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STUDENT LOAN SERVICING: THE BORROWER'S EXPERIENCE

HEARING

BEFORE THE

SUBCOMMITTEE ON FINANCIAL INSTITUTIONS AND CONSUMER PROTECTION

OF THE

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS UNITED STATES SENATE

ONE HUNDRED THIRTEENTH CONGRESS

SECOND SESSION

ON

EXPLORING BORROWERS' INTERACTIONS WITH STUDENT LOAN SERVICERS BEFORE AND DURING REPAYMENT AND WHETHER AND HOW THE ACTIONS OF STUDENT LOAN SERVICERS MAY AFFECT BORROWERS' ABILITY TO MAKE TIMELY PAYMENTS

JUNE 4, 2014

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STUDENT LOAN SERVICING: THE BORROWER'S EXPERIENCE

WEDNESDAY, JUNE 4, 2014

U.S. SENATE, SUBCOMMITTEE ON FINANCIAL
INSTITUTIONS AND CONSUMER PROTECTION,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
Washington, DC.

The Subcommittee met at 10:03 a.m., in room SD–538, Dirksen Senate Office Building, Hon. Sherrod Brown, Chairman of the Subcommittee, presiding.

OPENING STATEMENT OF CHAIRMAN SHERROD BROWN

Senator BROWN. The Subcommittee will come to order. Thank you all for joining us. Ms. Hoover, the Ohioan on the panel, thank you for coming back and being of assistance to us in a number of ways.

About a decade ago, we began to see the warning signs of problems in the housing market. A few years later, we watched the combination of Wall Street greed and inattentive regulators helping to destroy our economy. We are still picking up the pieces.

This crisis and the topic of today's hearing, student loan servicing, are very much interconnected. Over the course of the last few years, we have seen that far too many homeowners become victims of improper foreclosures when their mortgage servicer could have assisted them to enroll in a loan modification program but chose not to. And here we are again.

Outstanding student debt is $1.2 trillion—more than credit card debt, more than auto loans. Student debt is second only to mortgage debt, as we all so painfully have heard. Roughly 7 million borrowers are in default on a student loan. When these borrowers lose, our economy loses.

In May 2013, the Consumer Financial Protection Bureau released a report describing the impact of heavy student loan burdens. A growing group of business leaders and regulators have joined the CFPB to describe how student loans can interrupt the slowly recovering economy.

Excessive student debt can defer or destroy the dreams of prospective first-time homebuyers, small business formation and entrepreneurship, and limit the options of young graduates who might work as teachers or doctors in underserved areas.

Defaults will have long-term impacts on our economic recovery. It is critical that we ensure that student loan servicers do their jobs properly to protect individual borrowers and our economy as a whole.

Last year, I wrote a letter to some of the largest banks and student loan companies asking about their efforts to modify loans for borrowers in trouble and measuring their success in enrolling borrowers in affordable income-based plans. The numbers were dismal. No bank has enrolled more than 5 percent of borrowers who were in trouble. I am concerned that student loan servicers care more about maximizing profits than giving proper customer service.

Among the questions to consider: Is the complex and opaque repayment system set up to make borrowers fail? Are servicers ensuring that borrowers fully understand their full range of repayment options, including those most advantageous to borrowers experiencing financial hardship? Many of the loan repayment options are better suited for contract lawyers than recent graduates. If we do not give graduates the tools to succeed, we cannot expect them to have a fair shot at building a successful livelihood.

How can borrowers understand the repayment options best suited to their specific needs when written in legalese that only lawyers are trained to understand? That is clearly unrealistic at best.

In the Dodd-Frank Act, I proposed a student loan ombudsman within the CFPB, and, again, a shout-out to Senator Warren for her terrific work at the beginning and since on that Bureau. That office has issued reports describing pervasive and troubling practices: servicers allocating borrowers' payments in order to maximize late fees, servicemembers facing challenges activating their military benefits on their student loans, and all borrowers facing obstacles enrolling in loan modification programs.

Based on referrals from this office, the Department of Justice and the FDIC found that the Nation's largest servicer had broken a series of laws, including the Servicemembers Civil Relief Act. It has been ordered to pay fines and compensation of more than $90 million.

In February, another major player in the private student loan market revealed that it too was under investigation by the CFPB for its student loan servicing practices. CFPB reports have recommended that Congress examine some of the reforms to the credit card and mortgage servicing markets, such as ones related to payment processing and servicing transfers, in order to improve the student loan servicing market.

To help address some of these problems which harm borrowers and our economy, I have sponsored a number of reforms such as the Student Loan Borrower Bill of Rights, which would provide protections and require workable, alternative repayment options for private loan borrowers who are at risk of default. It would require lenders to notify borrowers about income-based repayment plans for Federal loans and would protect borrowers from penalties due to errors on the part of the servicer.

We know that private student loans generally have significantly higher interest rates, offer limited payment options, and offer no relief for the many graduates who do not make the amount of money that they expected, who have been laid off, or who are even unable to find work. My Refinancing Education Funding to Invest for the Future Act addresses this problem by authorizing Treasury to make the private student loan market more efficient. It would

allow borrowers to refinance their costly private loans into more affordable loans, at no cost to taxpayers.

I look forward to our witnesses' views on student loan servicing practices and the opportunities to ensure accountability and quality customer service.

Senator Warren, do you want to make an opening statement now?

Senator WARREN. No.

Senator BROWN. OK. Thank you.

Let me introduce the four witnesses. We have votes at 11 o'clock. We will go as much past 11 as we can, but we obviously will—I ask people to stay within their time limits if they can.

Nancy Hoover, Director of Financial Aid at Denison. Nancy Hoover is the Director of the program in Granville, Ohio. She is past Chair of the National Direct Student Loan Coalition, a grassroots organization that works to improve the Federal direct loan program. Thirty years working in financial offices, Ms. Hoover has dedicated her career to helping students afford secondary education.

William Hubbard, sitting next to Ms. Hoover, served as Vice President of external affairs for Student Veterans of America, has considerable experience advocating on behalf of veterans. He joined the Marine Corps at 17, currently is a drilling reservist out of Joint Base Anacostia-Bolling. Welcome, Mr. Hubbard.

Mr. Robert Geremia is an educator at Woodrow Wilson Senior High School. He teaches AP U.S. history and District of Columbia history. My understanding is he has some students with him here today. Thank you for that. He has served as a student mentor, grade level leader, track coach, union building co-representative, and co-faculty adviser for the Gay Straight Alliance, a member of the American Federation of Teachers and the Washington Teachers' Union.

Lindsey Burke is the Will Skillman Fellow in Education Policy at the Heritage Foundation. She has done extensive research around the Federal Government's role in education. Welcome, Ms. Burke.

Ms. Hoover, if you would begin. Thank you.

STATEMENT OF NANCY HOOVER, DIRECTOR OF FINANCIAL AID, DENISON UNIVERSITY

Ms. HOOVER. Chairman Brown, Ranking Member Toomey, and Members of the Subcommittee, thank you for inviting me to testify today at the hearing regarding the borrower's experience with student loans servicing.

My name is Nancy Hoover, and I am the Director of Financial Aid at Denison University in Granville, Ohio. Denison University is a selective independent, undergraduate liberal arts college with an enrollment of approximately 2,200 students. I have been the Director of Financial Aid at Denison since 1994 and administered the implementation of the Direct Loan program in Year 2 of the program.

Denison's endowment allows us to award annually financial aid from our university's funds to 97 percent of our student body. An average of 47 percent of our graduates borrow Federal loans and

4 percent borrow private loans. The cumulative Federal indebtedness for Denison's Class of 2014 was a little over $21,000.

The William D. Ford Federal Direct Loan program turns 20 years old this year. The direct loan delivery process for loan funds to students has continued to be efficient, reliable, and easy for schools to administer, even after the 100-percent transition of all schools to the Direct Loan (DL) Program.

When the Direct Loan Program was first implemented, all of the loans were serviced by a single contractor. All correspondence to borrowers was identified as the William D. Ford Federal Direct Loan Program, and the logo for the Department of Education made the servicing contractor for these loans invisible to the students. The Department had to expand the number of servicers to accommodate the increased volume of loan servicing required for the purchase of federally backed loans in 2008 and the transition of all schools to the Federal Direct Lending Program.

The Department issued new DL servicing contracts to agencies who had experience servicing loans to students in the FFEL program and allowed, but did not require, these new servicers to co-brand all their correspondence with the Department's logo. Since the servicer's logo appears larger than the Department's logo, borrowers are confused as to why they are receiving written or electronic correspondence from an unknown agency. Servicers report a large percentage of unopened emails from the borrowers because they believe the correspondence is junk mail or spam. The inherent flaw with the current multiple servicer environment is that borrowers do not understand who is servicing their loans and are at a greater risk of defaulting.

Currently there are 15 contractors servicing federally held loans. The current Federal loan servicing environment needs to be simplified by a mandate that contractors be invisible agents of the Federal Government with identical processes and policies and the number of contractors be limited. Congress made progress in this area with the Bipartisan Budget Act of 2013 which eliminates the special treatment for nonprofit student loan servicers.

When the Department of Education has the opportunity to renew the servicer contracts, it should consult with all of the stakeholders in student loan servicing and open the contract bidding process to other entities in financial sectors outside the previous FFEL environment.

Borrowers need their point of contact for all repayment activities to be a single Web portal and one phone number for account access. The Department of Education has made significant progress toward creating a single portal for students who borrow Federal loans with the creation of *StudentLoans.gov,* an efficient and robust portal at which students can execute every required process for their Federal loans except to initiate the repayment process. *StudentLoans.gov* can be expanded so students can begin the repayment process of their Federal loans at this site instead of going to a specific servicer's Web site.

Senator Brown, I would like to thank you and other Members of the Committee for your support of Bank on Students Emergency Loan Refinancing Act and the Student Loan Borrower Bill of Rights. These bills assist borrowers with loans at multiple servicers

to refinance all of their loans to have a single servicer. And it also requires servicers to notify delinquent borrowers about income-based options.

However, with all of the good options of repayment from which the borrower can choose, it is extremely confusing for students to understand the intricacies of all the current repayment options. I encourage Congress to reduce the current number of loan repayment plans to two—standard and income-based—from which students can choose. Repayments should be collected through the payroll withholding.

Many borrowers are unaware that the servicer has changed until they encounter a problem. According to the report by the Consumer Financial Protection Bureau, many borrowers have filed complaints to correct errors related to the servicing contracts. Student loan servicers need to provide notice to borrowers about a change in their service like the mortgage servicers are required to do.

Thank you again, Chairman Brown, for the opportunity to provide a financial aid administrator's perspective on student loan servicing, and I am happy to respond to any questions you or the Members of the Subcommittee might have.

Senator BROWN. Thank you, Ms. Hoover.

Mr. Hubbard.

STATEMENT OF WILLIAM HUBBARD, VICE PRESIDENT OF EXTERNAL AFFAIRS, STUDENT VETERANS OF AMERICA

Mr. HUBBARD. Chairman Brown, Ranking Member Toomey, and Members of the Subcommittee, thank you for inviting Student Veterans of America to submit our testimony on "Student Loan Servicing: The Borrower's Experience." As the premier advocate for student veterans in higher education, it is our privilege to share this on-the-ground perspective with you today.

As veterans graduate across the country, we believe that the student debt burden will ultimately be one of the largest inhibiting factors to their long-term success. This in part stems from the lack of access to information at individual and institutional levels. Veterans consistently cite the following challenges: difficulty obtaining accurate information about loans, convoluted pathways to gathering information and implementing programs, and unnecessary roadblocks put in place by servicers.

Despite avid efforts to increase protections against abusive practices, getting servicemembers and veterans the right information about the protections at the right time remains a challenge. Servicemembers and veterans have access to protections under the Servicemembers Civil Relief Act—SCRA—and access to many different student loan repayment options. Unfortunately, this web of support does not function cohesively, and programs often function independent of each other.

We have seen that many servicemembers enter the military with pre-service student loan debt. This existing debt is also a major source of the overall debt owned by servicemembers and veterans. Existing debt is particularly harmful to a servicemember or veteran when servicers do not comply with protections afforded by SCRA.

There is also a common misconception that veterans who go to school on the GI bill have a "free ticket," but we know that this is simply not true. As an earned benefit, not only is the GI bill not free, it may not always cover the cost of a full education. This is especially true for those attending private institutions or for those considered out-of-State residents.

To prevent situations that may violate a servicemember's or veteran's rights, we believe that institutions need to have access to a full range of financial data. This data is necessary for institutions to be able to effectively counsel their students about their financial futures. Individuals should also have access to this data to achieve the highest level of consumer awareness.

Currently there is no widely used system that would allow any individual with education debt to see all of their loans in a centralized place. METEOR, run by the National Student Clearinghouse, could be such a tool. The METEOR program has the unique function of providing all private lender data. It would simply require the approval from the Department of Education to access direct loan data.

To date, this has yet to happen. While we might not know the full effect of student debt for this generation of veterans, we are beginning to see the first and second order effects today. Servicemembers and veterans with student debt are significantly less likely to build their own business, save for a home, or save for their retirement.

The effect of these issues will impact the economy for years to come and will continue to distort economic behavior if not taken seriously.

In light of the issues we have identified, SVA has recommended various solutions. Of the solutions we have submitted to the record, we would like to highlight one in particular: program coordination.

Many programs exist to support the repayment of student loans, though very few of these programs have coordinated inter-program relationships. A major opportunity exists if current programs were coordinated and streamlined to function seamlessly. Putting the pieces of this puzzle together would be an important step forward.

The investment that America has made in the GI bill and its veterans becomes an even clearer asset to our economy when those veterans are empowered with the right tools. By reducing the debt burden on servicemembers and veterans, we can set them up for long-term success.

We thank the Chairman, Ranking Member, and the Subcommittee Members for your time, attention, and devotion to the cause of veterans in higher education. As always, we welcome your feedback and questions, and we look forward to continuing our work with this Subcommittee, the Senate

Committee on Banking, Housing, and Urban Affairs, and the Congress to ensure the success of all generations of veterans through higher education.

Thank you.

Senator BROWN. Thank you, Mr. Hubbard.

Mr. Geremia.

STATEMENT OF ROBERT GEREMIA, SOCIAL STUDIES TEACHER, WILSON HIGH SCHOOL, ON BEHALF OF THE AMERICAN FEDERATION OF TEACHERS (AFT) AND WASHINGTON TEACHERS' UNION (WTU)

Mr. GEREMIA. Mr. Chairman and the distinguished Members of this Committee, my name is Robert Geremia, and I am a social studies teacher at Woodrow Wilson High School here in Washington, D.C. I come to you as a member of the American Federation of Teachers and the Washington Teachers' Union. I want to thank Chairman Brown for the opportunity to testify on my experiences with student debt and loan repayment. I hope that sharing my experiences in the financial aid process makes it easier for students and their families to pay for higher education.

Growing up in Rhode Island in a family of teachers, I always felt like I could make the world a better place by helping kids. I graduated from Rhode Island College with a bachelor's degree, having double-majored in secondary education and history. While I was fortunate that my parents were able to cover my college tuition, I still had to pay for books and other expenses during my undergraduate years, so I started my teaching career, like so many of my colleagues, with some credit card debt.

At the urging of my professors, I sought to teach in an urban area, and that is how I ended up here in Washington, D.C. I have to admit I was not fully prepared for the high cost of living in Washington, D.C., on a starting teacher's salary. After several years of teaching, I knew I needed to further develop my skills, but I did not want to take time off from teaching, and I knew that going to school for my master's degree at night would take my energy from my students and their work. I was accepted into one of the most respected teaching programs in the country, Teachers College at Columbia University. I was able to earn a master's degree in Social Studies Education over three consecutive summers, and the program, I believe to this day, was the right professional choice for me.

However, in order to attend this highly regarded program, I had to take out several loans despite my full-time salary. On top of tuition and fees, I had to account for two apartments as I could not contractually sublet my apartment in D.C. In addition, I had to pay for travel to New York, books, and the other typical living expenses. I would like to point out that while the focus of college affordability is often on tuition, it was really those other expenses that drove up my borrowing. After three summers, I graduated with my master's degree and approximately $37,000 of debt. While I received some grant money during my program and subsidized loans of over $25,000 for 3 years, I had to take an additional $11,000 in unsubsidized loans.

As I am working to pay off these loans, I have been puzzled by several issues.

First, my loans have switched providers twice, and it has never been quite clear to me why the transfers were made. As a matter of fact, an additional amount has been debited from my checking account for my monthly payment when the loans were transferred the last time.

Second, when I recently set up an online account for my loans, I found that the information about my loan, including payoff options and payoff dates, was available. That information was never provided to me on my paper statements.

I am proud of my 12-year career here in the District of Columbia as a Highly Effective Teacher—I earned that rating last year—yet my financial life has been put on hold because of the loans I have taken to stay in the classroom. My loans have a current interest rate of over 6 percent, and I will pay over $10,000 in interest on top of the principal. It is hard to see how I can save to buy a home with some of this debt burden, though I definitely could secure a mortgage at an interest rate of about 4 percent. And I have a car loan currently that is at a 1.9 percent interest rate. Yet there is nothing I can do to lower my student loan interest rate. With more and more students being forced to take on debt, I believe we must make it easier for them by having access to grants and lower interest rate loans.

I made a decision to get an advanced degree to be able to further my career and benefit the students I am committed to serving. After about 2 years of payment, I learned that I am likely eligible for two programs that could lower my monthly payments and shorten the life of my loan. I believe many college students would be more likely to pursue teaching, and many of my colleagues would be more likely to pursue advanced degrees if these programs were streamlined and better understood. I suggest Congress find a way to reach out proactively to teachers about these options.

Because the process was so convoluted for me, I worry about what will happen to my students, many of whom are graduating as I testify today, and begin this whole process. Many will be the first generation in their families to attend college. Others have worked hard and have been admitted to the Nation's top colleges and universities, but will be unable to attend because of costs. I am afraid some of my students do not understand the ways high interest rates and basic living expenses will multiply their debt, and when they graduate, I do not want them to be faced with the same lack of transparency and confusion. I hope that Congress can find a way to ease the burden on students and families and make attending college and continuing education more affordable. I fear if we do not, a generation, like myself and my peers, will be too saddled with debt to invest in housing, businesses, or to make career choices based on anything other than earning potential.

Thank you, Mr. Chairman, distinguished Member. I look forward to responding to questions.

Senator WARREN. [Presiding.] Thank you, Mr. Geremia.

Ms. Burke.

STATEMENT OF LINDSEY M. BURKE, WILL SKILLMAN FELLOW IN EDUCATION POLICY, THE HERITAGE FOUNDATION

Ms. BURKE. Thank you, Mr. Chairman, distinguished Members of the Committee. My name is Lindsey Burke. I am the Will Skillman Fellow in Education Policy at the Heritage Foundation. The views I express in this testimony are my own and should not be construed as representing any official position of the Heritage Foundation.

For many, earning a college degree is the way to climb the ladder of economic mobility. Higher educational attainment is associated with greater earnings. Median earnings for individuals whose highest degree was a high school diploma totaled $30,000 in 2011, compared to $45,000 for those earning a bachelor's degree. College graduates, on average, earn $650,000 more over the course of a 40-year career. While a college degree is not the only route to upward mobility, for many, it represents the most promising path for achieving their full earnings potential.

The value of earning a college degree is demonstrable. The cost of earning that degree, however, has become prohibitively expensive for many as college costs have risen. Average tuition at 4-year public institutions for out-of-State students reached $22,200 this academic year, and at private universities average tuition is over $30,000 annually. Many students leave with a bachelor's degree in hand, but burdened with tens of thousands of dollars in student loan debt. Worse still, many students leave college without graduating, burdened with debt and lacking the paper credential they had hoped would put them on a path toward middle-class stability or better.

Well-intentioned Federal policies have failed to drive down college costs. An easy flow of Federal student aid has enabled students to take out sizable student loans, with little if any credit check or consideration of their future earnings potential. Some have even argued that such policies have enabled universities to raise tuition, creating a vicious lending and spending cycle.

Federal higher education subsidies have increased substantially over the past decade and now represent 71 percent of all student aid.

According to the College Board, during the 2012–13 academic year, 43 percent of all student aid was in the form of Federal student loans. The College Board notes that, over the past 10 years, the number of students borrowing through Federal student loans increased by 69 percent, from 5.9 million students during 2002 to over 10 million today.

Approximately 60 percent of students who earned a bachelor's degree during the 2011–12 academic year left school more than $26,000 in debt. And as the Chairman mentioned, total cumulative student loan debt now exceeds $1 trillion, which is more than credit card debt cumulatively.

Increases in debt have been driven by increases in college costs. In the last 30 years, inflation-adjusted tuition and fees at private colleges increased by 153 percent; tuition and fees at public universities increased in real terms by 231 percent. That is an increase that is greater than increases in the cost of health care.

Increases in tuition and fees over the past 30 years suggest that growth in Federal subsidies such as loans and grants has done little to mitigate the college cost problem.

In order to make college more affordable, Federal policy should do three things: stop the higher education spending spree; employ fair-value accounting to understand the true cost of Federal student loans; and decouple Federal financing from accreditation.

If history is any guide, continuing to increase Federal subsidies will fail to drive down college costs.

In 2014, the $33 billion Pell Grant program provided grants to 9 million college students, making it the largest share of the Federal education budget. Congress grew the Pell Grant program in 2007 by expanding eligibility and funding, resulting in a doubling of the number of Pell recipients since 2008. In order to control higher education spending, Pell Grant funding should be targeted to the low-income students the grants were originally intended to help.

In addition, as long as the Federal Government finances Federal student loans, it should use fair-value accounting practices to get an accurate measure of what those programs are costing taxpayers, to ensure the loans use a nonsubsidizing interest rate.

In a report released last month, CBO calculated that the four largest student loan programs—Subsidized Stafford Loans, Unsubsidized Stafford Loans, PLUS Loans, and Parent PLUS Loans—will cost taxpayers money, not result in a net gain (a negative subsidy) for the Federal Government as is often claimed. While the report states that the four loan programs will yield a savings of about $135 billion from 2015 to 2024, CBO calculates in the same report that using fair-value accounting measures, the four loans would actually have a net cost of $88 billion over the next 10 years, not including administrative costs. In other words, the four largest student loan programs represent an $88 billion taxpayer-financed subsidy.

CBO explains the utility of using fair-value accounting to fully understand the cost of Federal lending, stating that, "The Government is exposed to market risk when the economy is weak because borrowers default on their debt obligations more frequently and recoveries from borrowers are lower." Fair-value estimates take this market risk into account and, as a result, are a more accurate reflection of the cost of Federal student loans.

Congress should not expand the Federal student loan program without requiring that fair-value accounting be used to calculate the cost of these loans. Any loan program should use a nonsubsidizing interest rate, *e.g.,* the rate at which the program breaks even; absent fair-value accounting, it is impossible to tell the extent to which the student loan program is providing a subsidy to borrowers. Specifically, the Department of Education should be required to use fair-value accounting estimates calculated by CBO and adjust loan rates accordingly going forward, on an annual basis. This would help determine whether the programs are costing money for taxpayers and where to set interest rates to ensure the programs break even.

Finally, if Federal policymakers want to drive down college costs and increase access to higher education for those historically underserved by the traditional 4-year system, the single most important reform that can be made is to decouple Federal financing from accreditation.

Continuing to simply increase Federal subsidies for higher education will fail to solve the college cost problem. Moreover, such subsidies shift the responsibility of paying for college from the student, who directly benefits from attending college, to the taxpayer. Transferring the burden of student loan financing from university graduates—who will earn significantly more over the course of a

lifetime than someone with a high school diploma—to the three-quarters of taxpayers who do not hold bachelor's degrees is inequitable.

In order to drive down college costs and increase access to higher education opportunities, policymakers should stop the Federal spending spree, employ fair-value accounting practices, and ultimately, work to decouple Federal financing from accreditation.

Thank you.

Senator BROWN. [Presiding.] Thank you, Ms. Burke. And my apologies both to Mr. Geremia and to Ms. Burke. I have never left a Committee I have chaired, but there was a call I just had to take, and I apologize. And I know of your story after Columbia, and I appreciate that. And, Ms. Burke, sorry to you, too, at the beginning of your remarks.

Ms. Hoover, I will start with you, and I appreciate your comments. Your testimony and others' on the panel point out obviously that the financial futures of students depend on fair, responsible servicing practices, but students are not able to choose who will service their student loan. They are selected by lenders often paid by the number of loans they service rather than the quality of that servicing. Talk about that structure. I know from your testimony you do not consider that the right structure. Explore with us the better way to do this, sort of an analysis of that structure, the way it is now, and the better way to do that, if you would explain your thoughts that way.

Ms. HOOVER. Thank you, Senator Brown. Currently the servicer contractors, the volume of loans assigned to the servicer is based on metrics. There are three metrics that are based on satisfaction: school satisfaction, customer satisfaction—borrower satisfaction, and some satisfaction from FSA and some other Federal agencies. And the other two metrics are the percentage of loan defaults and percentage of the dollars in default. So those are metrics that for each of the servicers that are measured to get their volume of loans.

The loans are assigned to these servicers. The student does not know to whom the servicer—their loan has been serviced. The Department of Education has done a good job of trying not to have mixed borrowers. They are trying to have all the loans for a student with one servicer. However, there are some students who have loans that are still FFEL loans that were not sold to the Department. So there still are cases where students have more than one servicer.

What I am suggesting is that these servicers are contractors. They can still service the Federal loans, but they need to be invisible to the students, because when a student calls, a student needs to understand it is a Federal loan they are repaying, they go to *StudentLoans.gov* to do everything, their master promissory note, they do their counseling, they know everything about their loans there. They should just continue the trajectory of being able to start the repayment of their Federal loan. And when they go there, if they have an inquiry, there is technology today that would transfer that call to the contractors. The contractors can still be the servicers. It just needs to be invisible to the students, because students are getting emails from the various servicers, and they do

not understand who these agencies are. They think it is spam mail or junk, and they are ignoring it. That is my suggestion.

Senator BROWN. Mr. Geremia, how could your experience going after getting your degree for your master's at Columbia, how could yours have been better and different based on that structure and the way that you were treated and your interaction with the servicer?

Mr. GEREMIA. I believe the best way would be a little bit more information about how much interest I would pay over time. I was not quite sure about the process, even though I went through interviews, exit interviews. I was not sure what the total debt would look like at the time, and so I wish I actually had a conversation with someone of my servicers. I think yesterday might have been the first time that I actually might have had a telephone call, a conversation. So definitely more in-person conversations or phone interviews, yes.

Senator BROWN. Mr. Hubbard, you represent a group of people that have had some significant legal issues, if you will. If a servicer is found to repeatedly violate their Federal contracts or Federal laws, should there be consequences? And what should they be to the servicer?

Mr. HUBBARD. Thank you for the question, Chairman. This is a critical question. Right now there are many bad actors out there, some of which are very obvious; others are more under the table. The recent Sallie Mae case was a good example, a clear signal to the industry that these kind of issues will not be accepted, they will not be tolerated. Sixty million dollars being paid out is a sign that if you are going to take advantage of the system, you are going to abuse servicemembers and their loans, then it will not be tolerated.

I think absolutely compliance is a critical step in that process and ensuring that servicemembers are treated with the protections that they are afforded under SCRA.

Senator BROWN. OK. Ms. Hoover, the CFPB Student Loan Ombudsman 2013 Annual Report said:

> Student loan servicers might consider providing notices prior to and following a change in servicer so the consumer can monitor the transition to ensure there are no servicing interruptions. Many consumers were unaware of the servicing change until problems arose.

Talk about your views on borrowers' experiences with servicers prior to and following transfer and the costs to borrowers from servicers' lack of or poor communications.

Ms. HOOVER. I will have to say that the experiences that I have had with my students have been limited in this respect because for the number of years my students have been in the Direct Loan Program and already had one contractor, I have not had students telling me of significant issues with their servicing of their loans, and that is, again, because of my student body. But I do believe that the complaints that have been registered with the Consumer Bureau are true. And as we monitor, as our students begin to be more into this multiple servicer environment, I shall certainly be listening to it very carefully. But so far I have not heard that from my actual students as graduates.

Senator BROWN. Anybody else want to comment on that? Yes, Mr. Hubbard.

Mr. HUBBARD. I think this brings up a very important point, and that is just a level of opaqueness in the system. When you are a student and you have different loans, you might not even known where those loans are. You do not even see them. If you go to log onto some dashboard to figure out what those loans are, how much you even owe, that can be a challenge to figure out sometimes. Having an aggregated view of this loan data would be absolutely implement.

Senator BROWN. Senator Warren.

Senator WARREN. Thank you, Mr. Chairman. Thank you for holding this hearing. You know, we should be doing everything we can to help student loan borrowers repay their loans, and part of that is improving loan servicing.

But if we want to make sure people can repay their student loan debts, shouldn't we start by doing what we can to reduce the size of their debt loads? Right now the Federal Government is collecting loans at 6 percent, at 8 percent, at 9 percent, at 10 percent, and even higher. So what I would like to do is I would like to just ask a question about whether or not you could talk about the impact on people if we refinanced their student loans down to lower rates. And I thought, Mr. Geremia, you might start that.

Mr. GEREMIA. Thank you, Senator, and thank you, Mr. Chairman. It would be a wonderful opportunity to have the ability and opportunity to refinance my student loan. As I move into my 30s and would like to begin a family and buy a home, I would like to be able to have that opportunity.

Senator WARREN. And you talked about it, Mr. Geremia. You said you have a home mortgage, did you say? At what interest rate?

Mr. GEREMIA. I do not have a home mortgage.

Senator WARREN. Oh, I am sorry. I thought you said—you had a car loan?

Mr. GEREMIA. I have a car loan at 1.9 percent interest rate.

Senator WARREN. At 1.9 percent.

Mr. GEREMIA. And many car loans are offered at 0 percent.

Senator WARREN. You also want to be careful about those.

[Laughter.]

Senator WARREN. Read closely.

Mr. GEREMIA. Yes, yes. So it would make sense to me that maybe there are more options available to refinance at perhaps a lower rate.

Senator WARREN. Thank you.

Mr. GEREMIA. Thank you.

Senator WARREN. Mr. Hubbard, could you speak just a little bit about what the impact would be on people's lives if we brought down the interest rate on student loans?

Mr. HUBBARD. Absolutely. Thank you for the question, Senator. This is huge problem right now. If you look at individuals who go into the service with existing debt to begin with and then they are in the service, they have deployments, they have loss of protections. They are taken advantage of, and they cannot even do anything

about it. When you are in a combat zone, are you really thinking about your student loans? Probably not. That is a problem.

On the back end, as you are potentially going for your education and you are, say, a reservist, you might not have the GI bill, so you are taking out large loans.

You are taking out those loans with very little information at your disposal, and you might have just been coming off active duty where it was very difficult to have access to anyone who even know anything about getting that right information. So that makes it very complicated.

You are not able to buy a house when you come out of your education. You are not able to invest in your retirement. That impact is when the GI bill—the investment of the GI bill is completely lost when you are mired in student debt. When you see what an individual can do without student debt, when they take advantage of the GI bill, it is impressive. It really is impressive. You have got 25- to 30-year-olds buying houses for the first time. They are very young. They are investing in the future. And the impact of this is on the larger economy.

But I would actually like to point out something that is not often looked at, and that is the issue of security. National security is a big problem with existing debt for veterans and servicemembers. If a servicemember loses a clearance as a result of their high credit, their high student debts, that is a direct impact to the national security of the United States. So that is something that I think is worth looking at.

One thing that is an issue that would be great, refinance would be terrific for servicemembers. Unfortunately, the protections offered by SCRA are lost when a student—a veteran goes to refinance their loans, and that is something that has not been addressed.

Senator WARREN. I think that is a very powerful point, and I appreciate it, because what we are talking about here is how—the impact of student loan debt on individuals and also, as you rightly point out, the impact on the larger economy. We have got studies now showing that it is causing people not to be able to buy homes. They are not able to start small businesses. They are not able to start their economic futures and build something strong. This is why more than 30 Senators have introduced the Bank on Students Emergency Loan Refinancing bill. We want to lower interest rates so that more people have a fair shot at getting started in life.

I want to pick up on the point you made, though, Mr. Hubbard. You know, in March, the Consumer Financial Protection Bureau put out a report analyzing complaints from veterans about financial products, and the report suggests that private student loan debt collectors may be making misleading or intimidating statements to coerce veterans into paying their debts, including threatening to contact a servicemember's chain of command or repercussions under the Military Code of Justice for failure to pay. And in March, the GAO released a report raising issues regarding the oversight of contractors who collect on Federal student loan debt.

Mr. Hubbard, are you concerned that the Federal student loan debt collectors are also using military servicemembers' service to pressure them to repay?

Mr. HUBBARD. It is a great question, Senator. I am not only concerned; I am absolutely outraged. This is something that is unacceptable. The Sallie Mae case was a clear signal that this is not something that will be accepted in our society. When an individual goes into service, that is not an opportunity for a servicer to take advantage and abuse those servicemembers because they do not have the right information. If you have an individual who does not have access to clear information and then somebody calls them offering what they believe is information, taking advantage of them, that is just—that is simply unacceptable.

Senator WARREN. Well, thank you very much. I remain deeply concerned that that debt collectors for the Federal student loan program are breaking the rules and misleading borrowers. If a borrower fails to pay a loan, the Federal Government should be able to collect. But contractors must be following the law and should not take advantage of people. I think this is an issue that deserves very serious attention.

Senator BROWN. Thank you, Senator Warren.

Senator Reed.

Senator REED. Well, thank you very much, Mr. Chairman, and I thank you and Senator Warren for your extraordinary leadership on this issue, which is critical to not just individual progress but to our economy overall.

I want to recognize everybody, particularly Robert Geremia. You are from Rhode Island, aren't you, Bob?

Mr. GEREMIA. Yes, sir, originally.

Senator REED. Where in Rhode Island? Excuse us, ladies and gentlemen.

[Laughter.]

Mr. GEREMIA. Yes, South Kingstown, Rhode Island.

Senator REED. Are you related to Kenny Geremia?

Mr. GEREMIA. No.

Senator REED. OK. Only in Rhode Island can you have this conversation. I played peewee football with Ken Geremia from Cranston, Rhode Island. He is your uncle, he is your cousin, correct?

Mr. GEREMIA. Yes, a distant cousin, sir.

[Laughter.]

Senator REED. See, I knew it.

Senator BROWN. Whether he is or not.

Senator REED. No, no. He is.

You, after graduating from Rhode Island College, which is a great school, went on to Columbia and are teaching at Wilson High School now in Washington. But I have a question. Federal law requires that the individual borrower be informed of his or her rights for repayment options before they enter the program and as they graduate. Do you think you got effective advice, information, or counseling so that you understood the full range of repayment options, public service loan forgiveness? Can you comment?

Mr. GEREMIA. Thank you, Senator. Yes, I did receive counseling. I do not believe, especially with my graduate loans, that was particularly effective. It involved sort of an exercise going through the motions, clicking on boxes. There really is not that "Do you have a question?" kind of—that one-on-one interaction.

At Rhode Island College during my undergraduate years, I felt like I had that opportunity. Things were a little bit more clear, spelled out. Of course, there were your parents. Our parents were helping out.

As we advance in our careers and our lives and sort of looking to fine-tune teaching skills, yes, I read through it. It was not clear; it was not effective, especially for someone like myself who is trying to pay rent, trying to teach 100 students, grade their essays, finish a master's thesis.

Senator REED. You know, Rhode Island College, I was there for the graduation. The tuition is still roughly $8,000 a year, and, in fact, we have a Federal limit on what you can borrow at the undergraduate level. There is no limit in graduate school. So the counseling for graduate school has to be more focused, more intense, and more effective, because there you are really talking about big sums of money. There is no limit on that. But I appreciate that very much.

Mr. Hubbard, thank you for your service, thank you for your testimony. Under the Servicemembers Civil Relief Act, there are lots of—they used to call it the Soldiers and Sailors Civil Relief Act, but it is now the Servicemembers. There are many rights that servicemembers have, but they have to be aware of those rights. How did the Department of Defense do about informing servicemembers, particularly those who are about to leave the service, about their rights as veterans or their rights as servicemembers?

Mr. HUBBARD. Well, there are a couple of pieces to that puzzle, and I think this is a great question, so thank you for that, Senator.

The Department of Defense is certainly responsible to some degree for making sure that their people are taken care of. On the other end of things, if a servicer is giving them false information, simply lying to them, who is to say that the chain of command—you know, some captain—is an expert on education loans. They are probably not. There are definitely individuals within the Department of Defense that are, but can they reach every single individual? I doubt it.

Unfortunately, servicers are reaching every single individual, and they are giving them false information. For that member of the military to be able to reach out and find their own information with, say, through an aggregated dashboard or something similar, that would hopefully allow them to alert some red flags. Those red flags would bring that person to go out and seek that information from that DOD education expert, and then hopefully that would circumvent the process of those servicers simply lying to those servicemembers.

Senator REED. Again, this is a rough historical analogy, but in the old days, you used to be able to put places off limits because they treated soldiers and sailors and marines and airmen badly. And I think we have to—and would urge Secretary Hagel to think about this. Maybe there has to be a consistent effort of identifying servicers who are consistently not just, you know, negligent but doing worse, and maybe that is where, you know, that dashboard or at least in the company or the battalion or the squadron you can have "Do not go there." So I think that is important.

Ms. Hoover, can I ask a question? It goes right back to the services. We, I think, become sometimes over reliant on major entities to do the servicing, and that has an inherent risk of failure. Do you have any sort of advice about how we can provide better services to students? Just a general question.

Ms. HOOVER. How we can do better with the servicers?

Senator REED. Right.

Ms. HOOVER. Thank you, Senator. As I indicated in my testimony, I still believe there needs to be one place of contact for all borrowers and that the contractors be invisible to the students. I think if the student—if the servicers were mandated to be contractors with identical processes and policies, a lot of this confusion could be eliminated. And that is where I keep coming back to one place, keep it simple, and, therefore, some of the—when the contracts are renewed for servicing, maybe they could be offered to entities outside of FFEL, because credit cards and mortgage servicers have some excellent technology and do not have the default rates that we have that are inherent today.

Senator REED. Thank you very much.

Thank you very much, Mr. Chairman.

Senator BROWN. Thank you, Senator Reed. And we will try to do a second round, if we can, before the votes.

A question for all of you. Federal student loans are seen as safer than private loans because they offer repayment options, but we often hear that Federal loans lack comprehensive and consistent servicing standards. So I would like each of you, just a yes-or-no question on this: Do regulators, the CFPB and the Department of Education, do regulators need to establish standards so that borrowers have more protections? Ms. Hoover?

Ms. HOOVER. Yes.

Senator BROWN. Mr. Hubbard?

Mr. HUBBARD. Yes.

Senator BROWN. Mr. Geremia?

Mr. GEREMIA. Yes.

Senator BROWN. Ms. Burke?

Ms. BURKE. No.

Senator BROWN. All right. Thank you.

Let me talk for a moment about credit ratings. Student loan borrowers are typically young—not always but typically young—typically limited credit history. They enter this marketplace. If the servicer does not serve them quite right, they end up—if the servicer makes mistakes, report loans that are in a payment plan, is delayed, borrowers can be penalized for irresponsibly managing their debt, if you will. Mr. Geremia, how do servicers affect credit cards—credit scores, excuse me. How do servicers affect credit scores and inability to access credit later in their lives?

Mr. GEREMIA. Well, I would imagine that if there were issues repaying, there was a default payment, that would affect credit scores down the line and, therefore, would inhibit ability to make home purchases, car purchase even, even apply for jobs or Government jobs. Thank you.

Senator BROWN. Mr. Hubbard, you talked about a soldier in combat. You talked about veterans, soldiers, sailors, and air-men and -women coming home and facing various kinds of student loan

problems and just how it is much more difficult to launch their economic lives, as Senator Warren said. Talk to me about what a credit score means to current and former military personnel who may have to pass credit checks in order—in terms of security clearance and getting their economic lives in order both, if you would.

Mr. HUBBARD. Thank you for the question, Senator. There are two sides to this coin. There is the security issue, and there is the economic issue.

On the security side, if an individual has a bad credit score, they are not going to get a good clearance. They are not going to get a clearance. That might be critical to their future in the military or even their personal future on the private side. Alternatively——

Senator BROWN. Have you seen examples of that?

Mr. HUBBARD. Yes, absolutely.

Senator BROWN. OK.

Mr. HUBBARD. And then, alternatively, the economic issue is huge. The investment that America has made in servicemembers is ultimately crippled when these individuals cannot invest in themselves and then further on in the economy. When they cannot buy a home, that money is lost. It is lost to servicers, and it is taken out of the economy and not reinvested.

Senator BROWN. And you see in terms of Government investment, you see a soldier who, for whatever reason, now has a lower credit score. Sometimes the reason is beyond her or his control. You see that soldier eligible for a promotion, eligible—perhaps the military is looking to provide, to give them a security clearance for this new position, this new rank, and they are denied because of the credit score, and the Government investment then goes to waste in that sense.

Mr. HUBBARD. It does. It goes to waste. And this comes to a question of common sense. We have good individuals who are strong soldiers, sailors, airmen, marines, they do well, but they have a bad credit score, what it looks like is they are not responsible. When if you take it back and look at the context, a servicer might have taken advantage of this individual, flat out lied to them, and allowed this person to take out more loans than they were capable of or just completely inflated the rate on them. They go deploy, they have got $50,000 in loans; they come back, it is $75,000. That is a big problem.

Senator BROWN. And there is no real—for the soldier looking to get security clearance for a new position, there is no real appeal on this, I assume, to the military of, well, my credit score is lower because of X, Y, and Z that I had nothing to do with.

Mr. HUBBARD. Well, there are appeals, but it does not take away the doubt. And the doubt is something that, once seated, is very difficult to scrub.

Senator BROWN. Thank you, Mr. Hubbard.

Senator Warren.

Senator WARREN. Thank you. So we have talked a lot today about how Federal investigators have uncovered serious problems with student loans, servicers, and collectors. Just recently the GAO raised questions about Federal debt collectors that are breaking the rules, and Federal regulators have cited Sallie Mae for violating

Federal laws by overcharging servicemembers on their student loans.

Now, when loan servicers break the rules, they push borrowers to do things that are good for the bottom line of the servicer, but not good for the borrower. And ultimately if students are not able to repay, then it is the taxpayers who will pick up the bill here.

Part of the problem, as you have pointed out, is the rules are complex, and it makes it hard for borrowers to know what they should expect from their servicers.

But I want to ask the question from a little different angle, and that is, when a borrower thinks that something is wrong, thinks that maybe they have not been told the truth or that someone has broken the law, where do they turn? Where do they go now? Ms. Hoover, how about if I start with you?

Ms. HOOVER. Most of the time, the students now are going back to their financial aid office because they are so confused about where else to go. But the tragedy is that sometimes students do not do anything.

Senator WARREN. Well, fair enough.

Ms. HOOVER. But in a small school like mine, we do due diligence, and we continue corresponding with our students who are delinquent so they do come back to us. But, again, I am a small school, and that is not realistic for large schools.

Senator WARREN. And the further people get out of school, I am sure the less likely it is they are going back to their own financial aid offices to be able to get any help. So basically what you are telling me is they do not have much of any place to turn, or at least do not know much of any place to turn.

Ms. HOOVER. Until we had the Consumer Bureau Protection Agency, but, again, the students are not aware of that, and it is, again, just the lack of not understanding of where to go.

Senator WARREN. Mr. Hubbard, how about for vets?

Mr. HUBBARD. Well, I would like to point out one scenario, if I can, Senator. There was a servicemember cited by the CFPB after they solicited comment on this very particular topic, and this individual went to lower—under SCRA, went to lower their loans to 6 percent. The servicer looked at their loans. Everything that was below 6 percent was raised. That 6 percent did not get lowered. This individual made a call and in the end had all of their loans raised as a result. That is a prime example of what happens.

This particular issue was found out by the CFPB, which is the primary route for individuals to make that complaint. Since the Consumer Bureau has come out and been soliciting this information, these stories have come out in droves. And stories like that, they make me sick.

Senator WARREN. Yes, as they very well should. You know, borrowers should not bear the responsibility for keeping servicers in line. Federal contracts should include accountability and oversight protections that require servicers to perform to a high standard. But at the very least, if borrowers have questions or they believe they have been mistreated, it should be clear where they can turn for some kind of relief.

I want to ask about one other issue, if I can, and that is, you may know that Sallie Mae has been touting its status as the Federal

student loan servicer with the lowest default rates. And in February, I wrote a letter to Sallie Mae asking for data about the company's default prevention strategies. I asked for these data because not all strategies to reduce defaults are going to provide a path to successful repayment, and some may even leave borrowers deeper in debt.

Now, Sallie Mae responded to my letter, but cited only a few limited pieces of information about its direct loan portfolio. It did not provide the data needed to evaluate their default prevention program. And as a result, I have asked the Department of Education to provide default prevention data for Sallie Mae and other Federal loan servicers. So far, no answer.

So I want to try this from another direction. Mr. Hubbard, do you believe that borrowers are getting sound advice from servicers like Sallie Mae about what to do when they get behind on their payments?

Mr. HUBBARD. Thank you for the question, Senator. Off the bat, the single metric of the lowest default rate is pure nonsense. Just because you have a low default rate does not mean that individuals are not mired in high amounts of debt. If I make a low payment every day for the rest of my life, I will not default, but I will be paying forever. I will never get a house. I will never have the money to start a family. I will never have the money to start a business. I will never be able to put back into the economy what the American economy has given to me. That is a huge problem.

In addition to that, just because an individual goes out of their way to find out information does not mean on the back end it is not being treated properly. We found issue after issue with Sallie Mae in particular with tons of complaints coming into the CFPB. They were the number one complaint servicer of any servicer by a long shot. Just because they have a low default rate, well, congratulations, but you still have a ton of debt for student veterans who are dealing with that debt, and it is impacting them in their daily lives.

Senator WARREN. Well put, Mr. Hubbard. You know, about a quarter of Sallie Mae's loan portfolio is in deferment or forbearance. And these borrowers are trying to get their heads above water by deferring their payments, but as you point out, the interest continues to accumulate. This is going to add to their debt burden and ultimately may drown them. We need real data to tell us which strategies work as a life preserver and which work as an anchor for borrowers. Also, better data can help drive stronger accountability for Sallie Mae and other loan providers.

I hope we continue to push for that.

Mr. Chairman, thank you, and thank you all for being here today and sharing your stories. Thank you.

Senator BROWN. Thank you, Senator Warren. And to the witnesses, thank you all for joining us. There is a vote call. Ms. Hoover, thank you, Mr. Hubbard, Mr. Geremia, and Ms. Burke, thank you for your testimony.

There may be written questions from Members who were here or not here and please answer them within a week, if you can. Thank you.

[Whereupon, at 11:03 a.m., the hearing was adjourned.]

[Prepared statements and additional material supplied for the record follow:]

PREPARED STATEMENT OF NANCY HOOVER

DIRECTOR OF FINANCIAL AID, DENISON UNIVERSITY

JUNE 4, 2014

Chairman Brown, Ranking Member Toomey, and Members of the Subcommittee, thank you for inviting me to testify today at this hearing regarding the borrower's experience with student loan servicing.

My name is Nancy Hoover and I am the Director of Financial Aid at Denison University in Granville, Ohio. Denison University is a selective independent, residential, undergraduate liberal arts college with an enrollment of approximately 2200 students. I have been the Director of Financial Aid at Denison since 1994 and administered the implementation of the Direct Loan program in Year 2 of the program. I have served as a National Chair of the National Direct Student Loan Coalition, a grass roots organization comprised of schools dedicated to the continuous improvement and strengthening the Federal loan programs for our students.

Denison's endowment allows us to award annually financial aid from Denison University funds to 97 percent of our student body. The generous financial aid that Denison awards to our students results in an average of 47 percent of our graduates borrowing Federal loans and 4 percent borrowing private loans during their 4 years of attendance. The cumulative Federal indebtedness for Denison's Class of 2014 is $21,470.

The William D. Ford Federal Direct Loan program turns 20-years old this year. The first direct loan was disbursed on July 1, 1994. The delivery of loan funds to students, known as the loan origination process, is done via an electronic exchanges of key eligibility information between the schools' systems and the Department of Education's Common Origination and Disbursement (COD) System. The Direct Loan delivery process for loan funds to students has been efficient, reliable, and easy for schools to administer. The Department of Education is to be commended for ensuring the superior quality of the loan delivery process was not compromised as it transitioned all schools to the DL program.

When the Direct Loan program was first implemented, all loans were serviced by a single contractor and any correspondence to borrowers was identified as the William D. Ford Federal Direct Loan Program and the logo for the Department of Education made the servicing contractor for these Federal loans invisible to the students. The Department of Education had to expand the number of servicers to accommodate the increased volume of loan servicing required for the federally backed student loans purchased in 2008 and the 100 percent transition of all schools to the Federal Direct Lending program. The Department issued new DL servicing contracts to agencies who had experience servicing loans to students in the FFEL program and allowed, but did not require, these new servicers to co-brand all their correspondence with the Department's logo. Since the Servicer's logo appears larger than the Department's logo, borrowers are confused as to why they are receiving written or electronic correspondence from an unknown agency. Servicers report that they experience a large percentage of unopened mails from borrowers because they believe the correspondence is junk mail or spam. When borrowers ignore the correspondence from the servicers of their Federal loans they will ultimately default on their loans. The inherent flaw with the current multiple servicer environment is that borrowers do not understand who is servicing their loans.

Currently there are 15 contractors servicing federally held loans. These servicers are provided a broad latitude in determining the best way to service their assigned loans to yield high performing portfolios and high levels of customer service. The current Federal loan servicing environment needs to be simplified by a mandate of contractor anonymity and limiting their numbers. Congress made progress in this area with the Bipartisan Budget Act of 2013 which eliminates the special treatment for nonprofit student loan servicers. A limited number of contractors can provide healthy competition while too many contractors can increase complexity and administrative cost.

The Federal contractors who service the loans need to be invisible agents of the Federal Government with identical processes and policies. When the Department of Education has the opportunity to renew the servicer contracts, it should rethink how contracts are awarded. It should consult with all of the stakeholders in student loan servicing to find best practices to eliminate the confusion and frustration that exists today for borrowers. The Department should open the contract bidding process to other entities in financial sectors outside the previous FFEL environment such as credit card or mortgage servicers.

Borrowers in repayment need their point of contact for all repayment activities to be a single Web portal and one phone number for account access which utilizes

available technology to route the borrower to the contractor. The Department of Education has made significant progress toward creating a single portal for students who borrow Federal loans with the creation of *StudentLoans.gov,* a very efficient and robust portal at which students can:

- sign their Master Promissory Note
- complete their Entrance and Exit loan counseling,
- complete the Financial Literacy counseling at any time in the college career to monitor their loan indebtedness and calculate the monthly payments based on the type of repayment option selected
- complete the entire process for the Direct Consolidation Loan based on data pulled from the National Student Loan Data System (NSLDS); this includes signing the promissory note and selecting the repayment plan
- complete the process to request an income based repayment of Federal loans through Income-Based (IBR), Pay as You Earn, or Income-Contingent (ICR) repayment plans

StudentLoans.gov can be expanded to allow students to begin the repayment process of their Federal loans that are listed in the National Student Loan Database (NSLDS) at this site without going to a servicer's Web site to begin their repayment process. Students are repaying their Federal loans to the Department of Treasury, not the agency that is servicing their loans. Borrowers in repayment can make inquiries at *StudentLoans.gov* and can be transferred to the appropriate servicing contractor who would remain invisible to the borrower. This approach can reduce the cost of Federal servicing since only one borrower "front end" servicing operation has to be created and maintained.

Senator Brown, I would like to thank you and other Members of the Committee for being a cosponsor for the following two Senate bills that are focusing on student loan debt and the repayment of these loans: *S. 2292—Bank on Students Emergency Loan Refinancing Act* Students in repayment of Federal loans that were originated when interest rates were higher, would certainly benefit from having the ability to refinance these loans to rates that are being offered to new Federal loan borrowers established by the Bipartisan Student Loan Certainty Act of 2013. "In addition, about 6 million borrowers have one Direct Loan and at least one FFEL loan, which requires them to submit two separate monthly payments, a complexity that puts them at greater risk of default."[1] The ability to refinance these loans could be another opportunity for students, who still have multiple loan servicers, to consolidate their loans for a lower payment and a single servicer and to reduce the risk of defaulting on their loans.

The current Federal student loan caps often force students to pay college costs with private loans that have none of the benefits and protections provided in the Federal student loan program. The provision in S. 2292 to allow borrowers with private loans an option to refinance into the Federal program would provide these students access to the better terms and conditions for their loans and the advantage of having one servicer for all of their educational loans.

S. 1803—Student Loan Borrower Bill of Rights

The additional disclosures to student borrowers that are being proposed in this bill for servicers of private loans are needed to help borrowers from defaulting on these loans and adversely impacting their credit rating for a long time. I concur with the provision in the bill that requires servicers to notify borrowers who are delinquent in repayments with information about income-based repayment options. However, with all of the good options of repayment from which a borrower can choose, it is extremely confusing for students to understand the intricacies of Income-Based Repayment, Pay as You Earn, Income Contingent, and Income Sensitive plans in addition to the Standard, Extended, and Graduated plans.

To streamline student loan repayment, reduce confusion for the students, and eliminate defaults, I encourage Congress to reduce the current number of loan repayment plans to two options—standard and income based. The loan repayments in the income-based plan would be based on Adjusted Gross Income with the payment not to exceed a small percentage of the borrower's income and would be collected through payroll withholding to the IRS and passed through to the Department of Education. The concept of this income-based repayment option is based on the stu-

[1] The White House, Office of the Press Secretary (2011). FACT SHEET: "Help Americans Manage Student Loan Debt" Retrieved from *http://www.whitehouse.gov/the-press-office/2011/10/25/fact-sheet-help-americans-manage-student-loan-debt.*

dent loan repayment model in the United Kingdom which sees almost no default from borrowers who continue to live in the U.K. after college.

The bill also addresses problems related to servicing transfers for borrowers. Many borrowers were unaware that their servicer had changed until they encountered a problem. According to a report by the Consumer Financial Protection Bureau, many borrowers have filed complaints to correct errors related to servicing transfers.[2] Student loan servicers need to provide notice to borrowers about a change in the servicer like mortgage servicers are required to do.

In conclusion, I want to reiterate that the Federal Direct Student Loan program works extremely well and provides all students with a reliable and efficient source of loan funds. Any program that has existed for 20 years can always have areas that can be enhanced to provide excellent service for borrowers, schools and taxpayers.

Thank you again Chairman Brown for the opportunity to provide a financial aid administrator's perspective on some areas of student loan servicing that could be enhanced to eliminate the confusion and complexity that current borrowers in repayment are experiencing and to decrease significantly the number of defaulted loans in this country.

I look forward to any of the changes you will enact to improve the program for years to come and I am happy to respond to any questions you or the Members of the Subcommittee might have.

PREPARED STATEMENT OF WILLIAM HUBBARD

VICE PRESIDENT OF EXTERNAL AFFAIRS, STUDENT VETERANS OF AMERICA

JUNE 4, 2014

Chairman Brown, Ranking Member Toomey and Members of the Subcommittee:

Thank you for inviting Student Veterans of America (SVA) to submit our testimony on "Student Loan Servicing: The Borrower's Experience." As the premier advocate for student veterans in higher education, it is our privilege to share our on-the-ground perspective with you today.

In 2008, veterans in colleges and universities across the Nation came together to form SVA. Using a network of peer-to-peer relationships and determined to achieve beyond expectations, these veterans relied on their military training and skills to succeed in higher education—sometimes while simultaneously serving in our military.

SVA's top priorities include improving access to higher education and scaling effective services that empower veterans to graduate on time, with little-to-no student debt, well-prepared for fulfilling futures. We look forward to this important conversation and hope to share the perspective of veterans in higher education with this Subcommittee.

Current Issues

The First Step: Greater Access to Information

As veterans graduate across the country, we believe that their student debt burden will be one of the largest inhibiting factors to their long-term success. This issue is partly the result of the lack of access to information at individual and institutional levels. Veterans consistently cite the following challenges: difficulty obtaining accurate information about loans, convoluted pathways to gathering information or implementing programs, and unnecessary roadblocks put in place by servicers. These three issues manifest in various ways as servicemembers and veterans seek to pay off their education debt.

Ensuring that servicemembers and veterans are able to base their borrowing decisions on sound information is of the utmost importance to SVA. In the Consumer Financial Protection Bureau's (CFPB) mid-year report released this April, comments were collected from more than 1,300 individuals with student debt. Of the top 5 complaints representing 93 percent of the responses, all were related to misinformation. These include: communication tactics, continued attempts to collect debt not owed, disclosure verification of debt, false statements or representation, and improper contact or sharing of information.[1]

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[2] Consumer Financial Protection Bureau, "Annual Report of the CFPB Student Loan Ombudsman", p. 14, October 16, 2013.

[1] Consumer Finance Protection Bureau, 2014, "Mid-year update on student loan complaints", *http://files.consumerfinance.gov/f/201404_cfpb_midyear-report_private-student-loans-2014.pdf,* pg. 6.

Despite avid efforts to increase protections against abusive practices, getting servicemembers and veterans the right information about those protections at the right time remains a challenge. Servicemembers and veterans have access to protections under the Servicemember Civil Relief Act (SCRA) and access to many different student loan repayment options. Unfortunately, this web of support does not function cohesively and programs often function independent of each other.

The Unspoken Burden of Existing Debt

Of particular concern, we have seen that many servicemembers enter the military with pre-service student loan debt. This existing debt is also a major source of the overall debt owned by servicemembers and veterans. Though some still believe that only officers are college-educated, the simple fact is that today's professional military is the most highly educated all-volunteer force that this country has ever seen. Existing debt is particularly harmful to a servicemember or veteran when servicers do not comply with protections afforded by the SCRA.

As the loan servicing system stands now, there are many other scenarios that present additional obstacles for servicemembers and veterans. For example, a servicemember who took out student loans to attend school prior to enlisting has many repayment options available. However, when they call their loan servicer to discuss such options, the typical response is that the servicemember can defer payments until they return from deployment. While that might sound helpful, the servicemember probably wasn't informed that they will continue to accrue interest. The sparkling deal they were just "sold" results in their $50k loan becoming a $75k burden. In effect, this deferral is akin to purchasing a car without knowing the true cost.

Additional Factors for Borrowers

There is a common misconception that veterans who go to school on the GI Bill have a "free ticket", but we know that this is simply not true. As an earned benefit, not only is the GI Bill not free, it may not always cover the full cost of an education. This is especially true for those attending private institutions or considered out of state residents. Furthermore, as quintessential nontraditional students, take longer to complete their degree. In such scenarios, veterans likely take on additional loans to complete their programs or risk stopping short of graduation.

Student loans are a reality for both servicemembers and veterans. Former Secretary of Defense Leon Panetta noted that 41 percent of servicemembers were dealing with education loan debt and that in some cases, this was leading to loss of security clearances.[2]

Last year, the Assistant Director & Student Loan Ombudsman for CFPB testified before this Committee on several examples of misconduct by loan servicers. He cited cases where servicemembers were expected to jump through excessive or impossible hoops to invoke their protections. In one case, a servicemember called their loan servicer to try to claim the 6 percent interest rate cap under the SCRA, but instead of lowering the high interest rate loans to 6 percent, the loan servicer raised the low interest loans on all their other loans.[3]

In other cases, servicemembers will seek to consolidate and/or refinance their student loans, only to find that they then lose the protections under the SCRA. At the root of this issue, servicemembers do not have access to clear and actionable information about their student loans from their loan servicers.[4]

Additionally, National Guard and Reservists do not always receive the same GI Bill ratings as their active duty counterparts, which can lead to high amounts of borrowing. The most recent Department of Defense (DoD) demographic reports show that well over one-third of our military servicemembers serve in the Guard or Reserve.[5] Of these components, it is very clear that the GI Bill does not cover all education expenses.

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[2] Stars and Stripes, 2012, "New partnership aims to protect troops against student loan problems", *http://www.stripes.com/news/new-partnership-aims-to-protect-troops-against-student-loan-problems-1.193550.*

[3] Chopra, Rohit, 2013, "Testimony of Rohit Chopra Before the Senate Committee on Banking, Housing, and Urban Affairs", *http://www.consumerfinance.gov/newsroom/the-cfpb-before-the-senate-committee-on-banking-housing-and-urban-affairs/.*

[4] Bloomberg BusinessWeek, 2012, "Military Student-Loan Borrowers to Get More U.S. Advice", *http://www.businessweek.com/news/2012-10-18/military-student-loan-borrowers-to-get-more-u-dot-s-dot-advice.*

[5] Approximately 848,000 of 1.39 million members of the armed forces in 2012 were cited as reservists; Department of Defense, 2012, Demographics Profile of the Military Community,

Continued

While many veterans may not have a clear understanding of how their education benefits will impact their overall cost of attendance, others face abusive and misleading practices across sectors of education which results in undue and unnecessary debt burdens.

We remain concerned that some technical and career colleges claim that their programs will lead to credentials and certifications, when in reality these promises are hollow. Due to a lack of proper accreditation, some students in these schools realize that they wasted years of valuable benefits and have nothing to show for it. We applaud the bipartisan efforts of the dozens of State Attorneys General working to curb this practice among the worst offenders, and would like to work with this Committee and the Congress to improve the laws preventing this despicable practice.

The Case Study of Sallie Mae

In one of the most egregious cases, Sallie Mae was exposed for a laundry list of abusive practices. The company violated the protections of the SCRA in numerous ways, and the FDIC noted that, "Sallie Mae violated Federal law prohibiting unfair and deceptive practices in regards to student loan borrowers."[6] Among the many infractions, they were cited for, "misrepresenting and inadequately disclosing in its billing statements how borrowers could avoid late fees," and "failing to provide complete SCRA relief to servicemembers after having been put on notice of these borrowers' active duty status."[7] These actions are inexcusable and the settlement was a clear signal that they will not be tolerated. While Sallie Mae's startling infractions have been brought to light, it is clear that similar tactics continue to be implemented throughout the industry.

To illustrate the challenges faced by servicemembers and veterans, it is worth digging deeper into Sallie Mae's $60 million settlement with the Department of Justice—the result of mistreating a reported 60,000 servicemembers.[8] In the CFPB's Consumer Complaint Database (as of June 2nd), Sallie Mae was the top offender, with 3,664 formal complaints being filed, representing nearly 50 percent of the total complaints. The next closest was AES/PHEAA with a total of 795 complaints. Given the volume of complaints reported about the company's practices, it should have come as no surprise that they were taking advantage of the military and veteran community systematically.

Ultimately, it was a member of the military community who filed a complaint about these harmful practices that brought the offenses to light. The critical factor here was that a servicemember understood his rights. Though the case of Sallie Mae highlighted explicit misconduct, there are also situations involving practices that are less obvious.

The Need for Loan Data Aggregation

To catch situations that may violate a servicemember or veterans' rights, we believe that institutions need access to a full range of financial data. This step is necessary for institutions to be able to effectively counsel their students about their financial future. Individuals should also have access to this data to achieve the highest level of consumer awareness.

Currently, there is no widely used system that would allow any individual with education debt to see all of their loans in a centralized place. However, METEOR, run by the National Student Clearinghouse (NSC), could be such a tool. METEOR provides student borrowers with real-time access to all higher education loan data for free through a single portal without compromising the security of the data. METEOR is an open source platform that also has the capacity to include VA benefits and all loans, private and Federal, in one screen presentation.

METEOR's capability to provide instant access to real-time loan balances can improve a veteran's ability to manage their loans, which are often sold multiple times to various servicers. This product opens the door for veterans and active duty personnel to manage and follow their debt no matter where they are. This function also allows schools to proactively provide loan counseling to students before the burden of debt becomes insurmountable. This system is currently ready to launch, but requires the release of Direct Loan data from the Department of Education (ED). The

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http://www.militaryonesource.mil/12038/MOS/Reports/2012__Demographics__Report.pdf, pg. vi.

[6] FDIC, 2014, "FDIC Announces Settlement with Sallie Mae for Unfair and Deceptive Practices and Violations of the Servicemembers Civil Relief Act," *http://www.fdic.gov/news/news/press/2014/pr14033.html.*

[7] *Ibid.*

[8] Department of Justice, 2014, "Justice Department Reaches $60 Million Settlement with Sallie Mae to Resolve Allegations of Charging Military Servicemembers Excessive Rates on Student Loans," *http://www.justice.gov/opa/pr/2014/May/14-ag-502.html.*

METEOR program has the unique function of providing all private lender data and would simply require approval from ED to access the Direct Loan data, which has yet to happen.

The issues identified in this testimony continue to be widespread and lend to the growing mass of $1.2 trillion in education debt for U.S. students. Without addressing the need for greater transparency and accuracy of information, there will be no reasonable solution to curb this challenge.

Detrimental Impacts

While we might not know the full affect of student debt on this generation of veterans, we are beginning to see the first and second order of affects now. Servicemembers and veterans with student debt are significantly less likely to build their own business, buy a home, or save for their retirement. The second and third order effects of these issues will impact the economy for years to come and continue to distort economic behavior if not controlled.

In a recent article in the Chronicle of higher education, it was noted that, "Respondents with any kind of debt reported lower well-being financially, psychologically, physically, and in terms of life satisfaction. Within categories of employment—full-time, part-time, and unemployed—respondents with debt reported lower well-being than did their unindebted peers."[9] [10] This new research determined that those with any level of debt experience significant decreases in their well-being.

Future Solutions

In light of the issues we have identified, SVA supports the following policy solutions:

1. *Automatic Service Status Confirmation:* Some servicers require individual servicemembers to certify their military status on an annual basis or more frequently, despite having access to DoD databases that could allow them to easily accomplish the required task. SVA encourages Congress to compel loan servicers to automate this status confirmation process via DoD's database, thus lifting the burden off of individual servicemembers who may not be able to certify their status due to deployments or other duties. This would increase the timeliness of these confirmations as well as increase the accuracy of the determinations, while reducing the requirement to complete frivolous paperwork.
2. *SCRA Durability—Consolidations:*[11] Servicemembers may be forced to choose between the protections afforded through SCRA and the option to pursue loan consolidation. SVA would like to see SCRA's protections maintained regardless of how loans are consolidated. We would also like to see rigorous consumer education included when this financial option is pursued. Aggregating loans into one payment allows those loans to keep protections that are recognized by the law. This aggregation will preserve the intent of the protections afforded under SCRA.
3. *SCRA Durability—Refinancing:* Similar to consolidations, SCRA protections are often lost when individuals pursue refinancing options for their loans. SVA would like to see SCRA protections extended throughout the life of the loan, including if a servicemember chooses to refinance.
4. *Disability Carryover:* If a servicemember or veteran has a 100 percent disability rating by the Department of Veterans Affairs, that status should automatically carryover to their profile within the ED. To require recertification of an individual's disability rating is shameful, causes unnecessary paperwork and may also result in inaccuracies.
5. *Aggregated Loan Data:* Presently loan data is difficult to manage and is rarely available in a single view unless consolidated. The NSC's METEOR Program would enable this aggregated view of loans for free, but is being held up in the Department of Education. SVA recommends that this body compel ED to authorize the program to access Direct Loan data to enable all students to be able to benefit from METEOR.

[9] Chronicle of Higher Education, 2014, "2 Years On, Two-Thirds of This Graduating Class Aren't Financially Self-Sufficient", *http://chronicle.com/article/2-Years-On-Two-Thirds-of-This/146813/?key=GmgmIgVtZCIWYn82YzoRaG5WP3Y/Yh96NndGYiojbllQEw%3D%3D.*

[10] University of Arizona, 2014, "Life After College: Drivers for Young Adult Success," *http://aplus.arizona.edu/wave-3-report.pdf.*

[11] Additional alternatives to loan consolidation are also worth considering for those with lower levels of debt. GAO, 2003, "As Federal Costs of Loan Consolidation Rise, Other Options Should Be Examined", *http://www.gao.gov/assets/250/240559.pdf.*

6. *Program Coordination:* Many programs exist to support loan repayment of student loans, though very few of these programs have coordinated inter-program relationships. *A major opportunity* exists if current programs were coordinated and streamlined to function seamlessly. An example of this would be to better coordinate the DoD State Loan Repayment Programs (SLRP) and the Public Service Loan Forgiveness (PLSF). If servicemembers and veterans could apply the PLSF as qualifying payments, loans would be significantly more manageable. Putting the pieces of this puzzle together would be an important step forward.

These recommendations are humbly submitted to the Members of this Subcommittee and represent obvious gaps in current law that have common-sense solutions. SVA looks forward to working with the Members of this body to develop and enact such necessary measures.

Our Final Thoughts

With the right tools and resources in place, SVA sees no limit to what our servicemembers and veterans can achieve in higher education and beyond. When empowered with environmental factors for success, the investment America has made in the GI Bill and its veterans becomes an even clearer asset to our economy. By reducing the debt burden on servicemembers and veterans, we can set our veterans up for long-term success.

We thank the Chairman, Ranking Member, and the Subcommittee Members for your time, attention, and devotion to the cause of veterans in higher education. As always, we welcome your feedback and questions, and we look forward to continuing to work with this Subcommittee, the Senate Committee on Banking, Housing, and Urban Affairs, and the Congress to ensure the success of all generations of veterans through education.

PREPARED STATEMENT OF ROBERT GEREMIA

SOCIAL STUDIES TEACHER, WILSON HIGH SCHOOL, ON BEHALF OF THE AMERICAN FEDERATION OF TEACHERS (AFT) AND WASHINGTON TEACHERS' UNION (WTU)

JUNE 4, 2014

Mr. Chairman and the distinguished Members of this Committee:

Good morning. My name is Robert Geremia, and I am a social studies teacher at Woodrow Wilson High School in the District of Columbia. I am also a member of the American Federation of Teachers (AFT) and the Washington Teachers' Union (WTU). On behalf of the Wilson community and the members of the AFT/WTU, I want to thank Chairman Brown for the opportunity to testify on my experiences with student loan debt and repayment. I hope that sharing my experiences will lead to changes in the financial aid process that will make it easier for students and their families to pay for higher education, whether at the undergraduate or graduate level.

I have always known I wanted to become a teacher, probably going back to kindergarten. Growing up in Rhode Island in a family of teachers, I always felt I could make the world a better place by helping kids. I graduated from Rhode Island College with a bachelor's degree, having double-majored in secondary education and history. While I was fortunate that my parents were able to cover my college tuition, I still had to work to cover books and expenses during my undergraduate years, so I started my teaching career, like so many of my colleagues, with some credit card debt.

Upon graduation, one of my professors urged me to spend at least 2 years in an urban area and that is how I ended up in Washington, D.C., in 2003. I was hired by the District of Columbia Public Schools to fill one of 200 vacancies. I have to say I was not fully prepared for the high cost of living in Washington, D.C., on a starting teacher's salary. My first position in 2003 was at H.D. Woodson Senior High School; I then moved to Alice Deal Middle School, where I taught for 6 years, and have been teaching in my current position at Wilson High School for the past 3 years.

After several years, I knew I needed to further develop my teaching skills. But I didn't want to take time off from teaching, and I knew that going to school for my master's degree at night would take my energy and focus away from my students. In 2009, I was accepted into one of the best and most respected teaching programs in the country, and elected to attend the Intensive Summer Teacher Education Program (InSTEP) at Teachers College, Columbia University. Through this

program, I was able to earn my master's degree in Social Studies Education over three consecutive summers. The program was the right professional choice for me.

In order to attend this highly regarded program, I had to take out several loans, despite my full-time salary. On top of tuition and fees, I had to account for two apartments—I could not contractually sublet my apartment in D.C., and it was cheaper for me to find a place in New York on Craigslist than stay in campus housing. In addition, I had to pay for travel to New York, books and the other typical living expenses. I would like to point out that while the focus of college affordability is often on tuition, it was really these other expenses that drove up my borrowing. After three summers, I graduated with my master's degree and approximately $37,000 of debt. While I received some grant money during my program of study and subsidized loans of $25,500 for 3 years, I had to take an additional $11,500 in unsubsidized loans.

As I am working to paying off these loans, I have been puzzled by many things. First, my loans have switched providers twice. Originally, my loans were processed through Direct Loan Servicing with the U.S. Department of Education. They were transferred to EDGEucation Loans on April 15, 2013, and transferred again on Aug. 5, 2013, to MOHELA. While it has never been quite clear to me why the transfers were made, my personal account information has evidently been transferred as well, as the automatic withdrawal for payment continues without me having given any consent. As a matter of fact, an additional amount was debited from my checking account when the loans were transferred the last time. Second, when I recently had time to set up an online account for my loans, I found that information about my loan, including payoff dates and interest rates, was available. That information was never provided to me on my paper statements. These issues of transparency make me wonder how individuals who do not have ready access to a computer, or do not know that they should check their credit reports, keep track of their accounts.

I have been teaching for 12 consecutive years and earned a rating of "Highly Effective" teacher. Yet my financial life, in many ways, has been put on hold because of the loans I have taken to stay in the classroom with the level of training my students—and our community—deserve. My loans have a current interest rate of 6.55 percent, meaning that I will pay a total of $11,000 in interest on top of the $37,000 principal. It is hard to see how I can save to buy a home with this debt burden, though I could secure a mortgage with an interest rate at about 4 percent. My car loan has an interest rate of 1.9 percent. Yet there is nothing I can do to lower my 6.55 percent student loan interest rate. In fact, while we can all acknowledge that my interest rate of 6.55 percent is high, the average interest rate for student loans is expected to increase in a few short years, based on the new formula to calculate interest rates passed by Congress last year. If I thought the interest rate on my car or home was too high, with my good payment history in today's market I would be able to refinance to a lower rate. Yet I do not have this option for my student loans.

Unfortunately, I am not even close to alone in facing these difficulties. According to a report recently released by researchers at the Center for Culture, Organizations, and Politics at the University of California, Berkeley, "Borrowing Against the Future: The Hidden Costs of Financing U.S. Higher Education," America's entire higher education system is costly and largely inequitable. In 2012, the United States spent nearly $525 billion on higher education, which amounts to about twice as much per student as comparable industrialized countries. In that same year, $45 billion—that is, nearly 1 of every 10 dollars spent on higher education in the United States—was pure profit that commercial banks made from servicing the institutional debts of colleges and universities, from student loan interest payments, and from profits made by for-profit educational institutions. It was not spent on instruction or student support services.

Student loan interest payments were a major cause of this cost increase. The mean total debt of new graduates with 4-year degrees increased dramatically from 2001 to 2009. For graduates of public institutions, it increased from $9,437 to $21,100; for graduates of private nonprofit schools, it increased from $13,650 to $21,113; and for graduates of for-profit schools, it climbed from $19,220 to $36,536. More debt, higher interest rates, and more profit for the commercial sector—all at the cost of our future economic producers, our students.

With more and more students being forced to take on debt, I believe we must make it easier for them, whether they are pursuing their undergraduate degrees or returning to school for graduate studies, not only to have access to grants and loans, but also to be guaranteed that the conditions of the loans will be transparent, secure and locked in at a fair rate, certainly one comparable to or lower than that for a car or home loan. Ideally, students should leave college with little or no debt and be able to invest in upgrading their skills at a low cost.

I want to note that I took these loans as an adult who already had a bachelor's degree and had been in the workforce for several years. I made a decision to get an advanced degree to be able to further my career and benefit the students I am committed to serving. In Finland, for example, where students outperform ours on international assessments, master's degrees are required for all teachers but are fully subsidized by the government. I recently learned that I am likely eligible for two programs that could help lower my monthly payments and shorten the life of my loan: income-based repayment (IBR) and Public Service Loan Forgiveness. And I know there is another Teacher Loan Forgiveness program and a Perkins loan forgiveness program I do not qualify for. These confusing and sometimes contradictory programs are no way to build a high-quality teaching force. I think many college students would be more likely to pursue teaching, and many of my colleagues would be more inclined to pursue advanced degrees, if these programs were streamlined and better understood. I suggest Congress find a way to reach out proactively to teachers about these options.

Because the process was so convoluted for me, I worry about what will happen to my students, many of whom, as I testify today, are about to graduate and take on loans. Many will be the first generation in their families to attend college. Others have worked hard and been admitted to the Nation's top colleges and universities, but will be unable to attend because of costs. I'm afraid some of my students don't understand the ways high interest rates and basic living expenses will multiply their debt, and I hope they do not have to learn the way I did. Why should the terms of the loans and the complications of the loan process dictate where they decide to go to school or what careers they will pursue? When they graduate, I don't want them to be faced with the same lack of transparency and confusion I have faced in financing postsecondary education. I hope that Congress can find a way to ease the burden on students and families, and make attending college and continuing education more affordable. I fear if we do not, the economy will fail to fully recover, as a generation of workers, like myself and my peers, will be too saddled with debt to invest in housing or businesses, or to make career choices based on anything other than earning potential.

Thank you, Mr. Chairman. I look forward to responding to your questions.

PREPARED STATEMENT OF LINDSEY M. BURKE

WILL SKILLMAN FELLOW IN EDUCATION POLICY
THE HERITAGE FOUNDATION

JUNE 4, 2014

My name is Lindsey M. Burke. I am the Will Skillman Fellow in Education Policy at The Heritage Foundation. The views I express in this testimony are my own, and should not be construed as representing any official position of The Heritage Foundation.

For many, earning a college degree is the way to climb the ladder of economic mobility. Higher educational attainment is associated with greater earnings. Median earnings for individuals whose highest degree was a high school diploma totaled $30,000 in 2011, compared to $45,000 for those earning a bachelor's degree.[1] College graduates, on average, earn $650,000 more than those with a high school diploma over the course of a 40-year career.[2] While a college degree isn't the only route to upward mobility, for many, it represents the most promising path for achieving their full earnings potential.

The value of earning a college degree is demonstrable. The cost of earning that degree, however, has become prohibitively expensive for many as college costs have risen. Average tuition at 4-year public institutions for out-of-State students reached $22,200 this academic year, and at private universities, average tuition now exceeds $30,000 annually.[3] Many students leave with a bachelor's degree in hand, but burdened with tens of thousands of dollars in student loan debt. Worse still, many students leave college without graduating, burdened with debt and lacking the paper

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[1] U.S. Department of Education, National Center for Education Statistics. (2013). *The Condition of Education 2013* (NCES 2013–037), Annual Earnings of Young Adults, at *http://nces.ed.gov/fastfacts/display.asp?id=77*.

[2] "The Monetary Value of a College Education," Pew Research Center, March 7, 2012, at *http://www.pewresearch.org/daily number/the-monetary-value-of-a-college-education/*.

[3] "Average Published Undergraduate Charges by Sector, 2013–14," The College Board, Annual Survey of Colleges, 2014, at *http://trends.collegeboard.org/college-pricing/figures-tables/average-published-undergraduate-charges-sector-2013-14*.

credential they had hoped would put them on a path toward middle-class stability or better.

Well-intentioned Federal policies have failed to drive down college costs. An easy flow of Federal student aid has enabled students to take out sizable student loans, with little if any credit check or consideration of their future earnings potential. Some have even argued that such policies have enabled universities to raise tuition,[4] creating a vicious lending and spending cycle.

Increases in Federal Higher Education Subsidies

Federal higher education subsidies have increased substantially over the past decade, and now represent 71 percent of all student aid.[5]

Federal student loans. According to the College Board, during the 2012–13 academic year, 43 percent of all student aid was in the form of Federal student loans.[6] Thirty-four percent of undergraduate students took out Federal student loans that year, up from 24 percent during the 2002–03 academic year. The College Board notes that, over the past 10 years, the number of students borrowing through Federal student loans increased by 69 percent, from 5.9 million students during the 2002–03 academic year to 10 million in 2012–13.[7]

Federal grant aid. Since 2008, grant aid per full-time enrolled student has increased over 30 percent. Between the 2007–08 academic year and the 2012–13 academic year, Federal grant aid doubled in real terms, and State grant aid increased 11 percent.[8] Pell Grant funding, which is available to income-eligible students and does not have to be repaid, has more than doubled in real terms since the 2002–03 academic year, increasing from $14.8 billion to $32.3 billion.[9] Increases in total Pell expenditures are due in large part to increases in the number of grant recipients, which has grown from 4 million during the 1992–93 academic year to 8.8 million during the 2012–13 academic year,[10] nearly doubling in the past decade.

Student debt. Approximately 60 percent of students who earned a bachelor's degree during the 2011–12 academic year left school more than $26,000 in debt.[11] Total cumulative student loan debt now exceeds $1 trillion, which, as is often noted, is more than cumulative credit card debt.

Increases in College Costs

Increases in debt have been driven by increases in college costs. In the last 30 years, inflation-adjusted tuition and fees at private colleges increased by 153 percent; tuition and fees at public universities for in-State students increased 231 percent.[12] College costs have risen more than health care costs—by some estimates, twice as much[13]—and faster than increases in the price of food.

Increases in tuition and fees over the past 30 years suggest that growth in Federal subsidies such as loans and grants has done little to mitigate the college cost problem.

A Better Path Forward

In order to make college more affordable, Federal policy should do three things:

1. Stop the higher education spending spree;
2. Employ fair-value accounting to understand the cost of Federal student loans; and
3. Decouple Federal financing from accreditation.

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[4] Former Education Secretary William J. Bennett posited, "If anything, increases in financial aid in recent years have enabled colleges and universities blithely to raise their tuitions, confident that Federal loan subsidies would help cushion the increase." See: William J. Bennett, "Our Greedy Colleges," *The New York Times,* February 18, 1987.

[5] Trends in Student Aid 2013, College Board, 2013, at *http://trends.collegeboard.org/sites/default/files/student-aid-2013-full-report.pdf.*

[6] *Ibid.*

[7] *Ibid.*

[8] *Ibid.*

[9] *Ibid.*

[10] *Ibid.*

[11] *Ibid.*

[12] "Published Tuition and Fees Relative to 1983–84 by Sector," Trends in Higher Education 2013, The College Board, at *https://trends.collegeboard.org/college-pricing/figures-tables/published-tuition-and-fees-relative-1983-84-sector.*

[13] Chase Peterson-Withorn, "Rising Prices: College Tuition vs. the CPI," The Center for College Affordability and Productivity, March 19, 2013, at *http://centerforcollegeaffordability.org/archives/9623.*

Stop the Higher Education Spending Spree

If history is any guide, continuing to increase Federal subsidies will fail to drive down college costs. Some experts and economists even argue that such subsidies enable universities to raise tuition, confident that students will be able to access a virtually open spigot of Federal funds.

In 2014, the $33 billion Pell Grant program provided grants to 9 million college students, making it the largest share of the Federal education budget.[14] Congress grew the Pell Grant program in 2007 by expanding eligibility and funding, resulting in a doubling of the number of Pell recipients since 2008. In order to control higher education spending, Pell Grant funding should be targeted to the low-income students the grants were originally intended to help.

In addition, as long as the Federal Government finances Federal student loans, it should use fair-value accounting practices to get an accurate measure of what these programs are costing taxpayers, to ensure the loans use a nonsubsidizing interest rate.

Fair-Value Accounting

In a report released last month, the Congressional Budget Office (CBO) calculated that the four largest Federal student loan programs—Subsidized Stafford Loans, Unsubsidized Stafford Loans, PLUS Loans, and Parent PLUS Loans—will *cost* taxpayers money, not result in a net gain (a negative subsidy) for the Federal Government as is often claimed. While the report states that the four loan programs will yield a savings of about $135 billion from 2015–24, CBO calculates in the same report that using fair-value accounting measures, the four loans would actually have a net cost of $88 billion over the next 10 years, not including administrative costs. In other words, the four largest student loan programs represent an $88 billion taxpayer-financed subsidy.[15]

CBO explains the utility of using a fair-value accounting model to fully understand the cost of Federal lending, noting that "The Government is exposed to market risk when the economy is weak because borrowers default on their debt obligations more frequently and recoveries from borrowers are lower."[16] Fair-value estimates take this market risk into account, and as a result, are a more accurate reflection of the cost of Federal student loans.

Congress should not expand Federal student loans without requiring that fair-value accounting be used to calculate the cost of those loans. Any loan program should use a nonsubsidizing interest rate, *e.g.,* the rate at which the program breaks even; absent fair-value accounting, it is impossible to tell the extent to which the student loan programs are providing a subsidy to borrowers. Specifically, the Department of Education should be required to use fair-value accounting estimates calculated by CBO and adjust loan rates accordingly going forward, on an annual basis. This would help determine whether the loan programs are costing money for taxpayers, and where to set interest rates to ensure the programs break even.

Decouple Federal Financing from Accreditation

If Federal policymakers want to drive down college costs and *increase* access to higher education for those historically underserved by the traditional 4-year system, the single most important reform to consider is decoupling Federal financing from accreditation. College costs are at an all-time high at a time when access to knowledge is cheaper than at any other point in human history. Online learning and competency-based options that favor knowledge and skill acquisition over seat time have laid the groundwork to significantly lower college costs and increase access for students. In order to harness the potential of new learning modes, policymakers must free higher education from the ossified accreditation system.

Accreditation as it currently exists creates barriers to entry for innovative new startups to enter the higher education market, and it is a poor gauge of course quality and the skills students gain (or fail to gain) while attending college. What began as a voluntary system of accreditation in the 19th century became a *de facto* requirement in 1952 when Federal financing and aid, which constitutes so much of colleges' budgets, became tied to accreditation.[17] Now it is a near requirement for colleges to operate, and as a result, being accredited has lost any real value.

[14] "Federal Pell Grant Program," Project on the Budget, New America Foundation, at *http://febp.newamerica.net/background-analysis/federal-pell-grant-program.*

[15] "Fair-Value Estimates of the Cost of Selected Federal Credit Programs for 2015 to 2024," Congressional Budget Office, May 22, 2014, at *http://www.cbo.gov/publication/45383.*

[16] *Ibid.*

[17] American Council of Trustees and Alumni, "Why Accreditation Doesn't Work and What Policymakers Can Do About It," July 2007, *https://www.goacta.org/publications/downloads/Accreditation2007Final.pdf.*

Requirements for an institution to be accredited in order for students to access Federal student loans and grants has put roadblocks in the way of models that hold the prospect of fundamentally restructuring higher education to bring down college costs. Unless accreditation is delinked from Federal financing, that revolution could be postponed longer than it need be, while students continue to incur untenable levels of debt to pursue bachelor's degrees that may not be preparing them for the workforce.

In addition to favoring existing business models, accreditation rates entire institutions—not specific courses—and as a result, is a poor gauge of course quality and the skills acquired by students. State policies should be crafted to place a greater emphasis on credentialing skills and specific courses—not institutions—if higher education is to keep pace with the demands of future economies.[18]

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Continuing to simply increase Federal subsidies for higher education will fail to solve the college cost problem. Moreover, such subsidies shift the responsibility of paying for college from the student, who directly benefits from attending college, to the taxpayer. Transferring the burden of student loan financing from university graduates—who will earn significantly more over the course of a lifetime than someone with a high school diploma—to the three-quarters of taxpayers who do not hold bachelor's degrees, is inequitable.[19]

In order to drive down college costs and increase access to higher education opportunities, policymakers should stop the Federal spending spree, employ fair-value accounting practices, and ultimately, work to decouple Federal financing from accreditation.

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[18] Lindsey M. Burke and Stuart M. Butler, "Accreditation: Removing the Barrier to Higher Education Reform," Heritage Foundation, *Backgrounder* No. 2728, September 21, 2012, at *http://www.heritage.org/research/reports/2012/09/accreditation-removing-the-barrier-to-higher-education-reform.*

[19] Dan Lips, "Ways to Make Higher Education More Affordable," Heritage Foundation *WebMemo* No. 2785, January 29, 2010, at *http://www.heritage.org/research/reports/2010/01/ways-to-make-higher-education-more-affordable.*

ADDITIONAL MATERIAL SUPPLIED FOR THE RECORD

Testimony Submitted by the Consumer Bankers Association

To the Senate Committee on Banking, Housing and Urban Affairs,

Subcommittee on Financial Institutions and Consumer Protection

For the Record of the Hearing "Student Loan Servicing: The Borrower Experience"

June 4, 2014

Chairman Brown and Ranking Member Toomey, thank you for the opportunity to submit testimony on behalf of the Consumer Bankers Association's (CBA) membership for the hearing on "Student Loan Servicing: The Borrower Experience" before the Senate Banking Subcommittee on Financial Institutions and Consumer Protection. Our members, which includes most of the major players in the private student loan market, pride themselves on their focus on their customers—students and families needing the funds necessary to attend college. This is an important yet complex topic, and our members hope their perspective will provide some useful information on private student loan servicing and lending.

The Consumer Bankers Association (CBA) is the trade association for today's leaders in retail banking - banking services geared toward consumers and small businesses. Our mission is to preserve and promote the retail banking industry as it strives to fulfill the financial needs of the American consumer and small business. CBA's corporate members (the nation's largest financial institutions, as well as many regional banks) collectively hold two-thirds of the industry's total assets. Our associate members represent the premier providers of technology and services to banks.

CBA's Education Funding Committee is composed of ten of the most active participants in the private student loan market. Our members are proud of the products they offer to their customers, which is underscored by a low number of complaints to the CFPB and positive loan performance. Only .03 percent of private student loans received a complaint over the last six months according to numbers from the CFPB. According to a recent report from MeasureOne, private student loans have a relatively low default rate of about 3 percent, which appears to far outperform federal loan programs.

Today's Student Loan Market:

Understanding the borrower experience with student loans entails understanding the major changes in student lending made in the last five years. The most fundamental of these changes was the termination of new originations in the Federal Family Education Loan Program (FFELP) in 2010. As a result of this change, approximately 94 percent of all student and parent loans are made by the federal government today.

Private education loans make up a very small but nonetheless important part of families' means of financing college.

Although federal loans now make up 94 percent of all student and parent loans, private loans are essential to hundreds of thousands of students and their families seeking to attend the college best meeting their educational goals and career aspirations. Private sector organizations, including banks, make these loans. As of the end of 2013, there were $1.2 trillion in federal student loans outstanding, but only $90 billion in private student loans, according to the Private Student Loan Survey published by MeasureOne[1]. (The data analysis firm MeasureOne surveyed the seven largest private student loan lenders that make up about 95 percent of the private loan market and drew from public sources for federal data).

Thus, as Congress looks at student loan policy, especially the issue of student debt, it is important to remember private lenders have become relatively small players in the student loan business, which is near totally dominated by U.S. Treasury-financed loans made by the Department of Education.

[1] *The MeasureOne Private Student Loan Report 2013* - http://www.measureone.com/reports

Private student loans mainly serve to supplement federal loans, or are made to people who prefer to deal with the private sector instead of the government. It is important to CBA's members to participate in this market in order to offer a full range of products to their customers. CBA members want their customers to achieve their life goals – making them better customers– and a great part of achieving success is a good education. Many studies have shown those who have graduated college earn substantially more than those who only finish high school[2].

Low Delinquency and Default Rates on Private Student Loans:

Data compiled in the MeasureOne 2013 survey of private student loan lenders shows a delinquency rate of 90 days or more of only about 3 percent for private student loans. Charge-offs also dropped to about 3 percent in 2013. Almost 75 percent of private student loans are in active repayment status, as opposed to deferment or forbearance, a high rate which again illustrates private student loan borrowers are successfully managing their repayment obligations. This represents a significant, across-the-board improvement over the past five years.

Importantly, private student loans carry no government guaranty, so if they are not repaid, the lender loses. For a lender to offer a sound private loan product, the lender must put loan applications through a robust underwriting process, where a determination is made based on a variety of financial factors as to whether or not the potential borrower is likely to be able to repay their loans. In most cases, private loan borrowers have also borrowed via federal loans, so lenders must carefully weigh the risk in making a loan.

[2] Daly, Mary, and Leila Bengali. 2014. "Is It Still Worth Going to College?" *Federal Reserve Bank of San Francisco, Economic Letter*

Before making a private student loan, a lender must provide a long and thorough list of disclosures to the borrower at three different points in the application process. These disclosures include detailed terms and conditions as well as a notice to be sure and look into federal aid.

The vast majority of private student loans are co-signed, which results in a better interest rate and terms than a student would be able to get on his or her own. This also puts another practical check on a student's academic plans since a third party, such as a parent or grandparent, is highly likely to make sure their student is on a path to succeed at school before taking on the potential responsibility involved with co-signing a loan.

Nearly all private student loans made by the seven largest lenders for students seeking an undergraduate or graduate degree must be certified by the school to be attended before the lender will make the loan. (Ninety-six percent of loans made in 2013 were school certified.[3]) The only exceptions are for a narrow group of students who need to borrow for expenses while studying for post-graduate purposes, such as to take the Medical Licensing Exam or the Bar Exam – situations where their former school is not directly involved. School certification is not required by law, but it is a sound lending practice and one which also helps ensure the success of the borrower in loan repayment. Private lenders work with schools to help them keep track of how much their students are borrowing, which reduces over-borrowing and the risk of fraud.

[3] Feshbach, Dan. "Private Student Loan Performance." MeasureOne. Gaylord National Resort and Convention Center, National Harbor, MD. 1 April 2014. Student Lending Forum.

Private student loan lenders offer products geared to their customers' needs and strive to offer the highest quality level of service to their customers.

One of the main incentives for CBA member banks and other entities in the market to offer private student loans is to connect with customers and hopefully form a long-standing relationship to help fulfill their future financial needs. This means private lenders are strongly motivated to provide excellent service to their customers. *According to the Consumer Financial Protection Bureau, only 0.03 percent of private student loan customers made complaints during the most recent six-month reporting period, a low rate that demonstrates high customer satisfaction.* With this in mind, our members view one valid complaint as one too many. Customer relationships are their top priority. Let's not forget that complaints are not verified by the CFPB and can cause consumer confusion about private student loan products.

The private sector continues to innovate, with new products, including refinancing and fixed-rate loans, being introduced thanks to consumer demand.

A few years ago, more customers began asking about fixed rate private student loans. Lenders quickly recognized the demand and began offering fixed-rate loans in addition to the traditional variable rate private loans. Competition among lenders quickly led to almost all of the major lenders offering consumers a choice of fixed or variable rate loans. Statistics differ between banks, but overall new loans are fairly evenly divided between variable and fixed-rate loans.

Like with other financial products, consumers have the choice of the security of a fixed rate, which will be higher since the lender absorbs the interest rate risk, or a lower variable rate which could change.

Variable rate loans have been extraordinarily low for the past several years, making them a bargain by historical standards for those who expect to repay most of their loans fairly quickly.

Recently, we have heard much discussion about the need for refinancing both of federal and private student loans. While it is up to Congress to decide if it wants to permit refinancing of federal loans, refinancing products are now widely available and more are coming to the market in the private sector. One irony is that private lenders interested in offering to refinance federal loans apparently could face sanctions by the Consumer Financial Protection Bureau. Most are therefore reluctant to act until it is clear they won't be punished for offering a less costly loan to consumers because the loan is not eligible for federal income based repayment programs. CBA urges the CFPB, with the support of Congress, to make clear institutions won't be penalized for offering their customers well-informed choices to refinance their federal student loans.

CBA's member banks have asked their prudential regulators for more flexibility to work with borrowers who are having problems.

For example, in a March 2013 letter, banks asked for the ability to grant forbearances and deferments similar to what is offered to federal borrowers and for the ability to modify repayment plans without having to charge off the loan[4]. As a result, prudential regulators have worked with our banks and some progress has been made. For example, CBA members are now permitted to extend borrowers' grace period to up to 12 months before the first loan payments have to be made. In addition, CFPB Director

[4] CBA Letter to Ben Bernanke, Chairman, Board of Governors of the Federal Reserve System; Thomas Curry, Comptroller of the Currency, Office of the Comptroller of the Currency; and Marty Gruenberg, Chairman, Federal Deposit Insurance Corporation, March 27, 2013 - http://www.cbanet.org/documents/2013%20Comment%20Letters/032713_CBA-Letter-to-OCC-FDIC-&-Fed-Requesting-Flexibility-on-Student-Loan-Repayment-Options.pdf

Cordray made comments at the 2014 Boulder Summer Conference on Consumer Financial Decision Making stating the Bureau is working with regulators on this issue. We urge the regulators to continue these discussions so banks may act for the good of student loan borrowers. Student loan borrowers are different from other borrowers in that they may need time when they first leave school to get a job, but their financial situation is expected to improve significantly over time. It only makes sense for lenders to be able to give them that time without being forced to give up on them repaying their loans, which may hurt their credit rating.

CBA member banks strive to comply with the Servicemembers Civil Relief Act (SCRA) but are concerned about conflicting requirements from the federal government.

Our members wish to ensure that every servicemember entitled to benefits under the Servicemembers Civil Relief Act receives them, without having to surmount unnecessarily burdensome documentation or other barriers that could preclude or delay their receipt.

Unfortunately, conflicting statutes and restrictive regulatory guidance on how federal student loans are to be handled under the SCRA have worked to obstruct full achievement of this goal. CBA joined with two other trade associations last month in a letter to Education Secretary Arne Duncan asking the government to address this issue as soon as possible[5].

The letter notes our support for simplifying the documentation and notification process required so servicemembers may receive an interest rate reduction as well as other benefits they are due without

[5] CBA Letter to Arne Duncan, Secretary, Department of Education, May 21, 2014 – http://www.cbanet.org/documents/2014%20Comment%20Letters/2014-05-21%20CBA-SLSA-EFC%20Letter%20to%20Secretary%20Duncan.pdf

unnecessary bureaucratic barriers precluding or delaying their hard-earned benefits. The letter also asks the government to allow greater flexibility in the documentation requirements in determining SCRA eligibility, assuring servicemembers receive their benefits, without undue burden or delay, while not penalizing lenders and servicers for complying with the government's previous guidance.

Conclusion

CBA members are proud of their record of responsible lending to make higher education possible for millions of students over many years. Our members are working in a competitive marketplace to improve their customer service, first and foremost by lending to students who are expected to be able to repay their loans. The private sector's flexibility allows it to offer products, like refinancing demanded by customers, but our banks are heavily regulated and constantly scrutinized by the federal government, so they must take great care to comply with regulatory mandates.

We believe our story is one of great success - in helping Americans achieve their dream of a higher education which leads to a successful and productive career.

Thank you for the opportunity to submit this testimony for the Record, and please feel free to contact CBA at any time if you have questions.

EFC Education Finance Council

Hearing on "Student Loan Servicing: The Borrower's Experience"

Statement for the Record by the Education Finance Council

Senate Committee on Banking, Housing, and Urban Affairs
Subcommittee on Financial Institutions and Consumer Protection

June 4, 2014

The Education Finance Council (EFC) is the trade association representing nonprofit and state agency student loan organizations across the country. EFC members have a long history of expertise servicing private and Federal Family Education Loan Program loans and many participate in the current federal student loan servicing program.

EFC commends the Subcommittee for examining ways to improve borrowers' experience with managing their student loan debt. During the hearing, Senator Jack Reed (RI) commented on the federal government's over-reliance on major entities to service student loans and asked about the possibility of using servicers that "don't take advantage of students." EFC members that service federal student loans are driven by their nonprofit, public purpose mission to help students succeed in postsecondary education, inherently aligning their interests with borrowers. These nonprofit entities have provided student outreach services for decades including financial literacy programs, one-on-one borrower counseling with tailored information, early awareness outreach for K-12 students on college options, college and career planning resources, and financial aid awareness initiatives. EFC members are committed to educating students on their financing options on the front end, empowering them to make informed, responsible decisions. Upon repayment, EFC members utilize targeted borrower outreach strategies to ensure borrowers understand their repayment options, including help for struggling borrowers such as deferment, forbearance, and income-drive repayment programs.

EFC and its members encourage Congress and the U.S. Department of Education to end the over-reliance on major entities and increase utilization of consumer-friendly, nonprofit and state agency student loan servicers.