

Student Loan Deceit

Yale's fund manager, Kingstown Capital Management, purchased over \$40 million in shares of Navient, the Sallie Mae spinoff that is now the nation's largest servicer of student loans. Navient is currently being sued by the Consumer Finance Protection Bureau, the attorney general of Illinois, and the attorney general of Washington over its student debt collection practices. Navient is part of a trio of debt collection entities among Kingstown's recent portfolio.

"Designed to fail"

In 2014, Navient was created as a spinoff of the SLM Corporation (Sallie Mae) and inherited most of its portfolio of student loans. Navient does not make or own the loans; instead, it contracts with the debt holders to collect payments. Navient is responsible for \$300 billion in loans—involving about a quarter of all borrowers of student loans—held by both private and public lenders.¹

Now, after a presidential campaign season that cast a spotlight on the burden of student debt, Navient faces allegations that it took advantage of student borrowers in order to maximize its own profits.² "For years, Navient failed consumers who counted on the company to help give them a fair chance to pay back their student loans," said CFPB Director Richard Cordray in the Bureau's announcement of its lawsuit. "At every stage of repayment, Navient chose to shortcut and deceive consumers to save on operating costs."³

In the three state and federal lawsuits filed earlier this year, the CFPB and attorneys general claim that Navient:

- Inadequately informed borrowers about income-based repayment plans or discouraged them from pursuing more affordable payment structures.
- Extended subprime loans to people who it knew were likely to default, using these loans as a "baited hook" to build relationships with schools and students so that the students would take out more profitable, federally guaranteed loans. Spokespeople for both the Illinois and Washington Attorneys General said that these loans were "designed to fail."⁴
- Misreporting disabled borrowers' status in a manner that damaged those borrowers' credit scores and access to further loans, including some military veterans disabled while serving.
- Misrepresenting procedures for releasing cosigners responsible for borrowers' debt; renewing income-based repayment eligibility; and undergoing credit "rehabilitation" after defaulting on loans.
- Incorrectly applying payments that borrowers wished to apply to particular loans.⁵

Navient's response to the litigation in court documents was that "there is no expectation that the servicer will act in the interest of the consumer."⁶

Yale and student debt

Yale University, of course, plays host to some "consumers" of student loans, though it advertises to undergraduate applicants that their financial aid packages will have "no loans required."⁷ In 2016, 15% of undergraduates nevertheless graduated with student loan debt. Overall in Connecticut—where no other university has the endowment resources of Yale, with the next-largest endowment less than one-thirtieth the size of Yale's—62% graduate with debt averaging \$29,750.⁸

Yale and Kingstown

Yale is the 97.37% owner of an entity, Ktown, LP, worth \$216,369,379, according to the university's most recent tax filing.⁹ It has listed its ownership of Ktown since its 2011 IRS filing.¹⁰ Ktown is managed externally by Kingstown Capital Management, LP.¹¹ The Yale University Staff Retirement Plan also reports Kingstown Capital Management, LP, as an entity that "rendered services" to the fund.¹²

During the time covered by Yale's most recent IRS filing (which discloses Yale's ownership of Ktown), Kingstown Capital Management, LP, owned 2,250,000 shares of Navient Corp, worth between \$39.8 million and \$48.6 million. It increased its holdings to 4,000,000 shares before exiting the investment in its first 2017 filing.¹³

Over the same period of time, Kingstown also owned shares in mortgage servicing corporations Ocwen and Nationstar. The *New York Times*' "Dealbook" feature called the Navient allegations "eerily similar" to the mortgage servicing industry's handling of property debt during the 2008 recession.¹⁴ Kingstown's investment in Ocwen included Yale money, via the Ktown fund. It is not known whether Ktown was also a part of Kingstown's investments in Nationstar or Navient: Kingstown's level of ownership in those entities never reached a threshold at which Yale would be required to disclose any shares it held. Yale is, however, also invested in Nationstar via a different fund manager.

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- 1 Cowley, Stacy and Jessica Silver-Greenberg. "Dealbook: Student Loan Collector Cheated Millions, Lawsuits Say." *New York Times*. Jan 18 2017. <https://www.nytimes.com/2017/01/18/business/dealbook/student-loans-navient-lawsuit.html>
 - 2 Cowley & Silver-Greenberg, Jan 18 2017.
 - 3 Consumer Finance Protection Bureau. "CFPB Sues Nation's Largest Student Loan Company Navient for Failing Borrowers at Every Stage of Repayment." Jan 18 2017. <https://www.consumerfinance.gov/about-us/newsroom/cfpb-sues-nations-largest-student-loan-company-navient-failing-borrowers-every-stage-repayment/>
 - 4 Cowley, Stacy and Jessica Silver-Greenberg. "Dealbook: Loans 'Designed to Fail': States Say Navient Preyed on Students." *New York Times*. April 9 2017. <https://mobile.nytimes.com/2017/04/09/business/dealbook/states-say-navient-preyed-on-students.html?smid=tw-share&referrer=https://t.co/y7lnTu4W1Y>; Cowley & Silver-Greenberg, Jan 18 2017.
 - 5 Cowley, Stacy. "Dealbook: The Accusations Against Navient." *New York Times*. April 9 2017. <https://www.nytimes.com/2017/04/09/business/dealbook/accusations-navient.html>
 - 6 Nasiripour, Shahien. "Student Debt Giant Navient to Borrowers: You're on Your Own." *Bloomberg*. April 3 2017. <https://www.bloomberg.com/news/articles/2017-04-03/student-debt-giant-navient-to-borrowers-you-re-on-your-own>
 - 7 Yale University. "Financial Aid In-Depth." Accessed April 20 2017. <https://admissions.yale.edu/financial-aid-prospective-students>
 - 8 Project on Student Debt, Institute for College Access and Success. "State by State Data, 2015: Connecticut." http://ticas.org/posd/state-state-data-2015#overlay=posd/state_data/2015/ct; Wesleyan University. "Fiscal 2016 Year End Report." Page 1. <http://www.wesleyan.edu/investments/endowment/YearEndLetter2016.pdf>; Yale University. "The Yale Endowment: 2016." https://static1.squarespace.com/static/55db7b87e4b0dca22fba2438/t/58ece6bd579fb356c857e2a4/1491920595529/Yale_Endowment_16.pdf
 - 9 2015 Yale University Form 990, Schedule R.
 - 10 2011-15 Yale University Forms 990, Schedule R.
 - 11 Ocwen Financial Corporation, SEC Schedule 13D, February 2, 2015.
 - 12 2015 Yale University Staff Retirement Plan, Form 5500, Schedule C.
 - 13 Kingstown Capital Management, LP, SEC Form 13-F info table, from forms filed for 2015-2017.
 - 14 Cowley & Silver-Greenberg, Jan 18 2017.