violation of Business and Professions Code section 17500, including,  
23 but not limited to, the untrue or misleading statements alleged in this Complaint, under the  
24 authority of Business and Professions Code section 17535;

25 3. That the Court make such orders or judgments as may be necessary to prevent the  
26 use or employment by any Defendant of any practice that constitutes unfair competition or as may  
27 be necessary to restore to any person in interest any money or property that may have been  
28 acquired by means of such unfair competition, under the authority of Business and Professions



1 Code section 17203;

2 4. That the Court make such orders or judgments as may be necessary to prevent the  
3 use or employment by any Defendant of any practice that violates Business and Professions Code  
4 section 17500, or which may be necessary to restore to any person in interest any money or  
5 property, real or personal, which may have been acquired by means of any such practice, under  
6 the authority of Business and Professions Code section 17535;

7 5. That the Court assess a civil penalty of \$2,500 against each Defendant for each  
8 violation of Business and Professions Code section 17200 in an amount according to proof, under  
9 the authority of Business and Professions Code section 17206;

10 6. In addition to any penalty assessed under Business and Professions Code section  
11 17206, that the Court assess a civil penalty of \$2,500 against each Defendant for each violation of  
12 Business and Professions Code section 17200 perpetrated against a senior citizen or disabled  
13 person, in an amount according to proof, under the authority of Business and Professions Code  
14 section 17206.1;

15 7. That the Court assess a civil penalty of \$2,500 against each Defendant for each  
16 violation of Business and Professions Code section 17500, in an amount according to proof,  
17 under the authority of Business and Professions Code section 17536;

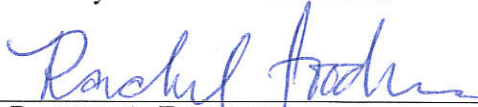
18 8. That the People recover its costs of suit, including all costs of investigation; and

19 9. For such other and further relief that the Court deems just and proper.  
20

21 Dated: October 16, 2018

Respectfully Submitted,

22 XAVIER BECERRA  
23 Attorney General of California

24 

25 RACHEL A. FOODMAN  
26 Deputy Attorney General  
27  
28

**DECLARATION OF SERVICE BY FILE & SERVEXPRESS AND ELECTRONIC MAIL**

Case Name: **PEOPLE OF THE STATE OF CALIFORNIA VS. NAVIENT CORPORATION ET AL**

No.: **CGC-18-567732**

I declare:

I am employed in the Office of the Attorney General, which is the office of a member of the California State Bar, at which member's direction this service is made. I am 18 years of age or older and not a party to this matter.

On November 1, 2018, by electronic transmission via File & ServeXpress, I served the documents described as:

**FIRST AMENDED COMPLAINT FOR PERMANENT INJUNCTION, CIVIL PENALTIES, RESTITUTION, AND OTHER EQUITABLE RELIEF [UN-REDACTED] and CONDITIONALLY REDACTED FIRST AMENDED COMPLAINT FOR PERMANENT INJUNCTION, CIVIL PENALTIES, RESTITUTION, AND OTHER EQUITABLE RELIEF**

on the following interested parties in this action who are registered for e-filing:

Austin L. Klar  
austin.klar@kirkland.com

Jennifer G. Levy  
jlevy@kirkland.com

I further declare that I emailed electronic copies of the above-described documents to the following participants in this case, who are not registered with File & ServeXpress:

Michael D. Shumsky  
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I declare under penalty of perjury under the laws of the State of California the foregoing is true and correct and that this declaration was executed on November 1, 2018, at San Francisco, California.

\_\_\_\_\_  
R. Hallsey  
Declarant

\_\_\_\_\_  
*R. Hallsey*  
Signature