Treasury pulls back student debt work from 5 contractors, citing error

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The Treasury Department is rescinding student loan work valued at tens of millions of dollars assigned to five debt collection companies, including one previously accused of mistreating student borrowers.

Treasury officials over the past two weeks had signed orders assigning an estimated $8 million of new business to each of the companies, according to federal procurement records. But the agency has now pulled those orders back, citing a procurement "error."

The move came as the Trump administration prepares the massive task of transferring the $1.7 trillion student loan portfolio to the Treasury from the Education Department, which President Donald Trump has vowed to shutter.

Among the firms that received student debt work was Pioneer Credit Recovery, which was sued by the Consumer Financial Protection Bureau over allegations it systematically misled borrowers when it last handled federal student loans. Pioneer Credit was owned until last year by student loan giant Navient, which sold the business to a private equity firm.

After POLITICO inquired about the contracts and selection of Pioneer Credit Recovery to collect student loans, a Treasury spokesperson said Tuesday that the agency was rescinding the task orders.

The task orders "sent to existing debt collection contractors were sent in error, and have been retracted," a Treasury spokesperson said in a statement.

Treasury is conducting a "separate procurement to retain default resolution agents" to handle federal student loans, the spokesperson said, adding that the agency anticipates posting a request for proposals later this year.

"Treasury does not expect to retain default resolution agents until the end of 2026, at the earliest," the spokesperson said.

The reversal underscores the Trump administration's challenges in shifting a large portion — about $180 billion — of the federal student loan portfolio from one agency to another.

The Trump administration in April, as part of its broader strategy of shuttering the Education Department, announced a deal between the Education and Treasury departments to begin spinning off management of the federal student loan program. Under the first phase of the plan, Treasury is poised to assume responsibility over student loans in default, a process that is well underway at both agencies.

There are concerns from both current and former officials, however, about whether Treasury is equipped to take the massive, complex portfolio and some workers close to the move fear the shift is happening too fast.

The second phase of the plan, which did not include a timeline, calls for the trickier and more legally uncertain transfer of all remaining federal student loans to Treasury.

It's not clear yet how Treasury is planning to structure its new debt collection system. If the agency does ultimately turn to one of its existing contractors, Pioneer, that could raise additional issues.

The CFPB's case against Pioneer and its then parent company Navient ended in a $120 million settlement in 2024 during the Biden administration, which the Trump administration has left untouched. As part of that agreement, Pioneer and any successor owners appear to be subject to certain restrictions, including developing a compliance plan demonstrating how the company will follow consumer protection laws before resuming federal student loan collections. It's not clear whether such a plan was sought by the Treasury or Education Departments.

Pioneer Credit did not return a request for comment. Neither did a spokesperson for Gallant Equity Capital, the private equity firm that last year purchased the company.

The CFPB, which is charged with enforcing and monitoring compliance with the settlement, has been significantly curtailed by the Trump administration, and the watchdog agency has turned its attention away from oversight of student lenders and debt collectors.

“The supervision and oversight appears to be largely gone, and they put out their priorities that were pretty clear that … student loans are the bottom of their priorities,” said Austin Hinkle, the former section chief of CFPB's student and young consumer office.

Pioneer and the other four collection firms — Transworld Systems, Coast Professional, Continental Service Group and the CBE Group — are part of a cadre of contracted debt collectors that the Treasury's Bureau of the Fiscal Service already relies on to collect other delinquent debt owed to the federal government.

The companies, which could not be immediately reached for comment, all previously also have worked directly for the Education Department as student debt collectors at various points.

But the Education Department's use of private collection firms to pursue borrowers in default on their student loans has long been fraught.

Pioneer was among several debt collection firms fired by the Obama administration in 2015 for providing inaccurate information to student borrowers. Its contract was reinstated by the first Trump administration, which also later floated the idea of phasing out the use of the companies altogether, a plan that met pushback from Republicans on Capitol Hill and repeated legal challenges by the industry.

In 2020, when the Covid-19 pandemic hit, the federal government suspended student loan collections for years, eliminating the need for the companies. Rich Cordray, the Biden administration's student loan chief, formally terminated all of the company contracts in 2021, making good on longtime progressive goals of eliminating the private debt collectors.

The Trump administration last year announced that it planned to resume efforts to collect on student loans in default, including garnishing wages, Social Security checks and tax refunds of severely delinquent borrowers.

But in January the Trump administration reversed course and said it would keep its student debt collection apparatus turned off, without providing a timeline for turning it on.

The reprieve prevented the Trump administration from garnishing tax refunds this spring while touting as a major accomplishment larger tax refunds for many Americans from its signature domestic policy law known as the One Big Beautiful Bill Act.