

**STRENGTHENING THE FEDERAL STUDENT LOAN
PROGRAM FOR BORROWERS**

HEARING
OF THE
**COMMITTEE ON HEALTH, EDUCATION,
LABOR, AND PENSIONS**
UNITED STATES SENATE
ONE HUNDRED THIRTEENTH CONGRESS

SECOND SESSION

ON

EXAMINING STRENGTHENING THE FEDERAL STUDENT LOAN PROGRAM
FOR BORROWERS

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MARCH 27, 2014
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THURSDAY, MARCH 27, 2014

U.S. SENATE,
COMMITTEE ON HEALTH, EDUCATION, LABOR, AND PENSIONS,
Washington, DC.

The committee met, pursuant to notice, at 10:03 a.m., in room SD-430, Dirksen Senate Office Building, Hon. Tom Harkin, chairman of the committee, presiding.

Present: Senators Harkin, Alexander, Murray, Franken, Baldwin, Murphy, and Warren.

OPENING STATEMENT OF SENATOR HARKIN

The CHAIRMAN. Good morning. The Senate Committee on Health, Education, Labor, and Pensions will come to order. This morning is another in our series of hearings preparing to reauthorize the Higher Education Act. This morning, our hearing is on Strengthening the Federal Student Loan Program for Borrowers. So we're going to take a look at the whole student loan program. As I said, this is the eighth in our series of hearings on this. Today, our primary focus is strengthening our Federal loan programs to ensure they're working well for students and families.

Since the passage of the National Defense Education Act in 1958, under which I borrowed money to go to college, the Federal Government has played a role in helping students fund their college education through loans and grants. We certainly have much to celebrate over the last half century when it comes to expanding higher education access. Yet various new challenges today demand our immediate attention.

In recent years, several major changes have been made to the Federal student loan programs to address structural issues of loan origination, servicing, and repayment options. In 2007, the income-based repayment was created specifically to help struggling borrowers repay their loans and avoid the severe financial consequences of default. In 2010, Congress made the historic switch from the Federal Family Education Loan lending program to the Direct Loan program, a process that unfolded smoothly, according to nearly all accounts.

It's important to take a moment to re-state the importance of that action and the real impact it has had on students and families. We achieved the goal of 100 percent direct lending. This eliminated more than \$60 billion in subsidies to banks and directed the bulk of that money to students and their families.

Despite all the progress made, however, there is still much work to be done. As the current student loan landscape clearly illustrates, the stakes have never been higher. To put it in perspective, our aggregate student loan debt in this country is now over \$1 trillion, and the average student is saddled with about \$29,000 in debt.

There is a growing consensus that we need to address the impediments to college affordability and the key drivers of college costs. We've had a hearing on that previous to today to explore those issues. But we need to examine one central question: How well is the student loan system, from counseling to repayment, working for students and families?

I will say at the outset that I am disappointed to report that all four TIVAS—the title IV servicers, the largest contractors—were invited, but chose not to take part in this hearing today, which may directly concern the contracts that they have with the Department of Education. These servicers, like Sallie Mae, rely heavily on Federal dollars for their business and yet could not find the time to put this hearing on their calendars. I hope we can all agree that students and taxpayers need to be prioritized.

However, I am excited today for the opportunity to discuss the state of our Federal loan programs with a distinguished panel of experts. We'll take a hard look at what's working, what's not, and what needs to be done to ensure that the dream of an affordable higher education stays in reach for the millions of families who rely on student aid.

At the outset, I want to re-state a fact, an economic statistic that was given to me by the president of Arizona State University, President Crowe, and it's this: if you are a high-income, low-performing student, you have an 80 percent chance of going to college. If you are a low-income, high-performing student, your chances of going to college are only 20 percent. That needs to be corrected.

Again, as we look at the different choices, students ought to be able to choose between repayment options and decide which plan is best for them. I had an interesting conversation with a young professional this morning. She told me she went to a very good high school, comes from an upper middle-class family, went to a great college, and went to a very good law school, and she's a professional.

She had heard that we were having this hearing today, and she said,

“You know, the biggest problem is that I went to all these great schools, and not once did I ever have a course on personal finance. Not once in high school did they teach me how to balance a checkbook or how to set up a budget or what borrowing means. What are loan rates? What are fees? What are the repayments? How do you calculate all this? Not once in high school, not in college, not even in law school.”

And she said,

“So many kids go to college. I remember when I went to college, I got inundated by people wanting to loan me money. And it all sounds very good, and it all sounds very cheap.”

And then she said, “I must have had at least four or five credit cards sent to me, just free credit cards.” And, of course, when you’re young like that, and you don’t know what all that means, it’s easy to use a credit card and get yourself in a lot of trouble.

I wanted to say, again, maybe this is also a part of it, too, that we’re not doing a good enough job in our secondary schools, and we’re not doing enough—and I know some of the witnesses’ testimonies—I read them—talk about the need for financial counseling when you go to college.

I know that my old alma mater, Iowa State, has started doing that, and I assume there are others, too. But I wonder if that shouldn’t be an integral part of the loan process for students when they are going to college.

This, to me, is one of the most important aspects of what we need to address in the reauthorization of the Higher Education Act—how we write; how we get more equity in terms of high-performing, low-income students to go to college; how we make sure that students know their rights and responsibilities when they borrow money; and to make sure they have adequate counseling.

Another aspect that I really believe bears looking into is the issue of collection agencies and how much money collection agencies are taking out of the system every year. I’m told it’s been over a billion dollars just for collection agencies.

I’ve heard a lot of stories—some I know are true. I don’t know all of them—about how these collection agencies operate and how much money they get for very little work in what they do to collect this money. So I think this also bears looking into.

With that, I thank our witnesses, and before we get to that, I’ll turn to Senator Alexander for his opening statement.

OPENING STATEMENT OF SENATOR ALEXANDER

Senator ALEXANDER. Thanks, Mr. Chairman.

I want to thank Senator Harkin and his staff and ours for coming up with some really terrific hearings on the Higher Education Act. I want the witnesses to know we pay a lot of attention to what you say and your ideas. There’s a risk we’ll actually do what you say, so we’re looking forward to your testimony. This has been very good so far.

I was trying to remember the last person who ever said to me, “It’s pretty easy to pay for college.” I don’t think I’ve ever run into anybody who said that. My own experience is probably like everybody else’s or most other people. I had no money, so I had two scholarships and five jobs to try to make my way through.

But I think it’s important to put—this subject today is what we can do, I think, to simplify the various ways—and I think there are eight of them—that the government has come up with to help students pay back their student loans, \$100 billion of new loans that we make every year. But putting the loans into perspective accurately, I think, is helpful.

Let me use, rather than my words, the words of one of our witnesses, Judith Scott-Clayton, Assistant Professor of Economics and Education at Columbia University in New York. She talked about a lot of common misconceptions about student debt when she was here. She said,

“Most people think college is much more expensive than it typically is. They see stories in the news media about elite private colleges charging \$50,000 for tuition. They hear about unemployed graduates with astounding amounts of debt. But most people, in fact, pay much less.”

Dr. Scott-Clayton said,

“After accounting for grants, the average net price, the amount students will pay after subtracting scholarships and grants that the student receives and doesn’t have to pay back—the average net price at a public 4-year institution is about \$3,000 per year. And at the typical community college, a student who receives a Pell grant—we have about 9 million students who do every year—is likely to pay nothing at all and, in fact, is likely to receive money back to pay for books, supplies, and other living expenses.”

Those were her words. I took a look at those facts. Three out of four of our college students attend a public 2- or 4-year college or university. Of those, about two out of five of all students attend community colleges where the average tuition and fees are under \$3,300. Those students receive an average of \$4,850 in grants and scholarships. So the average community college student in America is receiving about \$1,500 more in grants and scholarships than what it costs in tuition and fees to attend college.

Thirty-seven percent of all of our college students attend public 4-year universities. The average in-State tuition and fees is about \$8,900. Those students receive an average of \$5,800 in grants and scholarships. We’re not talking loans. So they have to pay \$3,100, on average, in tuition and fees.

And then we have students who attend 4-year colleges that are private. That’s about 15 percent. Their average tuition and fees are \$30,000, but the scholarships and grants take that down to \$12,500. At the for-profit colleges and universities, the cost is about \$15,000.

According to the New York Federal Reserve, at the end of last year, or 2012, 40 percent of student loan borrowers had a debt of less than \$10,000, 70 percent had a debt of less than \$25,000, and less than 4 percent had a debt load of over \$100,000. And the College Board says they earn more than a million dollars over their lifetime with a college degree, more than if you didn’t have one.

So while this hearing is about making it easier to repay loans, I think it’s important for students to know, as they think about going to college, that it can be affordable, and that most students don’t have to borrow too much money if they will borrow wisely.

I think, Mr. Chairman, that as we move into other hearings, we should look at the problem of over-borrowing, which you have mentioned before. The *Wall Street Journal* had an article on March 2d, which I’d like to ask to add to the record, which talks about the Inspector General’s report from the Department of Education warning that some students borrow excessively for personal expenses not related to their education, and that’s a growing phenomenon.

[The information referred to follows:]

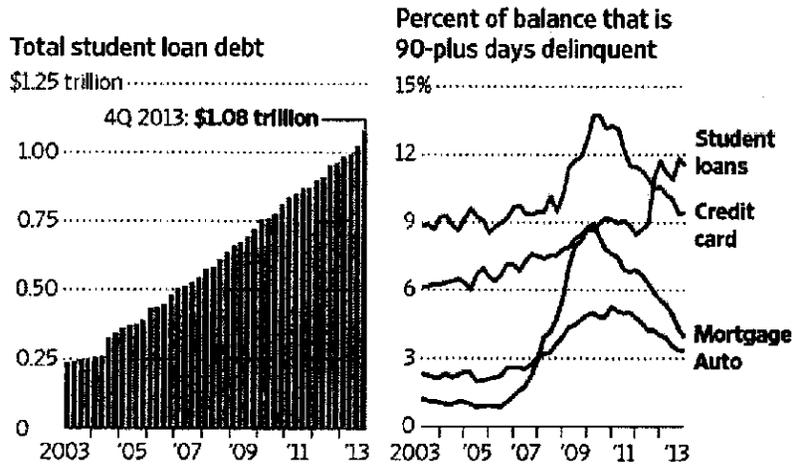
[The Wall Street Journal, March 2, 2014]

STUDENT LOANS ENTICE BORROWERS MORE FOR CASH THAN A DEGREE

(By Josh Mitchell)

Growing Burden

Student loans outstanding have grown sharply in the past decade, and more borrowers are struggling to pay off that debt.



Source: Federal Reserve Bank of New York

The Wall Street Journal

Some Americans caught in the weak job market are lining up for Federal student aid, not for education that boosts their employment prospects but for the chance to take out low-cost loans, sometimes with little intention of getting a degree.

Some Americans are lining up for Federal student aid, not for education but for the chance to take out low-cost loans, sometimes with little intention of getting a degree. Joshua Mitchell reports on MoneyBeat.

Take Ray Selent, a 30-year-old former retail clerk in Fort Lauderdale, FL. He was unemployed in 2012 when he enrolled as a part-time student at Broward County's community college. That allowed him to borrow thousands of dollars to pay rent to his mother, cover his cell phone bill and catch the occasional movie.

"The only way I feel I can survive financially is by going back to school and putting myself in more student debt," says Mr. Selent, who has since added \$8,000 in student debt from living expenses. Returning to school also gave Mr. Selent a reprieve on the \$400 a month he owed from previous student debt because the Federal Government doesn't require payments while borrowers are in school.



Ray Selent of Fort Lauderdale, FL, who is taking courses for a degree in theater, says student loans allow him to cover any needs that arise. *Andrew Kaufman for The Wall Street Journal.*

A number of factors are behind the growth in student debt. The soft jobs recovery and the emphasis on education have driven people to attain more schooling. But borrowing thousands in low-rate student loans—which cover tuition, textbooks and a vague category known as living expenses, a figure determined by each individual school—also can be easier than getting a bank loan. The government performs no credit checks for most student loans.

College officials and Federal watchdogs can't say exactly how much of the United States' swelling \$1.1 trillion in student-loan debt has gone to living expenses. But data and government reports indicate the phenomenon is real. The Education Department's inspector general warned last month that the rise of online education has led more students to borrow excessively for personal expenses. Its report said that among online programs at eight universities and colleges, non-education expenses such as rent, transportation and "miscellaneous" items made up more than half the costs covered by student aid.

The report also found the schools disbursed an average of \$5,285 in loans each to more than 42,000 students who didn't log any credits at the time. The report pointed to possible factors such as fraud in addition to cases of people enrolling without serious intentions of getting a degree.

Capella Education Co., which runs online schools, examined student costs and debt at institutions—public and private—in Minnesota and concluded that between a quarter and three-quarters of loans taken out by students were for non-education expenses. At one of Capella's master's programs, the typical graduate left with about \$30,200 in student debt even though tuition, fees and book costs totaled roughly \$18,800. Borrowers are prohibited under Federal law, except in rare instances, from discharging student debt through bankruptcy.

The share of student borrowers taking out the maximum amount of loans—\$12,500 a year for undergraduates—has risen since the recession. In the 2011–12 academic year, Federal Education Department data show, 68 percent of all undergraduate borrowers hit the annual loan ceiling, up from 60 percent in 2008.

Research suggests a fair chunk of that is going to non-education expenses. In 2011–12, about a quarter of student borrowers took out loans that exceeded their tuition, after grants, by \$2,500, according to research by Mark Kantrowitz, a higher-education analyst and publisher of the education site *Edvisors.com*.

Some students say they intend to get a degree but must borrow as much as possible because they can't find decent paying jobs to cover day-to-day expenses.

Tommie Matherne, a 32-year-old married father of five in Billings, MT, has been going to school since 2010, when he realized the \$10 an hour he was making as a

mall security guard wasn't covering his family's expenses. He uses roughly \$2,000 in student loans each year to stock his fridge and catch up on bills. His wife is a stay-at-home mother who also gets loans to take online courses.

"We've been taking whatever we can for student loans every year, taking whatever we have left over and using it to stock up the freezer just so we have a couple extra months where we don't have to worry about food,"—says Mr. Matherne, who owes \$51,600 in Federal loans.

Some students end up going deeper into debt. Early last year, when Denna Merritt lost her long-term unemployment benefits, the 49-year-old Indianapolis woman enrolled part-time at the Art Institute of Pittsburgh's online program, aiming for a degree in graphic design. She took out \$15,000 in Federal loans, \$2,800 of which went to catch up on unpaid bills, including utilities, health-insurance premiums and cable.

"Obviously, it's better not to use it that way if you can help it, because you're just going to owe that much more later," says Ms. Merritt, a former bookkeeper.

The government lets students use a portion of Federal loans for living expenses on the grounds that it allows students to devote more time to studying and improves their chances of graduating.

Even when schools suspect students are over-borrowing, they are restricted by Federal Law and Education Department policy from denying funds.

College and university trade groups are pushing legislation this year to set lower maximum loan limits for some types of students, such as part-timers. Dorie Nolt, spokeswoman for Education Secretary Arne Duncan, says the Obama administration is "exploring alternatives to see how we might ensure that students don't borrow more than necessary."

Mr. Selent, of Fort Lauderdale, knows he is getting himself deeper in a hole but prefers that to the alternative of making minimum wage. In his 20's, he earned a bachelor's degree in communications from a local for-profit school but couldn't find a job in the field after graduating and began falling behind on his student loan bills. He is now taking courses for a degree in theater so he can become an actor.

Meanwhile, Federal loans allow him to cover any needs that arise during the semester. Says Mr. Selent: "It keeps me from falling apart."

Senator ALEXANDER. So over-borrowing may be partly the result of government policy. And I think we should in future hearings talk about various ways that have been suggested to limit the over-borrowing that saddles some students with too much debt, such as the current practice of allowing students who are enrolled half-time to take out as much in Federal loans as a full time student. Or perhaps we should provide colleges with the authority to set some borrowing limits. These are things we'll have to discuss.

And, of course, in all this, we're reminded that we do have a grant program. That's the Pell grant—\$33 billion a year—and we're talking about loans which should be paid back.

In conclusion, what we found in our earlier hearing when we talked about the application process—and I don't know if we have that application or not—for loans, we found 100 questions that you have to—we found that the application for a loan, Mr. Chairman, was 10 pages and 100 questions, and every student hates to be presented with this. But the application for making it easier to pay back your loan is five pages of intimidating questions.

We're working on finding ways to simplify the application for grants and loans, of which there are 20 million of those every year. And maybe as a result of the suggestions we hear today, we can think of a way to simplify the various ways we've already come up with to make it easier for students to pay back their loans.

So I look forward to this, and I hope as we discuss it we keep a balanced view, and we don't suggest to American students that you can't afford to go to college when, in fact, for most students, you can, and that you're borrowing too much when, for most students, there's no need to do that. And that, I know, goes against

the popular misconception, but I think it's important that we keep that in balance.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Alexander.

First, I want to recognize Senator Warren for purposes of introducing some testimony.

Senator WARREN. Thank you very much, Mr. Chairman. As you know, Senator Reed and Senator Durbin are not members of the HELP Committee and so they're not with us here today. But they've been working hard on the student debt issue.

So I would ask unanimous consent to submit their statements for the record about student debt.

The CHAIRMAN. Without objection, so ordered.

Senator WARREN. Thank you.

[The prepared statements of Senator Reed and Senator Durbin follow:]

PREPARED STATEMENT OF SENATOR REED

I would like to commend the Chairman and Ranking Member for the thoughtful, thorough, and collaborative process for reviewing the Higher Education Act in preparation for its reauthorization. The Higher Education Act plays a fundamental role in expanding opportunity, strengthening the middle class, and securing our future.

Today's hearing on student loans is of critical importance. The social and economic implications of the rising tide of student loan debt demand that we take action. I appreciate the opportunity to share my views and recommendations with the committee.

As part of the War on Poverty we enacted the Higher Education Act with the idea that no American should be denied the ability to go to college because their family lacked the means to pay. My predecessor, Senator Pell, with the creation of the Basic Educational Opportunity Grant—later named the Pell grant in his honor—made that promise of a college education real for millions of Americans. And as part of the student aid programs, we invested in offering low-cost loans to create opportunity, spur innovation, and grow our economy.

Our student loan programs were originally seen as an investment, not a profit center or even a cost-neutral proposition. However, today our student aid investment has been stood on its head.

The Congressional Budget Office estimates that student loans will generate revenue at least through 2024. The GAO recently reported that on loans made between 2007 and 2012, the Federal Government is estimated to make \$66 billion.

These record revenues are being generated at a time when student loan debt has become a serious threat to our ladder of opportunity. The Federal Reserve Bank of New York and the Consumer Financial Protection Bureau have raised concerns about the economic drag of student loan debt on purchasing a house, buying a car, starting a business, or saving for retirement. As student loan repayment plans stretch out over 20 years or more, many in this generation will still be paying off student loans when it comes time to send their own children to college.

Borrowers are struggling to manage student loan debt. The delinquency rate on student loans is higher than for other types of household debt. Default rates are on the rise. For borrowers who entered repayment in 2010, 14.7 percent had defaulted by 2013, up from 13.4 percent for those who began repayment in 2009.

The Federal Government holds an estimated \$1 trillion of the \$1.2 trillion in outstanding debt. The Institute for College Access and Success reported that 71 percent of the graduating class of 2012 had student loan debt, with the average amount being \$29,400. Between 2008 and 2012, student loan debt increased by an average of 6 percent per year—significantly higher than inflation. The New America Foundation recently reported on the substantial rise in debt for graduate education. This, too, has serious implications for our economy. We depend on individuals with graduate education to teach in our public schools and our colleges and universities. Researchers, social workers, and health professionals require graduate education. Our capacity to out-educate and out-innovate our global competitors will be seriously compromised if student loan debt puts graduate education out of reach.

We need a multi-pronged strategy to reduce the student loan debt burden for borrowers past, present, and future. Below are some actions that we should take:

- First, we have to address college costs. That means engaging States in a true partnership. My Partnerships for Affordability and Student Success Act (S. 1874) would reinvigorate the Federal-State partnership in helping low-and moderate-income students afford college. The legislation would establish a formula grant to States with a focus on need-based aid to improve student outcomes and reduce college costs.

- Second, colleges and universities must assume greater responsibility for college costs and student debt. To ensure that institutions have more skin in the game when it comes to student loans, I introduced the Protect Student Borrowers Act (S. 1873) with Senators Durbin and Warren. This legislation would hold colleges and universities accountable for student loan default by requiring them to repay a percentage of defaulted loans. As the percentage of students who default rises, the institution's risk-share payment will rise. It also provides incentives for institutions to take proactive steps to ease student loan debt burdens and reduce default rates. Institutions can reduce or eliminate their payments if they implement a comprehensive student loan management plan. The risk-sharing payments will be invested in helping struggling borrowers, preventing future default and delinquency, and reducing shortfalls in the Pell Grant program. With the stakes so high for students and taxpayers, it is only fair that institutions bear some of the risk in the student loan program.

- Third, we need to ensure that current and future Federal and private student loan borrowers are guaranteed basic servicing and disclosure rights. That is why I joined Senators Durbin, Warren, and Boxer in introducing the Student Loan Borrower Bill of Rights Act (S. 1803).

- Fourth, we have to provide a real avenue to allow individuals straining under the weight of the estimated \$1.2 trillion in student loan debt—many with loans carrying an interest rate of 6.8 percent

or higher—to refinance those loans to a lower interest rate. I am pleased to be working with Senators Warren and Durbin on legislation to enable borrowers to refinance their loans based on the current rates established in the bipartisan legislation enacted last summer.

We need to get these student loan policies right: not just to help those in college, but to boost our economy. If we can make college more affordable and enable hard working college graduates retire their student debt in a reasonable fashion, they can more readily play a needed role in growing our economy.

I again thank the Chairman and Ranking Member for their focus on this vital issue and the committee for this opportunity to share these proposals for addressing student loan debt. I look forward to working with you on ways to incorporate them into the reauthorization of the Higher Education Act.

PREPARED STATEMENT OF SENATOR DURBIN

I'd like to thank Chairman Harkin and Ranking Member Alexander for holding this hearing and bringing focus to one of the major issues facing American students and looming over our economy today—growing student debt.

Borrowing has long been part of the financial equation to pay for college for many low- and middle-income students. Federal student loans have allowed millions to invest in their futures—taking on debt in return for an education that leads to a good paying job that allows them to repay their loans.

Unfortunately, the rising costs of college and bad actors like for-profit colleges mean that students are taking out more loans than they can often even fathom, let alone ever hope to repay. In the last decade the number of borrowers and the amount they're borrowing has steadily increased. The average debt burden for a graduate in 2012 was \$27,850.

For the first time in our history, total student loan debt now exceeds credit card debt. The cumulative student loan debt of the 40 million Americans with outstanding loans is estimated to be near \$1.2 trillion.

The Federal Reserve Bank of New York warns that this growing pile of debt threatens current and future economic growth. Before 2009, young people with student loan debt were more likely than others to own homes and more likely to have bought a new car. Now, the Fed says, the opposite is true. Increasingly, students are finding the investment is not worth the return.

While we know that on average those with a college education earn significantly more and have lower unemployment rates than those without a college education, recent graduates are finding that they are unable to make enough at their first job to pay their monthly student loan payments. Furthermore, some parents are making hard choices including coming out of retirement to help another family member with high student loan debt.

This isn't the system of Federal financial support that was designed to give everybody a fair shot at a higher education and better future. While we may disagree about the solutions, I hope we

can all agree that the status quo is not acceptable and that we can't delay in addressing the rising student loan debt.

Senator Jack Reed, Senator Elizabeth Warren, and I have committed to doing what we can to promote a national dialog around these issues—one that recognizes that millions of borrowers need help now. To help these borrowers, we have introduced the Student Loan Borrower Bill of Rights, which is also cosponsored by Senators Boxer, Gillibrand, Murphy, Blumenthal, and Merkley.

The bill would ensure that borrowers know and understand their rights when it comes to their Federal and private student loans. It improves servicing standards for Federal student loans, making sure that borrowers are aware of Federal programs like income-based repayment, which provides borrowers a more reasonable repayment plan for their Federal loans. Too often, borrowers aren't told of these options or they are automatically put into forbearance or deferment, which is not always in their best interest.

Our bill creates servicing standards for private student loans to ensure that borrower's rights are protected and borrowers are not subject to increases in loan costs. It would push lenders and servicers to offer borrowers alternatives to default. Unlike Federal loans, most private loans don't offer programs that link loan payments to a person's income. Instead, if borrowers can't make their monthly payments they have little choice but to eventually default or to continue racking up interest in deferment.

Additionally, the bill would implement common-sense reforms to ensure Federal and private student loan borrowers' rights are protected. The bill would require that borrowers have access to basic information about their loans including loan history and original loan documents as well as notification if their Federal loan servicer changes or their private student loan is sold to another lender. If the borrower doesn't know who to reach out to in times of difficulty, it is nearly impossible for them to get any help.

The Borrower Bill of Rights also requires servicers to establish a process to quickly address student loan account errors and to apply monthly payments to the loan with the highest interest rate. Borrowers should not be penalized because they cannot resolve errors related to their student loan or because their monthly payments are applied to lower interest loans first.

Finally, the bill would require all Federal and private student loan servicers to establish a servicemember liaison to answer questions and help make sure servicemembers get the benefits they deserve and know about repayment options they could be eligible for. The Consumer Financial Protection Bureau issued a report, "The Next Front? Student Loan servicing and the Cost to Our Men and Women in Uniform," in 2012 which found that servicemembers often rely heavily on their student loan servicers to guide them in making decisions about which repayment options and benefits is best for them. In some cases, servicemembers were receiving incorrect or confusing information about available benefits, leading to thousands of dollars in additional costs.

No matter how many rights and protections we secure for student borrowers, some people are in such bad shape and so buried in debt, sometimes several hundred thousand dollars, that they'll never dig out. But unlike almost every other type of personal debt

in America, student loans are not dischargeable in bankruptcy. This means that your student loans will literally follow you your entire life until you pay it off. That's just not fair when you consider all of the other debts that are dischargeable in bankruptcy. I've introduced legislation to fix this problem.

If we are to help ensure that the investments students do make in their futures are worthwhile, we have to give schools a greater financial stake in the success of their students. Senator Jack Reed says schools need to have "skin in the game." I agree. I support his Protect Student Borrowers Act that would require schools to pay back some of the Federal money they receive if large percentages of their students default on their loans. This will help increase accountability of all schools, but especially for-profit schools.

We have to get a handle on the for-profit college industry. This industry only enrolls 10 percent of all college students, but receives more than 20 percent of all title IV funding and accounts for 46 percent of all loan defaults. They cost more than public schools and leave their students with more debt on average than public or private schools. Yet, their operations are often subsidized up to 90 percent by Federal taxpayers. Their investors rake in the profits while taxpayers foot the bill and students amass the debt.

There is more that could be done and ideas other than those I've outlined that should be considered, but I commend the committee for bringing attention to these challenges today. I encourage the committee to look seriously at these issues and act quickly. An entire generation of students and the future of the American economy depend on it.

The CHAIRMAN. Thank you all very much. First, let me introduce our first panelist, Mr. James Runcie. Mr. Runcie serves at the U.S. Department of Education as the Chief Operating Officer for Federal Student Aid, a performance-based organization created to modernize the delivery of student financial assistance.

In this role, Mr. Runcie advises the Secretary of Education on matters related to the department's operation of student financial assistance programs under title IV. Before joining the department, Mr. Runcie served as co-head of Equity Corporate Finance of UBS Investment Bank and held numerous other executive positions with Bank of America Securities Corporation and the Xerox Corporation.

Mr. Runcie is a graduate of the College of the Holy Cross with a bachelor's degree in mathematics and earned his master's in business administration with distinction from Harvard University's Graduate School of Business.

Mr. Runcie, welcome. Your statement will be made a part of the record in its entirety. If you could sum it up in about 5 minutes, we'd appreciate it very much.

STATEMENT OF JAMES W. RUNCIE, CHIEF OPERATING OFFICER, FEDERAL STUDENT AID, U.S. DEPARTMENT OF EDUCATION, WASHINGTON, DC

Mr. RUNCIE. Chairman Harkin, Ranking Member Alexander, and distinguished members of the committee, thank you for the opportunity to discuss the Federal student loan programs. FSA is responsible for administering and overseeing the Federal student fi-

nancial assistance programs. These programs represent the largest source of student aid in the United States.

Last year, FSA processed more than 21 million applications. We also delivered more than \$137 billion in aid to 14 million borrowers. Today, our loan portfolio is valued at more than \$1 trillion with roughly 40 million recipients. FSA does not work alone in these efforts. Our workforce of over 1,300 employees is supported by over 10,000 private sector employees working for more than 150 private companies with employees in 35 States.

As you are aware, until recently, there were two primary Federal student loan programs, the FFEL program and the DL program. In 2007, the DL program's share of annual Federal student disbursements peaked at approximately 20 percent of total annual Federal student loan volume. Around that time, the decline in the financial markets affected student lending by restricting the availability of capital for private lenders.

Many schools began moving from the FFEL program to the DL program. In addition, ECASLA authorized the department to purchase FFEL loans and assume responsibility for servicing these loans. In 2010, the SAFRA Act ended the origination of new loans in the FFEL program. FSA successfully implemented the transition to full direct lending, and since that time, every eligible student and parent who applied for a loan was able to receive one.

Let me repeat that. Every eligible student and parent who applied for a loan was able to receive one. I stress that point, because since moving to 100 percent direct lending, FSA has disbursed over \$350 billion in loans. In 2013 alone, we disbursed over \$100 billion in direct loans to over 10 million borrowers. That's an increase of almost 700 percent in 5 years.

Today, FSA contracts with 11 additional servicers. The competitive structure of the contracts was designed by FSA to ensure that borrowers receive the highest quality service at the lowest possible cost to the taxpayer. To accomplish this, the department analyzes customer satisfaction scores and default prevention statistics. In addition, the pricing schedule provides greater compensation for every borrower in a current repayment status.

We continue to supplement the work of our servicers by providing innovative repayment options, tools, and resources to help borrowers manage their financial obligations. For example, we have launched the Financial Awareness Counseling Tool. This is an interactive online counseling tool that provides students with information about managing their student loan debt. Since inception, nearly 1 million students have used this tool.

Since 2012, we have created new tools. We introduced the Pay As You Earn repayment plan, which helps DL borrowers manage their debt by limited monthly payments to 10 percent of income. Today, over 22 percent of all DL funds in active repayment status are in income-driven repayment plans. We launched our repayment estimator, which allows borrowers to view and compare repayment plans. In the past 4 months alone, over 1 million borrowers have accessed the tool to research repayment options.

We also updated our entrance and exit counseling for borrowers. Within the exit counseling module, the borrower is provided with

information on repayment plan eligibility and estimated repayment amounts. To date, over 1.6 million borrowers have utilized the tool.

We worked with our loan servicers to enhance loan counseling for military members to increase awareness of benefits such as Public Service Loan Forgiveness. We also mandated all servicers to proactively identify and contact the pool of military service members to ensure that they're aware of the benefits they are entitled to under SCRA.

In November 2013, the department conducted a targeted outreach campaign to over 3 million borrowers informing them of different repayment options. Almost 150,000 applications for income-driven plans have been filed as a result of the outreach campaign.

The department launched an innovative public-private partnership with the Department of Treasury and Intuit to raise awareness about income-driven plans to the 18 million users of Turbo Tax online. Separately, Treasury and Education have also included a message on the back of envelopes containing this year's tax refund checks to raise awareness of Federal student loan repayment options. Approximately 25 million of these envelopes will be mailed to tax filers in the 2014 tax season.

Finally, earlier this year we launched a new online direct consolidation loan application. This application makes it easier for borrowers to consolidate their loans. These borrowers can choose to upload their income information directly from the IRS, and in only a few months, over 100,000 borrowers have used this new system to apply for loan consolidation.

We continue to do all we can to ensure borrowers have the best possible customer experience and that we are being good stewards of taxpayer moneys. I appreciate the opportunity to discuss the Federal student loan programs and welcome any questions you may have for me.

Thank you.

[The prepared statement of Mr. Runcie follows:]

PREPARED STATEMENT OF JAMES W. RUNCIE

Chairman Harkin, Ranking Member Alexander, and distinguished members of the committee, thank you for the opportunity to discuss the title IV Federal student loan programs.

Federal Student Aid administers and oversees the Federal student financial assistance programs, authorized under Title IV of the Higher Education Act of 1965 (HEA). These programs represent the largest source of student aid for postsecondary education in the United States. Last year, Federal Student Aid processed more than 21 million applications for Federal student aid, the FAFSA, and delivered more than \$137 billion in grant, work-study, and loan assistance to approximately 14 million postsecondary students and their families. Today, our loan portfolio is valued at more than \$1 trillion, with roughly 40 million individual borrowers and 178 million loans.

Federal Student Aid does not work alone. Federal Student Aid's workforce of over 1,300 employees is supported by about 10,000 private sector contract employees at more than 15 private sector companies with employees in 35 States plus the District of Columbia.

In administering these programs, our priority is to support eligible students with Federal financial aid to help them pursue a postsecondary education and to ensure that they pay their loans back after completing their education. As you know, the average income for young adults with a college degree is more than 30 percent higher than their counterparts with only a high school diploma. Given today's global economy, having a college degree is critical for the United States to remain competitive with other countries, and I am proud to be a part of an organization whose mission is helping our students to reach their potential.

BACKGROUND ON THE FEDERAL STUDENT LOAN PROGRAMS

There are three Federal student loan programs—the Federal Family Education Loan (FFEL) Program, through which lenders using private capital made federally guaranteed and federally subsidized loans to students; the William D. Ford Direct Loan Program, where Department of Education makes loans directly to students; and, the Federal Perkins Loan Program (Perkins) through which schools make student loans using Federal and institutional funds. For the remainder of my testimony, I will focus on the two main loan programs: the FFEL and Direct Loan Programs.

The FFEL program was established in 1965 as part of the Higher Education Act and the Direct Loan Program was created in 1993. Between 1994 and 2006, the Direct Loan program's share of annual Federal student disbursements peaked at approximately 20 percent of total annual Federal student loan volume.

Beginning in 2008, the decline in the financial markets affected student lending by restricting the availability of capital for private lenders to make FFEL loans. The Ensuring Continued Access to Student Loans Act of 2008 (ECASLA) authorized the Department to implement a program to ensure credit market disruptions did not deny eligible students and parents access to Federal student loans for the 2008–09 and 2009–10 academic years. Under this authority, the Department purchased FFEL loans from private lenders and assumed responsibility for servicing these loans. As lenders began selling their loans to the Department, Federal Student Aid also assumed responsibility for additional Direct Loan volume.

The SAFRA Act, enacted in 2010, ended the origination of new loans in the FFEL Program and thus made new Federal student loans available only through the Direct Loan Program. Federal Student Aid successfully implemented the transition to full direct lending and every borrower was able to receive a loan without interruption. In fiscal year 2013, we disbursed approximately \$100 billion in Direct Loans to approximately 10.6 million student and parent borrowers. This is an increase of almost 700 percent in just 5 years.

Federal Student Aid manages a Federal student loan portfolio of FFEL and Direct Loans of approximately \$1 trillion. We have successfully managed substantial growth in the title V Federal financial aid programs and continue to serve our customers—students and families—by providing information, tools and resources they need to pursue postsecondary education and manage their repayment obligations.

STUDENT LOAN SERVICING

Prior to 2009, one servicer, ACS Education Solutions (ACS), serviced the entire Direct Loan portfolio. Today the Department works with and oversees multiple student loan servicing contractors. These companies manage the borrower's repayment process, including: (1) providing the borrower with information about repayment options; (2) billing the borrower monthly; (3) collecting payments from the borrower and applying those payments to loan fees, interest and principal; and, (4) if the borrower becomes delinquent, working with the borrower to get them back into a regular repayment schedule.

In 2009, FSA contracted with four companies to service the growing government-held portfolio: Great Lakes Educational Loan Services, Inc. (Great Lakes); Nelnet Servicing, LLC (Nelnet); Pennsylvania Higher Education Assistance Agency (PHEAA); and SLM Corporation (Sallie Mae). These four servicers are the Title IV Additional Servicers (TIVAS). The competitive structure of these contracts is designed to ensure that borrowers receive the highest quality service at the lowest possible cost to the taxpayer.

The metrics the Department uses to measure TIVAS performance include customer satisfaction measured across three distinct groups: borrowers, financial aid personnel at postsecondary schools, and Federal Student Aid and other Federal agency personnel who work with the servicers.

Additionally, we measure the success of the servicer's default prevention efforts as reflected by the percentage of borrowers and percentage of dollars in each servicer's portfolio in default. The Department also compiles quarterly customer satisfaction survey scores and default prevention statistics for the TIVAS into annual measures to determine each servicer's allocation of new loan volume. These scores are published on the Department's Web site.

Finally, the structure of the servicing contract provides higher levels of servicer compensation for every borrower in a regular repayment status. Conversely, servicers are paid less for borrowers who are delinquent, in forbearance or deferment or who ultimately default.

In addition to the TIVAS, the Department has servicing contracts with certain not-for-profit (NFP) loan servicers. Between October 2011 and February 2013 the

Department executed agreements with seven servicers representing 34 NFP entities. Four additional entities had their implementations canceled due to the Bipartisan Balanced Budget Act of 2013 which eliminated the NFP provisions and mandatory funding.

Today, Federal Student Aid has contracts with 11 Federal student loan servicers: the four TIVAS and seven NFPs.

REPAYMENT OPTIONS

In addition, we also continue our efforts to develop and provide optimal repayment options, tools and resources to help borrowers manage their financial obligations and lower delinquency and default. Launched in March 2013, our “Repayment Estimator” allows borrowers to view and compare repayment plans, providing comparisons of monthly payment amounts, total amount paid, and total interest paid based on each plan.

Over a 6-week period starting in November 2013, the Department also contacted borrowers who might benefit from an income-driven repayment plan to ensure that they have the information needed to determine their best repayment option. The effort targeted borrowers at key stages in the repayment process including: those who were about to enter repayment; delinquent borrowers; borrowers with higher-than-average Federal student loan debt; and borrowers in deferment or forbearance because of financial hardship or unemployment.

The Department sent e-mails to over 3 million Federal student loan borrowers. The effort complimented the work of student loan servicers and we are currently analyzing the data to provide meaningful insight into how to design more effective borrower communications to improve overall student loan servicing activities. As of March 1, 2014, approximately 30 percent have viewed the email. Borrowers were provided with different instructions depending on their repayment status. For example, some borrowers were provided information on how to apply for an income-driven repayment plan; others were provided a link to the repayment estimator tool to understand which alternative repayment plans were available; and others were asked to contact their servicers to apply for an income-driven repayment plan.

As a result of this campaign, almost 150,000 IDR applications have been filed and nearly 25 percent of the most delinquent borrowers who opened the email took an action to avoid default.

The Administration also created the Direct Loan Pay As You Earn (PAYE) Repayment plan in December 2012, which helps certain eligible borrowers manage their Federal loan debt by limiting monthly payments to 10 percent of the borrower’s discretionary income. FSA also created an online application tool for borrowers who want to participate in this plan or the pre-existing Income-Based Repayment plan. Today, over 22 percent of all outstanding Direct Loan funds in an active repayment status are in an income-driven repayment plan.

Additionally, we have updated entrance and exit counseling for borrowers and made our Web site more user-friendly. At the end of the exit counseling module on StudentLoans.gov, a borrower is provided with preliminary repayment plan eligibility information and estimated repayment amounts. The preliminary information is based on the borrower’s loan information in the National Student Loan Data System (NSLDS) and offers the borrower the opportunity to select a repayment plan they believe is best for them at the time they are learning about their repayment options. We then provide loan servicers with borrowers’ repayment plan selection from these sessions.

In July 2012, Federal Student Aid launched the Financial Awareness Counseling Tool (FACT), an interactive, loan counseling tool on StudentLoans.gov that provides students with financial management basics, information about their current loan debt while they are in-school making year-to-year borrowing decisions, and estimates of student loan debt levels after graduation. FACT provides students with five interactive tutorials on topics ranging from managing a budget to avoiding default. Students can look at their individual loan history and receive customized feedback to help them understand how to make responsible financial decisions and manage their financial obligations. Since its launch, about half a million students have used this tool.

We’ve also worked to streamline the application process for borrowers in specific circumstances. Prior to 2013, borrowers wishing to discharge their student loans due to Total and Permanent Disability (TPD) had to work with their loan servicers or guaranty agencies, each with a different set of forms and processes, which often led to confusion and frustration during the multi-year, multi-step application process. In July 2013, FSA implemented a new, streamlined process with a standardized

form and a single point of contact for all FFEL and Direct Loan borrowers throughout the lifecycle of a TPD discharge application.

Federal Student Aid worked with our loan servicers to enhance loan counseling for military veterans to increase awareness of benefits such as the Public Service Loan Forgiveness (PSLF) program.

In January 2014, we made the new Direct Consolidation Loan Application and Promissory Note available on StudentLoans.gov so that all our loan applications were in one place for borrowers to access. Borrowers with non-defaulted Federal loans can submit applications electronically; confirm loans for consolidation; choose a consolidation loan servicer; select a repayment plan; and submit an income-driven repayment (IBR, ICR, or PAYE) plan e-application. Borrowers can choose to upload their income information directly from the Internal Revenue Service under an agreement we implemented with the IRS.

CONCLUSION

Working with our servicers, Federal Student Aid strives to provide borrowers with options to select the best repayment plan for their needs and tools and resources to assist in managing debt. While I am proud of the work FSA is doing, we have faced some challenges along the way. We continue to strive to do all we can to ensure borrowers have the best possible customer experience and that we are being good stewards of taxpayer money. My team is continually seeking ways to improve our services and operations and I am privileged to work with such a dedicated group of professionals. I appreciate the opportunity to discuss Federal student loan servicing and repayment options for borrowers, as well as the programs and services my office administers. I welcome any questions you have for me.

The CHAIRMAN. Thank you very much, Mr. Runcie. Thank you for your stewardship. We'll start a round of 5-minute questions here.

Let me talk about servicers. In my opinion, borrowers are in the best position to know whether their servicer is doing a good job. I'd like to know how much their opinion counts. For example, I wish that Sallie Mae would have taken up our offer to appear today, but they decided not to. But I can tell you we continue to hear how unhappy people are with Sallie Mae quarter after quarter, yet the servicer still receives significant loan volume.

Why is that? Can you walk us through the metrics used to determine servicers' performance? And how do you plan on improving these metrics?

Mr. RUNCIE. One of the metrics that we use is customer—we have customer surveys, borrower surveys. We also look at default prevention statistics, and there's also school surveys as well. So there are a number of different metrics that we look at for all of the servicers. And because it's a performance-based structure, and all of the TIVAS compete with each other for future allocations, we've noticed that the customer satisfaction scores have all increased over the life of the contract so far.

In addition, the default metrics have also decreased. So while that's not saying that there aren't instances where we can improve our oversight or the customer service operations, we think that the performance-based contracts have been helpful in dictating behavior of the servicers.

The CHAIRMAN. Can you briefly tell me what you look at in terms of your contracts with these servicers and how they, then, subcontract—I guess I'll use that word—with collection agencies? And I'm going to get into this more with some other witnesses this morning—but how they deal with collection agencies and what those collection agencies do and how they perform and how much money they're making. Do you look at that, too?

Mr. RUNCIE. Yes, we do. You know, we have a number of private collection agencies, about 22 or so, and those contracts are independent of the servicing contracts. Those PCAs are reviewed for performance as well. We've recently increased our monitoring of the private collection agencies. We monitor them four times a quarter. We listen to dozens and dozens of calls, and we also have special call monitoring for the loan rehabilitation program.

So we've been providing some significant level of oversight with respect to the collection agencies. The collection agencies—there are some servicers that have collection agencies, but those are—the contracts are independent.

The CHAIRMAN. I guess my question was what is the Department of Education doing to ensure that they follow the law—these collection agencies—and that they're not overcharging borrowers and what fees they collect. Let's say that a collection agency gets one of these defaulted loans. They write a letter to the person who borrowed the money. That person realizes they should pay it. They pay it. How much does the collection agency get to keep?

Mr. RUNCIE. It's percentage based—it's based upon circumstances. But it could be—

The CHAIRMAN. I thought it was 20 percent.

Mr. RUNCIE. It could be as much as 18 percent.

The CHAIRMAN. So sometimes they—

Mr. RUNCIE. Sometimes, depending on the circumstances, it could be as much as 20 percent.

The CHAIRMAN. Therefore, if they wrote one letter and the debt was paid—a \$50,000 debt and they got it paid, they get 18 percent for writing one letter?

Mr. RUNCIE. Yes. But I think when you look at the millions of defaulted borrowers, there are going to be instances where there's a tremendous amount of work to get some of those borrowers back into rehab—or to rehab those borrowers and get them to be making payments.

The CHAIRMAN. I understand. But it's my understanding that they still get a high percentage just—if they hardly do anything but write one letter, they still get a high percentage.

Mr. RUNCIE. Yes, it's based on success.

The CHAIRMAN. That's right. Does that seem fair?

Mr. RUNCIE. I think if you look at collection agency practices across all industries, I would think that our collection compensation is in line with or better than that within the industry. Part of it is because the experiences across collections for different borrowers—there's variability. Some require a lot more work, and some require less.

Yes, you're right. If it's just one letter and they make a payment, then there's a lot more profit, potentially, in terms of that particular instance.

The CHAIRMAN. As I pointed out in my opening statement, the estimate we have is about a billion dollars a year is what they're making. But I can tell you, we're going to take a further look at that.

Senator Alexander.

Senator ALEXANDER. Thank you, Mr. Chairman. With all due respect, the line of questioning you're using sounded to me like a line

of questioning you might use to question a trial lawyer who might try a lot of lawsuits and lose them all, but might win one and get 30 percent or 40 percent of the award.

Mr. RUNCIE, Secretary Duncan, if I remember correctly, testified a few years ago before the Senate Appropriations Committee that if the Federal Government took over all the student loans, it wouldn't increase the cost of administering the loans. Yet the statistics I have show that the cost of administering the student loan program has increased—has nearly doubled since 2009 by about nearly \$700 million. Why have the administrative costs of the student loan program nearly doubled since 2009 when Secretary Duncan said it wouldn't?

Mr. RUNCIE. That may have to do with the substantial amount of volume that's occurred since 2007. As I mentioned in the testimony, between ECASLA and a transition to DL, the overall volume has increased substantially. But if you look at our per unit cost for applications or for loan disbursements, all those per unit costs have actually decreased.

Senator ALEXANDER. So none of the \$700 million—you mean the per unit costs are less today than they were 6 years ago?

Mr. RUNCIE. The per unit costs for originating, disbursing, and servicing a loan—all those costs have decreased. Now, there are additional—we've had more in terms of security, in terms of compliance. There are other activities, updating some of our systems that are legacy systems. But the actual transaction costs have actually gone down.

Senator ALEXANDER. But, overall, the cost of administering the student loan program has nearly doubled since the government took them all over. You mentioned in your testimony that you had a campaign to identify 3 million borrowers who needed help paying back their loans, and that 150,000 responded. You helped 150,000. That's not a very high percentage. Why do you suppose that more borrowers didn't respond to your offer to help them figure out the various options for repayment of the loan?

Mr. RUNCIE. I think that 150,000, based upon any industry standards for mailing or for contacting through that mechanism, is a very high number. But, obviously, we're looking to make sure that we maximize the response rates and the amount of people that take up the plan.

Income-driven repayment plans are very beneficial as a tool that people can use to address issues around handling repayment. But those plans may not be for everyone, because income-driven plans may actually have you pay more over the life of a loan. So it really has to do with the borrower's circumstance. But, in addition—

Senator ALEXANDER. I have one other question I'd like to get in, and my time is about up—if I may.

Mr. RUNCIE. Oh, I'm sorry.

Senator ALEXANDER. I think it might have something to do with the complexity of this 5-page set of instructions about how you sort through your various ways to help. I have one other question, which is this. According to figures that I have, two out of five college students go to community colleges, 2-year schools. And the average tuition and fees are under \$3,300. These students receive \$4,850, average, in grants and scholarships.

So the average community college student is receiving about \$1,500 more in grants and scholarships than it costs them in tuition and fees during that 2 years. They have extra money. The college itself is free for the average community college student. In fact, the Governor of Tennessee is working to advertise that in our State so that he can encourage more people to go to college.

But are you concerned that some of the students may be borrowing the money, taking out these low-cost loans, simply to get the money, not for education, but for other purposes, and that many of them have little intention of getting a degree, and that that might be one of the reasons why we have many students say that they're over-borrowing more than they should have? Is that a concern of yours?

Mr. RUNCIE. Yes, it is a concern, and I think that we've been, over the course of the last couple of years, looking at ways to make sure that we verify the intent and the actions of people who receive grants and loans. We've increased our verification. We've worked the schools to ferret out situations where there might be fraud or abuse of the loan and grant programs. We are very concerned and will continue to look at ways to mitigate situations like that.

In terms of the limits, those are statutory, and so our function ends up being more of compliance and trying to maintain the integrity of the programs versus any structure around the limits.

Senator ALEXANDER. Thank you very much.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Alexander. I might say that if I have been taken to task for comparing trial lawyers, I'll say that—

Senator ALEXANDER. Oh, I just observed—

The CHAIRMAN. I'll make this observation, that in terms of the cost, you said in your statement that the amount has gone up 700 percent in 5 years. The cost has doubled. That's a 100 percent increase, which means that the cost per loan actually has come down. If the number has gone up 700 percent, which you put out, but the cost has doubled, that's 100 percent. Obviously, the cost per loan has decreased.

Mr. RUNCIE. That's right.

The CHAIRMAN. Let's see. I have Senator Warren, Senator Baldwin, Senator Murphy, Senator Franken.

Senator Warren.

STATEMENT OF SENATOR WARREN

Senator WARREN. Thank you, Mr. Chairman.

Mr. Runcie, in January, the Government Accountability Office released a report on the cost of operating the Federal student loan program. The report calculated that the break-even interest rate on student loans—that is, the interest rate necessary to cover the cost of the program without making a profit—for the upcoming student loans would be about 2.5 percent.

But instead, we'll be charging students nearly twice that amount for undergraduate loans and about two and a half to three times that amount for graduate loans and for PLUS loans. The GAO acknowledged that this is only an estimate, and estimates can change. But that is the best estimate we have. We'll be charging

at least twice as much as we need to charge to cover the cost of the loans. So when we set interest rates higher than we need to cover the cost, that generates revenue for the government.

My question, Mr. Runcie, is where do those profits go? Do they get refunded back to the students who paid more than was necessary for the cost of their loans, or are they just used to fund government generally?

Mr. RUNCIE. Senator Warren, they do not—they're used to fund government generally. They do not come back specifically into the program.

Senator WARREN. All right. That's the key point I wanted to make here. We're charging more interest than we need to run the student loan program, and there's no mechanism to refund that money to the students. It seems to me we're just taxing students for the privilege of borrowing money to try to get an education.

I think that's obscene. I don't think the student loan program should be designed so that it's making profits for the Federal Government. As a first step, we could wring some of those profits out of the system by refinancing those loans and bringing them down to a break-even point for the government.

Mr. Runcie, I also want to ask about servicer contracts. I want to pick up where Chairman Harkin went to ask about the relationship with Sallie Mae. You know, the Department of Education has multiple contracts outstanding with Sallie Mae. Sallie Mae has repeatedly broken the rules and violated its contracts with the government.

I'll give you a few examples. In 2007, Sallie Mae agreed to a multimillion-dollar settlement with the New York Attorney General on claims related to improper marketing of student loans. Both the Treasury Department and the Department of Education have cited Sallie Mae for failure to abide by the terms of its Federal contracts.

Sallie Mae is currently under investigation—let's make a list here—by the FDIC, the Department of Justice, the Consumer Financial Protection Bureau, and the Utah Department of Financial Institutions. And yet Sallie Mae continues to make millions on its Federal contracts with the Department of Education. Between 2009 and 2011, it made almost \$100 million on just servicing Federal student loans, even while it broke the rules.

So my question is—I understand that the Department of Education has already notified Sallie Mae that their contract will be renewed. Why did the Department of Education decide to renew Sallie Mae's contracts when it clearly violates the rules and has done so repeatedly?

Mr. RUNCIE. In terms of the extension of the contract for Sallie Mae, it was a part of extending the contracts for all of the TIVAS. In extending the contract, the contracting officer looked at a number of different things.

Senator WARREN. Including that they've broken the rules repeatedly and they're under investigation in multiple places for breaking the rules? Have you done something different with these contracts to ensure greater accountability, to make sure that they're not going to continue to break the rules in the future? I just don't understand this, Mr. Runcie.

Mr. RUNCIE. We strictly monitor their compliance to the contracts, and we're very open to looking at those contracts and seeing if there's additional terms and things that we should put in there. But in terms of their performance under the contract, there may be some instances where they are asked to remedy certain situations, whether it's an employee that provides the wrong information.

But in terms of a wholesale breach of the contract, that has not been determined as far as I know. And, again, I'm speaking about the direct loan servicing contract, not about private loans or State laws that they might be breaking.

So based upon our current assessment of all the servicers, we felt that, based upon their performance under the terms of the contract—and we also felt in terms of dislocations to the borrowers because we would have to transfer 24-plus million borrowers if we didn't extend the terms of the TIVAS contracts. So there are a number of things that we looked at in terms of extending the contract.

Of course, if they're found to be in violation of any of the law specific that would be a breach of the contract, we would address that by taking whatever appropriation actions, including termination.

Senator WARREN. I want to suggest that—we know that there are problems with Sallie Mae. It has become public, and the actions you're taking and the oversight that you're exercising has obviously not been enough to correct the problem. And I'm very concerned about re-upping a multimillion-dollar contract with Sallie Mae when Sallie Mae has demonstrated time and time again that it's not following the rules.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you. I might add that it sounded like your answer, Mr. Runcie, was that they're too big to fail.

Senator WARREN. Yes.

The CHAIRMAN. Senator Baldwin.

STATEMENT OF SENATOR BALDWIN

Senator BALDWIN. Thank you, Mr. Chairman and Ranking Member.

Mr. Runcie, as you reminded us in your testimony about the history, in 2008, we worked to cut out the middle man in our student loans by making the transition from the Federal Family Education Loan Program to direct lending. I was a member of the House of Representatives at the time of that vote and was proud to support a change that resulted in cutting over \$60 billion of waste. I think it was an important step, but certainly work remains, as we've just heard.

Recently, in meeting with student financial aid administrators from my State, Wisconsin, they shared an odd quirk of the student loan origination fee that for many seems like a relic from the days of the Federal Family Education Loan program. The fee is usually paid from the loan amount, resulting in a slightly reduced loan for the student. But, it places a burden on financial aid administrators who have to explain why there is this fee in the first place. And it feeds the perception that the government is making a lot of money off of these loans.

So now that the Federal Government is in the business of direct lending, is this fee still necessary? Can the Department of Education and the loan servicers function properly without this fee?

Mr. RUNCIE. The fee is a part of the structure that we have. And you're right. That is taken out of the loan amount that is distributed to the student. In terms of what that would mean from a cost-structure perspective, I don't believe that it would have—we could still operate and we could still conduct the loan program without that.

In terms of other considerations, statutory and otherwise, I can't speak to that. But you're right. There is that fee, and it results in—it's a very small fee on a per borrower basis. But when you aggregate it together, it's a meaningful amount.

Senator BALDWIN. I appreciated hearing in your testimony that the Department of Education has worked with loan servicers to streamline the process for those needing to discharge their loans due to total and permanent disability. I understand that discharging loans due to total and permanent disability still remains cumbersome for many.

I have been working for some time on student borrowers' bill of rights legislation. It includes the right to discharge a loan due to total and permanent disability, as well as avoid the current tax penalty that those who are able to discharge face.

I want to know if there are further steps that the Department of Education can take to make the process of loan discharge in the event of total disability or death easier for students and families. Are there currently any incentives in place for servicers to expeditiously serve those students and families, or could you create some?

Mr. RUNCIE. That's clearly a major concern and a big issue that we've been focused on. We have streamlined the process. Before, we had many different servicers. Now, we have one servicer so there's an ability to sort of have quality control around that experience.

We now use the SSA and the Veterans determination for disability. So the vagueness around, what total and permanent disability is—that's been addressed. So I think we've improved the process, but there's probably still work to be done.

It sounds like the issue around the tax at the end of the forgiveness—that's something that has been discussed a lot, and I know people are looking at that. We can operationalize that pretty easy if that comes to fruition. But we have made some significant improvements, and we're looking for additional ideas in terms of how we can further improve the total and permanent disability process.

Senator BALDWIN. Thank you.

The CHAIRMAN. Thank you, Senator Baldwin. I don't want to cut anyone off, but I've just been informed that we have three votes at noon. I think we're going to have to call a halt to this hearing. We have another panel of experts that we want to hear from. So I'd ask if you don't really have—Mr. Runcie has answered a number of questions. I don't want to cut anyone off, but I'd like to hurry this along so we can get to our next panel.

Senator MURRAY. Mr. Chairman, I'll hold my questions until the second panel.

The CHAIRMAN. I appreciate that very much.
Senator Murphy.

STATEMENT OF SENATOR MURPHY

Senator MURPHY. Thank you very much, Mr. Chairman. I'll ask one question around this subject.

When an individual goes to buy a house, the bank is going to assess both their creditworthiness and also the soundness of the investment that they're making. They're going to do an inspection of the house. They're going to make sure that it's a place worth investing in.

For the programs that you run, the assessment on the borrower is different. It's not really by creditworthiness. It's about need. But the institution, in this case, the equivalent of the house, deserves to have the same kind of rigorous analysis applied to it. Today, we sort of have an all or nothing approach when we're looking at these institutions as to whether they are worthwhile investments for the Federal tax dollars.

I look at an institution like a place called Corinthian College in California, a school that has revenue of \$1.7 billion, and 83 percent of it comes from the programs that you run. And yet they have default rates in the neighborhood of 36 percent, a 3-year default rate of 40 percent, prices that are wildly out of step with other competitors in the area.

When they ran afoul of the default rate rules, the way that they got back in compliance was to call their borrowers, on average, 110 times a month to convince them to just seek more deferments and forbearance. They actually didn't do much about the price of the degree or about the quality. They convinced students to push their obligations out further.

There are other models out there rather than the all or nothing approach which would involve much more of a risk-sharing model, in which schools that aren't performing or having higher than average default rates or low graduation rates would share more of a burden of the outstanding loans rather than just saying that if you don't meet a certain threshold, you aren't eligible for Federal aid—I think we've only sanctioned eight schools.

Do you think that the current method by which we judge institutions' capability to give students a quality degree and allow them to make enough money to repay loans is working? And what do you think about some of these other models?

Mr. RUNCIE. I think some of those other models are promising. They've been discussed, and we'd be ready to run compliance activities and input that in, in terms of our operations. Right now, we look at cohort default rates, as you know, and to some extent, depending on the utilization of forbearance and deference, that can be manipulated somewhat.

But forbearance and deferment—those are sort of entitlements under the program. However, the servicers are ultimately the ones that can put people in deferment or forbearance. So the schools may guide them there, but the servicer also has to have a conversation and work with them to see if that's the best option for them at that time versus income-based repayment or something like that.

The other thing is, we're going through the negotiated rule-making process for gainful employment, and that would also have

an impact in terms of addressing some of the issues that you mentioned potentially with the proprietary schools. But in terms of a wholesale change in model and a way to address those issues, we're open to operationalizing those.

Senator MURPHY. I'm glad to hear that. The idea that we're spending, in this particular institution's case, \$1.4 billion in taxpayer money all for the benefit of getting a 40 percent default rate and graduation rates, that are hovering under 10 percent at this institution is mind blowing.

Senator Murray, Senator Sanders, myself and Senator Schatz have legislation that I hope will take a look at it in the context of HEA reauthorization that will give you and give the Department of Education some new tools with which to try to hold these schools accountable when we're making decisions on how to allocate \$140 billion a year.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you.

Senator Franken.

STATEMENT OF SENATOR FRANKEN

Senator FRANKEN. Thank you, Mr. Chairman.

I want to talk about a tool that students can use early on in the process of looking at colleges, the Net Price Calculator. I'm going to introduce some legislation on that to improve it. The Net Price Calculator allows kids, before they are even deciding whether to apply to a college, to see how much it's actually going to cost.

We have a free Net Price Calculator available at the colleges. Some put their own up. Some are better than others. You know, the college board did a recent survey, and more than half of the students ruled out schools based on sticker price without considering the full effect of financial aid, and it said that many of them chose to attend less selective colleges than they were qualified for because they incorrectly believed they were priced out of the other schools.

I was wondering if you had any thoughts about the net calculator and what the Department of Education can do to incentivize colleges to make these calculators more user friendly for students.

Mr. RUNCIE. We've been very focused on financial literacy and outreach in making sure that students are in a good position from a due diligence and research standpoint to make good investment decisions. And there have been a number of items that we've put out, like the Financial Aid Shopping Sheet that helps students compare loan packages and financial aid packages across institutions.

But your point is even before that, students make decisions about colleges because they see the price tag and they don't have a sense of what the net price is. So we do have calculators, but I think the promotion of those calculators is something that we could do better. We could put more into promoting the calculators, and we could work with institutions potentially to make the calculators a little bit more user friendly and more transparent.

Senator FRANKEN. Or just require that they be—for example, if you're filling out the FAFSA, that can't be completed until January 1st of the year in which the student seeks to enroll in a school.

Now, by January 1st, you've already done your applications. You've already—basically, it's all over.

This is an ability to see before or as you're considering. You can look at a school, and if you have the right calculator there, it gives kids a real idea of what the real net cost of the school is going to be, what the possible grants are, what the aid would cost, et cetera.

When I go to roundtables and talk about college affordability, the students—very often, I hear, “Gee, I wish I had applied to this school” or “I didn't really realize how much this was going to cost.” And the financial literacy is a tremendous part of—we need to have these students have their eyes wide open when they're doing this.

I don't want them foreclosing better options for themselves because they didn't realize that a school—some schools will give a full ride to students, and kids will say, “I'm not going to apply to Harvard because I couldn't possibly pay for it because it's so much.” But they don't understand that Harvard gives a full ride—or Princeton does, or other schools do this.

I'd love to work with you on this—but to find a way to let kids know well beforehand, not let them know after they've already applied, after they've already been either admitted or not—let them know beforehand what the net cost of their college is going to be.

Mr. RUNCIE. Great. We'd love to work with you and look at your ideas and see how we can make it better, absolutely.

Senator FRANKEN. Thank you very much.

Mr. RUNCIE. Thank you.

Senator FRANKEN. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Franken.

Mr. Runcie, thank you very much for being here. Thank you for your testimony. I'm sure we'll have some follow-ups from other Senators who are not here today. But thank you.

Mr. RUNCIE. Thank you, Chairman.

The CHAIRMAN. Now we'll turn to our second panel. First, we'll go from left to right, and I'll introduce you, and then we'll start our testimony.

I'd like to introduce Dr. Michelle Cooper, president of the Institute for Higher Education Policy, an organization dedicated to promoting access and success for all students in higher education. Most recently, Dr. Cooper led the development of IHEP's new policy agenda with a focus on increasing degree attainment, enhancing affordability, and improving accountability and consumer awareness. She received her bachelor's degree from the College of Charleston, her master's from Cornell, and a doctorate from the University of Maryland at College Park.

I'll turn to Senator Warren for purposes of introducing our next witness.

Senator WARREN. I'm pleased to introduce Deanne Loonin, director of the National Consumer Law Center's Student Loan Borrower Assistance Project. At the National Consumer Law Center, Ms. Loonin assists attorneys representing low-income consumers and teaches consumer law to legal services representatives, private consumer lawyers, and other advocates.

She is the author of several reports on student loan law and the problems inherent in the Federal student loan program. I worked with Ms. Loonin for many years before I made this career shift—

The CHAIRMAN. You could say that with a little more enthusiasm.

[Laughter.]

Senator WARREN [continuing]. Her work is first rate, and I appreciate her being here today.

The CHAIRMAN. Thank you, Senator Warren.

Our next witness is Roberta L. Johnson, director of student financial aid at my alma mater, Iowa State University, a land grant institution. With a two-decade history of handling student loan operations at the institutional level, Ms. Johnson has significant first-hand experience in the administration of loans through both the Federal Family Education Loan program and the Federal Direct Loan program.

In 2013, Ms. Johnson was appointed vice chair to the Advisory Committee on Student Financial Assistance, which provides counsel to Congress and the Secretary of Education on increasing college access for students from low- and middle-income families. She is a dual graduate of Iowa State with a bachelor's degree in elementary education and home economics and a master's degree in counselor education.

Now, I'll turn to Senator Alexander for our next introduction.

Senator ALEXANDER. Thanks, Mr. Chairman. We welcome Marian Malone Dill, director of financial aid at Lee University in Cleveland, TN.

The only thing that would have been better is if you had brought the Lee Singers with you. They did so well at the inauguration, and I hope you'll give them our best wishes.

She is membership chairman of the Southern Association of Student Financial Aid Administrators. She has been an assistant director of financial aid at a community college and at Tennessee Wesleyan in our State. And she is a first-generation college student and a recipient of title IV aid, so she has a broad view of the subject we're talking about. We welcome her.

The CHAIRMAN. Very good. Thank you all for being here. Your testimonies will all be made a part of the record in their entirety. We'll start with Dr. Cooper and go down the line. If you could sum up your testimony in 5 minutes or so, we'd sure appreciate it, and then we can get into our questions and answers.

Dr. Cooper, welcome and please proceed.

**STATEMENT OF MICHELLE A. COOPER, B.A., M.P.S., Ph.D.,
PRESIDENT, INSTITUTE FOR HIGHER EDUCATION POLICY,
WASHINGTON, DC**

Ms. COOPER. Chairman Harkin and Ranking Member Alexander and other committee members, good morning and thank you for this opportunity. Like you heard, I am Michelle Asha Cooper, and I am president of the Institute for Higher Education Policy, an organization that we simply refer to as IHEP. At IHEP, we focus on issues related to college access and success, with a focus on emphasis on underserved student populations.

Today, I speak to you in my role as president of IHEP. But just a few decades ago, I was simply a kid from South Carolina who had the opportunity to finance my college degrees with title IV financial aid. So I can say with confidence that financial aid and the

ability to access it made a difference in my life, and I firmly believe that it still can make a difference in the lives of today's students.

But the realities of today's students are very different than previous generations, and earning a college degree or credential is much harder now. So in re-examining the title IV programs, I would encourage you to be mindful of today's context and also be mindful of the realities and the needs of today's students. So we should recognize that one-size-fits-all approaches probably won't work, and neither will layering new policy ideas over old outdated ones.

So, in turning to the issue of student loans, our goal must be to help the millions of student loan borrowers, who we currently have graduate with manageable debt levels that can be repaid in an affordable, easy, and timely manner. With this goal in mind, we at IHEP recommend that there be three types of improvements, improvements that will lead to more informed choices, improvements that will lead to more simplified options, and improvements that will lead to better shared accountability.

For informed choices, we have two recommendations. One is about better information, and the second is about better student loan counseling. When it comes to the issue of better data and better information, I'm sure you've heard, like I've heard, that people believe that there is more than enough information out there. There certainly is information out there, but the information is not always of high quality.

The information is not always presented in a way that allows students to use it in a productive, consumer-friendly way, and it usually sometimes does not help them to make good, sound, informed choices. So in our written comments, we recommend some very detailed but straightforward fixes to existing data in IPEDS and the National Student Loan Data System that would better help students gage the quality and the outcomes that they can likely experience at some institutions.

We suggest improvements to the information around college costs, around debt repayment, and about student outcomes, in particular. We also hope that this information can be made available for students for multiple years and multiple cohorts.

We also believe that student loan counseling needs improvement. So I'm encouraged that we've already had some good conversation about that, and we would actually agree that there needs to be counseling on student loans and financial literacy that happens before students even get to college. We have some Federal programs like the TRIO programs and the GEAR UP programs where we could easily incorporate financial literacy and student loans into that structure.

Also, we believe that existing Federal tools like the College Score Card and the Net Price Calculators and the Financial Aid Shopping Sheets should be made to be more applicable and more accessible and, in some cases, even mandatory.

And, third, we believe that there is much that can be done to improve the student loan counseling. It should be more than just a checklist, and we can make some improvements to the timing, the content, and the frequency of the counseling. It shouldn't just hap-

pen at the beginning and the end. We can do a lot more with students throughout their entire college career.

Our second category of recommendations represent simplified options for loan repayment. At present, there are many options that we have outlined in our appendix, and we believe that the number of repayment options can and should be reduced. We believe if they were reduced, it would minimize complexity and help to make the loan terms more transparent and accessible. We suggest having a single standard repayment plan as well as offering a single income-based repayment plan.

The final category of recommendations relates to shared accountability. Now, as State appropriations decline and tuitions have increased, students have been taking on more debt to pay for college. As a result, they have been bearing an increasing proportion of that risk. While students should bear some responsibility, so should the institutions.

In thinking about shared accountability, we recommend investigating options that would lead to more meaningful accountability, such as risk-sharing. While the specifics of an appropriate risk-sharing model need to be tested and vetted with institutional leaders, we don't believe we have to start from scratch, as there are some models and proposals that already exist.

In closing, I'm happy to talk more about these recommendations in greater detail. But I do want to stress that if we really want to have real, longstanding change, and we want to do more than simply tinker at the margins, I encourage you to remember that the student loan issue must be looked at within the broader issue of college costs, which you've already begun to do, because student loans and student debt are simply symptoms of this bigger college cost problem.

Thank you.

[The prepared statement of Ms. Cooper follows:]

PREPARED STATEMENT OF MICHELLE ASHA COOPER, B.A., M.P.S., PH.D.

Chairman Harkin, Ranking Member Alexander, and Members of the HELP Committee: I am deeply appreciative of the opportunity to participate in this hearing discussing strategies for strengthening the Federal student loan programs.

My name is Michelle Asha Cooper, and I am president of the Institute for Higher Education Policy (IHEP). IHEP is a nonpartisan, nonprofit organization committed to promoting access to and success in higher education for all students, with a focus on students who have been underserved by our postsecondary educational system. Based in Washington, DC, we believe that all people, regardless of background or circumstance, should have the opportunity to reach their full potential by participating and succeeding in higher education. And working together, we can do more to make that dream a reality.

We believe that institutional leaders and policymakers must support strategies that enhance the quality of the postsecondary experience in ways that are appropriate and relevant to the demands of the 21st century. As such, it is necessary to reassess and, in some cases, redesign our policies to ensure that they open doors and facilitate the success of today's students—a growing percentage of whom are low-income, first-generation, students of color, and returning adults.

The reauthorization of the Higher Education Act is an opportunity to examine title IV financial aid programs, including student loans, within this context. In seeking to improve these programs, we must ensure that our policies and strategies help today's students complete college with manageable debt levels that can be repaid in an affordable, easy, and timely manner. In support of this goal, IHEP offers the following recommendations for Federal policymakers that reflect three strategic areas:

Informed Choices

- Provide students with better information—more useful data presented in a useable format—that can inform decisionmaking about how to choose and how to pay for colleges that offer real value.
- Improve student loan counseling—the timing, content, and delivery—so that it helps more students make better borrowing and repayment decisions, which may help them avoid delinquency and default.

Simplified Options

- Streamline Federal loan repayment options and ensure that information about eligibility and terms are sensible and simple.

Shared Accountability

- Improve the shared accountability framework used in college finance by holding States and institutions more responsible for high loan debt and defaults.

Details about each of these recommendations are provided in this testimony. As background on these recommendations, we provide the following overview of recent trends in student aid.

I. TRENDS IN STUDENT AID

Programs authorized under title IV of the Higher Education Act (as amended in 2008) include all Federal grant, loan, and work study programs, as well as various eligibility and accountability criteria and authorizations for Federal higher education data collection. In 2012–13, approximately \$185 billion was provided in undergraduate student aid—including Federal grants, loans, work-study, and tax benefits, as well as State, institutional, private, and employer grants; an additional \$53 billion supported graduate student aid. For undergraduates, Pell Grant funding comprised 17 percent (\$32.3 billion) of the total, while Federal loans represented 37 percent (\$67.8 billion). Over the past decade, the Federal Government has increased total financial aid for undergraduates and graduates by 105 percent overall, and this Federal aid composes more than two-thirds of the total aid to students from all sources.¹

While the overall increase in Federal student aid is significant, it must be understood in the proper context. Increases in Federal aid have occurred simultaneously to decreases in per-student State support for higher education²—which has led to increases in tuition³—while family incomes overall have stagnated, with low- and middle-income families actually witnessing declines over the past decade.⁴

Together, these trends help to explain why, over time, Federal aid has covered less and less of college costs. Despite an increase in the overall maximum award for the Pell Grant, the current purchasing power of the grant has declined because college costs have increased. In 2012–13, the maximum Pell Grant covered 32 percent of the cost of attending the average 4-year public institution; whereas it represented 77 percent of these costs in 1979–80.⁵

With tuition increasing and grant aid failing to keep pace, more and more students face the need to work while enrolled and/or acquire student loans. As such, 60 percent of Federal aid is disbursed now in the form of student loans⁶—with more than 16 million students receiving Federal loans in 2012–13⁷ and 37 million holding

¹“Trends in Student Aid 2013” (New York, NY: College Board, 2013). Retrieved from: <http://trends.collegeboard.org/sites/default/files/student-aid-2013-full-report.pdf>.

²“State Higher Education Finance Fiscal Year 2012.” (Boulder, CO: State Higher Education Executive Officers, 2013). Retrieved from: <http://www.sheeo.org/sites/default/files/publications/SHEF-FY12.pdf>.

³“Trends in College Pricing 2013.” (New York, NY: College Board, 2013). Retrieved from: <http://trends.collegeboard.org/sites/default/files/college-pricing-2013-full-report.pdf>.

⁴“Trends in College Pricing 2013.” (New York, NY: College Board, 2013). Retrieved from: <http://trends.collegeboard.org/sites/default/files/college-pricing-2013-full-report.pdf>.

⁵IHEP calculations using “Digest of Education Statistics 2013” Table 330.10. Retrieved from: http://nces.ed.gov/programs/digest/d13/tables/dt13_330.10.asp.

⁶“Trends in Student Aid 2013” (New York, NY: College Board, 2013). Retrieved from: <https://trends.collegeboard.org/sites/default/files/student-aid-2013-full-report.pdf>.

⁷IHEP calculations on data from the Federal Student Aid Data Center, 2012–13 Award Year Direct Loan Volume by School, <http://studentaid.ed.gov/about/data-center/student/title-iv>.

outstanding debt.⁸ Nationally, the Federal Government holds over \$1 trillion in student debt.⁹

Impact Of Student Loans On Today's Students

Over the years, the increase in college costs has affected all students, but the shift from grants to loans as a primary mechanism for financing college disproportionately hinders the access and persistence of low- and moderate-income families.¹⁰

Despite the commonly held myth that the Pell grant program “takes care of needy students,” Pell grant recipients—with average family incomes near \$20,000¹¹—are actually *more than twice* as likely as other students to have loans. Of those who complete a bachelor's degree, their average debt at graduation is \$3,500 higher than their peers.¹² (Note: In 2012, average student loan debt among graduates who borrowed for a bachelor's degree was \$29,400).¹³

Federal loans do provide a better value to students relative to those found on the private market, but they still represent a means of financing college through future earnings, rather than simply lowering the overall cost to the student. The best way to reduce student debt burdens would be to lessen the need to borrow by encouraging colleges and universities and States to reduce the cost of attendance, while maintaining access and quality. At the Federal level, it is critical that the Federal Government maintain its commitment to the Pell grant, which serves as the bedrock source of financial aid for more than 9 million low- and moderate-income students. Pell grant funding should be made entirely mandatory in the Federal budget, the maximum award should be increased to make up for its lost purchasing power and reflect the realities of college costs today, and the maximum award should remain indexed to inflation.

And while student loans can be a useful college financing strategy, it is important to note that they are not a risk-free or even risk-neutral investment. In fact, for some students borrowing comes with considerable risk, and current policies are placing more of this burden on the student and less on States and institutions. For the student, the impact of overwhelming debt, alongside a degree/credential with minimal personal or professional value, or no credential at all, can be devastating.

As the number of student borrowers has increased and their cumulative indebtedness has grown, so too have concerns about whether the resulting debt levels are manageable and what the long-term impact of student loan debt will be on their life choices and chances. The fact that more than two-fifths (45 percent) of all college entrants—and 59 percent of low-income students—do not graduate within 6 years centralizes the importance of this issue.¹⁴ Borrowers who leave postsecondary education without graduating are more likely to experience difficulty in repaying their loans. In fact, 59 percent of undergraduate borrowers who left without a credential became delinquent or defaulted,¹⁵ and default is more likely among low-income students, who have fewer family resources upon which to fall back.¹⁶ Default

⁸Meta Brown, Andrew Haughwout, Donghoon Lee, Maricar Mabutas, and Wilbert van der Klaauw, “Grading Student Loans.” (New York, NY: Federal Reserve Bank of New York, 2012). Retrieved from: <http://libertystreeteconomics.newyorkfed.org/2012/03/grading-student-loans.html>.

⁹Rohit Chopra, “Student Debt Swells, Federal Loans Now Top a Trillion.” (Washington, DC: Consumer Financial Protection Bureau, 2013). Retrieved from: <http://www.consumerfinance.gov/newsroom/student-debt-swells-federal-loans-now-top-a-trillion/>.

¹⁰Mark Huelsman and Alisa F. Cunningham. “Making Sense of the System Financial Aid Reform for the 21st Century Student.” (Washington, DC: Institute for Higher Education Policy, 2013). Retrieved from: <http://www.ihep.org/assets/files/publications/m-r/reimagining-aid-design-and-delivery-final-january-2013.pdf>.

¹¹IHEP calculations on data from the U.S. Department of Education, National Postsecondary Student Aid Study, 2011–12.

¹²“Pell Grants Help Keep College Affordable for Millions of Americans.” Save Pell Coalition, 2013. <http://www.edtrust.org/sites/edtrust.org/files/Overall%20Pell%20one-pager%20FINAL%2011-25-13.pdf>.

¹³“Student Debt and the Class of 2012,” (Oakland, CA: The Institute for College Access and Success, 2013). Retrieved from: <http://projectonstudentdebt.org/files/pub/classof2012.pdf>.

¹⁴IHEP calculations on data from the U.S. Department of Education, Beginning Postsecondary Students study 2003/09. In this analysis, students are considered low-income if their family income is below 200 percent of the poverty line.

¹⁵Alisa F. Cunningham and Gregory S. Kienzl, “Delinquency: The Untold Story of Student Loan Borrowing.” (Washington, DC: Institute for Higher Education Policy, 2011). Retrieved from: http://www.ihep.org/assets/files/publications/a-f/delinquency-the_untold_story_final_march_2011.pdf.

¹⁶Jacob P.K. Gross, Osman Cekic, Don Hossler, and Nick Hillman, “What Matters in Student Loan Default: A Review of the Research Literature.” *Journal of Student Financial Aid*, 39:1

and delinquency also is more common among students who attend for-profit institutions.¹⁷ The consequences of default are severe, particularly because student loans are not dischargeable in bankruptcy. Defaulted borrowers suffer from reduced credit scores and can have their wages garnished, their income tax refunds intercepted, and even their social security payments withheld.

II. RECOMMENDATIONS FOR STRENGTHENING STUDENT LOANS

The reauthorization of the Higher Education Act is an opportunity to reassess student loan policies with an eye toward addressing the needs and challenges of today's students. We offer these recommendations for strengthening the student loan program:

- **Informed Choices**
 - Provide students with better information—more useful data presented in a useable format—that can inform decisionmaking about how to choose and how to pay for colleges that offer real value.
 - Improve student loan counseling—the timing, content, and delivery—so that it helps more students make better borrowing and repayment decisions, which may help them avoid delinquency and default.
- **Simplified Options**
 - Streamline Federal loan repayment options and ensure that information about eligibility and terms are sensible and simple.
- **Shared Accountability**
 - Improve the shared accountability framework used in college finance by holding States and institutions more responsible for high loan debt and defaults.

These recommendations—reinforced by numerous studies written by IHEP and others—could make the financial aid process more equitable and efficient, while simultaneously making the best use of taxpayer funds to better support students.

1. Informed Choices

Policy Option 1.1: Provide students with better information—more useful data presented in a useable format—that can inform decisionmaking about how to choose and how to pay for colleges that offer real value.

Students need better information to help them make more informed postsecondary decisions. At a time when college tuitions and fees are increasing faster than inflation and family income, data on college costs are critical. As it stands, too many of today's college students are paying far too much at institutions that offer them far too few chances for success.

Finding answers to students' basic questions about how much college will cost—not just in their first year, but their entire time at an institution—and how much they could end up borrowing would be a simple way to start. Existing data provide a useful picture of the tuition and fees, cost of attendance, and net price that students will face their first year. However, students are left to guess about how much they will pay in subsequent years and how much debt they will likely accrue during their college career.

We recommend amending the Integrated Postsecondary Educational Data System (IPEDS) to include college-level cost information—tuition and fees, cost of attendance, and net price—not just for freshmen, but also for continuing and transfer students. Also, we recommend adding to IPEDS data the amount of student loan debt accumulated for a certificate, associate's degree, bachelor's degree, or graduate degree, and the amount accumulated by non-graduates. Current debt data on the College Scorecard can produce confusing results by combining completers and non-completers, which allows colleges with high churn rates to appear more affordable than those where more students graduate.¹⁸

(2009). Retrieved from: http://www.nasfaa.org/research/Journal/subs/What_Matters_in_Student_Loan_Default_A_Review_of_the_Research_Literature.aspx.

¹⁷ Alisa F. Cunningham and Gregory S. Kienzl, "Delinquency: The Untold Story of Student Loan Borrowing." (Washington, DC: Institute for Higher Education Policy, 2011). Retrieved from: http://www.ihep.org/assets/files/publications/a-f/delinquency-the_untold_story_final_march_2011.pdf.

¹⁸ Mamie Voight, Alegneta Long, Mark Huelsman, and Jennifer Engle. "Mapping the Postsecondary Data Domain: Problems and Possibilities." (Washington, DC: Institute for Higher Education Policy, 2014). Retrieved from: http://www.ihep.org/assets/files/publications/M-R/mapping_postsecondary_data_part_1_final_march_2014-v2.pdf.

Data on cost are important, but data on outcomes also are necessary to provide an understanding of students' chances of success in college and beyond. We recommend that the U.S. Department of Education begin collecting graduation rates for Pell grant recipients, non-Pell grant recipients who receive subsidized Stafford loans, and students who receive neither Pell grants nor subsidized Stafford loans, so students can gauge their chances of success at an institution. Also, we recommend that the U.S. Department of Education release data on repayment rates by institution on an annual basis (using the National Student Loan Data System, NSLDS) and disaggregate data on student loan volume and default by undergraduate/graduate status. Furthermore, technical issues currently make it difficult to combine and match data from Federal Student Aid with data from IPEDS. We recommend that the U.S. Department of Education further study the scope and magnitude of these limitations and develop strategies for addressing them, including a crosswalk tool.

As stated, much of the relevant cost data is already in IPEDS or can be attained through modifications to current data collection. Table 2 in the Appendix provides a comprehensive overview of currently available cost data and recommendations for improvement to better aid consumer choice, policymaking, and institutional improvement.¹⁹

Policy Option 1.2: Improve student loan counseling—the timing, content, and delivery—so that it helps more students make better borrowing and repayment decisions, which may help them avoid delinquency and default.

Better information (see Policy Option 1.1)—when consumer-tested and presented accurately and simply—can help nudge students toward better choices. However, far too few students, especially low-income college goers, have access to the high-touch, data-driven counseling they need to help them interpret information about college outcomes and costs, and student loans in particular. In fact, high school counselors spend, on average, only 38 minutes per student per year on college counseling.²⁰ Even the perfect tool likely will suffer from limited use and effectiveness, unless it is put into the hands of counselors, teachers, aid administrators, and others who can spend adequate time directly advising students.

Student loan counseling needs to begin early (i.e., pre-college level) and continue throughout college (i.e., entrance counseling, annual aid renewal periods) and graduation/departure (i.e., exit counseling). At the pre-college level, this type of counseling can be required of TRIO and GEAR UP programs, for example, including the Educational Opportunity Centers program focused on returning adults. Four tools—the College Scorecard, net price calculators, the Financial Aid Shopping Sheet, and the Financial Awareness Counseling Tool—already developed by the Federal Government can also be improved to facilitate counseling at this level.

Table 1.—Summary of Financial Aid Tools to Facilitate Student Decisions

Existing Federal tools	Objectives	Recommended changes
College Scorecard	Examines average costs and student outcomes at nearly 4,000 degree-granting colleges that participate in Federal student aid programs and operate on a traditional calendar system. Helps students and families understand the typical amount borrowed and the chances of completing and/or defaulting at a particular school.	More comprehensive data needed, including the percent of students who borrow, as well as recommendations suggested in Policy Option 1.1 and Table 2 (Appendix) and more comprehensive coverage of schools needed (such as including those that do not operate on a traditional calendar system); Conduct more consumer-testing to ensure usability.
Net Price Calculators	Mandated to appear on colleges' Web sites, these reflect estimates of what students pay for college after grant and scholarship awards at individual institutions. Puts the sticker price in context and provides a more realistic, early estimate of what college costs.	Need to be more accessible and understandable for students, allow for easy comparison of results across multiple institutions, and prominently identify the net price figure in the results. ²¹ Conduct more consumer-testing to ensure usability.

¹⁹ Ibid.

²⁰ Patricia M. McDonough. "Counseling and College Counseling in America's High Schools. (Alexandria, VA: National Association for College Admissions Counseling, 2005). Retrieved from: <http://www.inpathways.net/McDonough%20Report.pdf>.

Table 1.—Summary of Financial Aid Tools to Facilitate Student Decisions—Continued

Existing Federal tools	Objectives	Recommended changes
Shopping Sheet	Model financial aid award letter that makes it easier for students and families to understand and compare the real cost of attendance and available aid options, including loans..	Require all colleges receiving Federal aid to use the standardized format. Conduct more consumer testing to ensure usability.
Financial Awareness Counseling Tool (FACT).	Offers tutorials to increase financial literacy, including a walk-through on the basics of student loans..	Integrate this information into other tools and college access programs to streamline offerings. Ensure usability through consumer testing.

While counseling at the pre-college level is designed to help students access and understand the information needed to make informed choices, at the undergraduate level the goal is different as it should help students understand their available aid, make wise decisions (i.e., at entrance and annually), and select appropriate repayment options (i.e., exit counseling). Both entrance and exit counseling are already mandatory for Federal student loan borrowers, and can be provided in person, in writing, or online, although an expert in financial aid is required to be available to answer questions.²² However, in a recent survey, about 40 percent of high-debt borrowers reported that they did not receive (or did not recall) student loan exit counseling. Also nearly two-thirds of private loan borrowers indicated that they did not understand the differences between their private and Federal student loan options.²³ This lack of awareness and understanding signal a need to improve the process.

To improve student loan counseling, it must be seen as an essential component of the aid process, instead of an item on a checklist. We recommend improving the timing of counseling, presenting borrowers with customized information relevant to their particular situation, and increasing the frequency of loan counseling. For example, the entrance session should occur before a student signs the promissory note. At the entrance session, counselors may incorporate some of the tools and resources referenced in Table 1, but go into more detail about terms in these tools and implications of them. For example, counselors—or a personalized, online counseling module—can use the shopping sheet to explain the difference between grants and loans and between types of loans, including subsidized Stafford loans, unsubsidized Stafford loans, and private loans. Counselors, counseling tools, and counseling materials also should explain the benefits of using Federal student loans instead of private loans and/or credit cards to finance college costs, while also communicating to students that they are not required to borrow the full amount offered to them if they do not need it. And at the exit session, the advantages and disadvantages of various repayment options should be discussed carefully, alongside personalized data and guidance on the implications of different repayment plans based on individual student's circumstances. At present, loan counseling is required twice during a student's academic career; however, we recommend that colleges and universities send students annual updates on their balance, interest rates, and repayment options. Additionally, students should be required, as a part of the financial aid renewal process, to review their loan balance, available through the NSLDS. While reviewing this information, students also could be provided an online tutorial on loan terms, interest rates, and repayment options. Loan counseling, including new tools and delivery methods, should be consumer tested and refined to be as applicable and useful for students as possible.

More research is needed to understand fully the most effective strategies in student loan counseling. While better information and improved counseling offer no guarantee that all students will make better decisions, it does offer a significant improvement over current practice, as it allows for more nuanced data to be integrated

²¹ For detailed recommendations on how to improve net price calculators, see "Adding it all up 2012: Are college net price calculators easy to find, use, and compare?" (Oakland, CA: The Institute for College Access and Success, 2012). Retrieved from: http://www.ticas.org/files/pub/Adding_It_All_Up_2012.pdf.

²² In 2010–11, about 6.4 million borrowers received entrance counseling through the Department's online tool. "Memo: Framework for testing the effectiveness of and improving student loan counseling." (Oakland, CA: The Institute for Access and Success, November 22, 2011).

²³ Jen Mishory and Rory O'Sullivan. "The Student Perspective on Federal Financial Aid Reform." (Washington, DC: Young Invincibles, 2012). Retrieved from: <http://younginvincibles.org/wp-content/uploads/2012/11/Student-Perspective-on-Federal-Financial-Aid-Reform.pdf>.

into existing tools that can easily be improved for usability. These recommendations operate in tandem, as we need both better data and better loan counseling supports. After all, in the end, data do not counsel people on how to get into, pay for, and graduate from college; people do.

2. Simplified Options

Policy Option 2.1: Streamline Federal loan repayment options and ensure that information about eligibility and terms are sensible and simple.

At the Federal level, we have made significant contributions to simplifying the Federal aid process through HEA reauthorizations. For example, in the 1992 reauthorization, the financial aid application was redesigned, application fees were eliminated, and a single need analysis formula was developed. Subsequent reauthorizations (e.g., Higher Education Opportunity Act, 2008) and other legislation (e.g., College Cost Reduction and Access Act, 2007) have been important steps in helping reduce the barriers of confusion and complexity that confront hopeful students. Yet despite these advances, some areas of simplification are still needed, as in the case of the student loan repayment options.

At present, there are many repayment options (see Table 3, Appendix), not including deferment and forbearance. For each plan, there are different eligibility criteria and a different payment formula. There are currently four income-driven repayment options—income-based repayment, Pay As You Earn, income-contingent repayment, and income-sensitive repayment, with another slated to begin in July 2014. While well-intentioned, these programs are unnecessarily confusing, and despite their benefits to borrowers, they are underutilized. According to the Federal Student Aid’s data, only about 11 percent of Federal loan borrowers are enrolled in some type of income-driven repayment program.²⁴

Reducing the number of repayment options would reduce complexity and make loan options (and terms) more transparent to borrowers. We recommend maintaining the standard repayment plan and offering a single income-based plan, which would allow borrowers to benefit from more manageable monthly payments and the assurance of loan forgiveness if they experience extended financial hardship.

This single income-based plan should aim to target protections to borrowers in most need of support, while not offering large forgiveness benefits to high-income, high-debt borrowers.²⁵

Simplifying student loan repayment options will not only minimize confusion and complexity for students, if students are aware of and counseled about these options using the strategies outlined in Policy Option 1.1 and 1.2, they could realize debt relief. Offering debt relief to borrowers, in the aggregate, has the potential to significantly decrease defaults.

3. SHARED ACCOUNTABILITY

Policy Option 3.1. Improve the shared accountability framework used in college finance by holding States and institutions more responsible for high loan debt and defaults.

Historically, postsecondary college financing has benefited from a model of shared responsibility, with the Federal Government, State governments, and students all bearing some of the cost. Given the substantial taxpayer investment, the Federal Government and State governments are accountable to their constituents for their roles in this financing scheme. For their part, students are held accountable for making continued academic progress toward a degree/credential. Current policies tie eligibility for Federal aid to “satisfactory academic progress,” which means students need to exhibit minimal progress toward a credential, including maintaining adequate academic standing. Recent changes to Federal aid programs have mandated additional requirements for students, including limitations on the length of time they are eligible for aid. And, as noted previously, students bear considerable risk when their investment in higher education through loans does not work out given the severe consequences of default. Yet, the role of the institution in this partnership is understated.

The investment in higher education is not a risk-neutral proposition for any party, but as it stands, the governments and students shoulder a significant, increasing

²⁴ Analysis of “Direct Loan Portfolio by Repayment Plan,” Federal Student Aid, U.S. Department of Education, Retrieved from: <http://studentaid.ed.gov/about/data-center/student/portfolio>.

²⁵ Jason Delisle and Alex Holt. “Safety Net or Windfall?” (Washington, DC: New America, 2012). Retrieved from: http://edmoney.newamerica.net/publications/policy/safety_net_or_windfall.

proportion of the risk. HEA reauthorization provides an opportunity to redesign this partnership to reflect more accurately current realities. To do so, we suggest bolstering the use of accountability metrics for institutions at the Federal level. The current mechanism used by the Federal Government is the application of cohort default rates to determine continued institutional eligibility for title IV financial aid. Cohort default rates (CDR) reflect whether an institution's borrowers are successfully avoiding default. The U.S. Department of Education's most recent update to the cohort default rates found that they have increased from the previous year (9.1 percent to 10 percent for 2-year CDRs and 13.4 percent to 14.7 percent for 3-year CDRs). The direction of this trend line is troubling, especially since the increase has been steady over several years and that 2-year default rates have now reached their highest point since 1995.²⁶

Despite this available lever, very few institutions are sanctioned (i.e., cutoff from Federal financial aid) using existing thresholds. In the most recent release of 2-year CDRs, only eight schools were subject to sanctions based on the 25 percent threshold for 2-year CDRs, and 218 were required to develop default prevention plans for having a 3-year rate of at least 30 percent.²⁷ CDRs provide some measure of accountability by spotlighting the worst offenders. The all-or-nothing approach, however, allows other poor performing schools to hide in the shadows.

We suggest broadening accountability beyond the all-or-nothing approach, and risk sharing could be a useful tool for doing so. This idea, highlighted in different variations by The Institute for College Access and Success (TICAS)²⁸ and partners in the Redesigning Aid Design and Delivery (RADD) consortium on student loans,²⁹ could refine and expand to institutions the model already established for guarantee agencies in the Federal Family Education Loan Programs. In this case, institutions would be held liable for some portion of the school's loan balance based on their performance on a repayment measure like cohort default rates (although other measures like repayment rates might also be explored given the limitations of CDRs³⁰). Another possibility would be to require institutions—on a sliding scale—to pay a penalty that is proportional to their defaulted debt.

For example, institutions could be required to pay into a risk-sharing fund an amount equivalent to a proportion of their total loan portfolio, with that proportion determined based by the loan repayment rate of their students. As a simple illustration, a 20 percent cohort default rate may translate to a risk-sharing payment equivalent to 20 percent of the loan portfolio, or less stringently, of the loan portfolio not in repayment. The funds paid into the risk-sharing pot could provide direct debt relief for struggling borrowers or be reinvested into loan forgiveness or the Pell grant program.

Some argue that a risk-sharing mechanism could lead institutions to pass the added expense along to students through higher prices. However, tying the size of the risk-sharing payment to the amount students are borrowing and/or the rate at which they are successfully repaying could help mitigate the risk of rising costs. Care must also be taken to protect access alongside a risk-sharing mechanism—or any institutional accountability system, for that matter—to prevent institutions from meeting performance benchmarks by limiting access. For instance, the system

²⁶“National Default Rate Briefings for Fiscal Year 2011 2-Year Rates and Fiscal Year 2010 3-Year Rates.” Federal Student Aid, U.S. Department of Education. Retrieved from: <http://www.ifap.ed.gov/eannouncements/093013CDRNationalBriefings2YRand3YR.html>.

²⁷“National Default Rate Briefings for Fiscal Year 2011 2-Year Rates and Fiscal Year 2010 3-Year Rates.” Federal Student Aid, U.S. Department of Education. Retrieved from: <http://www.ifap.ed.gov/eannouncements/093013CDRNationalBriefings2YRand3YR.html>; and Rachel Fishman. “Shape Up or Lose Out: The 218 Institutions that Must Develop Default Prevention Plans.” (Washington, DC: New America, 2012). Retrieved from: http://higheredwatch.newamerica.net/blogposts/2012shape_up_or_ship_out_the_3218_institutions_that_must_develop_default_prevention_plans.

²⁸“Aligning the Means and the Ends: How to Improve Federal Student Aid and Increase College Access and Success.” (Oakland, CA: The Institute for College Access and Success, 2013). Retrieved from: http://www.ticas.org/pub_view.php?idx=873.

²⁹“Automatic for the Borrower: How Repayment Based on Income Can Reduce Loan Defaults and Manage Risk.” RADD consortium on student loans. (Washington, DC: Young Invincibles, 2014). Retrieved from: <http://younginvincibles.org/wp-content/uploads/2014/03/Automatic-for-the-Borrower-3.19.14.pdf>.

³⁰See IHEP's recent report for an in-depth discussion of the limitations of cohort default rates as well as possible fixes and alternatives such as repayment rates. Mamie Voight, Alegneta Long, Mark Huelsman, and Jennifer Engle. “Mapping the Postsecondary Data Domain: Problems and Possibilities.” (Washington, DC: Institute for Higher Education Policy, 2014). Retrieved from: http://www.ihep.org/assets/files/publications/M-R/mapping_postsecondary_data_part_1_final_march_2014-v2.pdf.

could prevent a risk-sharing payment from being reduced if an institution improves its cohort default rate, but decreases its enrollment of Pell grant recipients.

III. CONCLUSION

In closing, I wish to thank you again for providing this opportunity to offer strategies to strengthen the Federal student loan programs. The recommendations outlined above are important both for helping students meet individual postsecondary and economic mobility goals and for meeting the Nation’s economic competitiveness goals. High student debt loads affects the U.S. economy in that they may force students to delay full participation on other key economic activities such as home-buying and saving for retirement. Student loan delinquency and default lead to further negative economic consequences in that students are left with poor credit ratings, limited future borrowing options, and additional financial penalties, while the Federal Government loses critical revenue and must spend additional resources to try to recover some of its initial investment.

As we move forward to reauthorize HEA, please know that I, along with my team at IHEP, are happy to serve as a resource and partners in this effort. Working together, will help us better serve students by offering them the tools and services they need in support of college access and success. By crafting a system that helps student borrowers make more informed decisions, leverage streamlined repayment options, and benefit from greater institutional accountability, Federal student loan programs are better positioned to serve their intended role—to provide students with the financial resources necessary to successfully complete a postsecondary degree and fully participate in the U.S. economy.

Appendix

Table 2.—Cost: Data Availability and Recommended Improvements ³¹

[Cost: Data availability and Recommendations for Improvement]

What questions need answers?	Which measures will answer these questions?	Are the data available?			How can the data be collected? (Already available, Amend IPEDS, Add to IPEDS, or Link to other data source)
		Yes	Partially available or needs improvement	No	
Cost: How much do students invest in college?.	Tuition and Fees .....	....	Tuition and fee data are reported in the IPEDS Institutional Characteristics (IC) Survey. In-state, in-district and out-of-state tuition and fees are reported for first-time, full-time undergraduates. Average tuition and fees are reported for all undergraduates. Tuition and fee are not disaggregated for transfer or continuing students..	....	Amend IPEDS: Collect data for transfer and continuing students.
Consumers need to know how much they will pay and borrow to attend an institution.	Cost of attendance ..	....	In-state, in-district, and out-of-state cost of attendance are reported for first-time, full-time degree/certificate-seeking undergraduates by living status (such as on-campus, off-campus with family, and off-campus not with family) In the IPEDS Institutional Characteristics Survey..	....	Amend IPEDS: Collect data for transfer and continuing students.

Table 2.—Cost: Data Availability and Recommended Improvements³¹—Continued

[Cost: Data availability and Recommendations for Improvement]

What questions need answers?	Which measures will answer these questions?	Are the data available?			How can the data be collected? (Already available, Amend IPEDS, Add to IPEDS, or Link to other data source)
		Yes	Partially available or needs improvement	No	
Policymakers need to know the cost and debt burden that students must undertake to access and succeed in college, which reflects on how institutions invest public dollars..	Net Price by Income	....	Average net price data are available for first-time, full-time undergraduates who receive grant or scholarship aid. Net price data are disaggregated by income bands for first-time full-time undergraduates who receive title IV aid. Both of these net price data point and omit students paying out-of-state tuition (or publics) transfer and continuing students, and students who do not receive financial aid (either title IV or grant/scholarships)..	....	Amend IPEDS: Collect data for transfer and continuing students and out-of-state students at public institutions. Collect net price by income for non-title IV recipients, and calculate overall net price including non-grant scholarship recipients.
Institutions need to monitor the impact of cost and debt on access and completion for students..	Cumulative Debt (disaggregated by loan type, income or financial aid category, and completion status, and ideally race/ethnicity; also accompanied by the percentage who borrow)..	....	The College Scorecard reports total Federal loan debt (including Parent PLUS loan) among students leaving an institution, using NSLDS. It does not separate completers from non-completers, disaggregate by type of Federal loan debt, include private loan debt, or report the percentage of students who borrow..	....	Link to other source: After the completion flag has been tested and verified, use NSLDS to disaggregate debt by income or financial aid category completion status, and loan type. Add to IPEDS: Until NSLDS completion data are verified, report to IPEDS. Continue collecting the percentage of students who borrow in IPEDS. Explore: Options for institutions (or lenders) to collect/report data on cumulative private loan debt and percentage who borrow private loans.

³¹ Mamie Voight, Alegneta Long, Mark Huelsman, and Jennifer Engle. "Mapping the Postsecondary Data Domain: Problems and Possibilities." (Washington, DC: Institute for Higher Education Policy, 2014). Retrieved from: http://www.ihep.org/assets/files/publications/M-R/mapping_postsecondary_data_part_1_final_march_2014-v2.pdf.

Table 3.—Overview of Student Loan Repayment Options ³²

Repayment plan	Eligible loans	Monthly payment and time frame	Quick comparison
Standard Repayment Plan.	Direct Subsidized and Unsubsidized Loans; Subsidized and Unsubsidized Federal Stafford Loans; all PLUS Loans.	Payments are a fixed amount of at least \$50 per month; up to 10 years.	You'll pay less interest for your loan over time under this plan than you would under other plans.
Extended Repayment Plan.	Direct Subsidized and Unsubsidized Loans; Subsidized and Unsubsidized Federal Stafford Loans; all PLUS Loans.	Payments may be fixed or graduated; Up to 25 years.	Your monthly payments would be lower than the 10-year standard plan; If you are a Direct Loan borrower or FFEL, you must have more than \$30,000 in outstanding debt in that respective program; You'll pay more for your loan over time than under the 10-year standard plan.
Graduated Repayment Plan.	Direct Subsidized and Unsubsidized Loans; Subsidized and Unsubsidized Federal Stafford Loans; all PLUS Loans.	Payments are lower at first and then increase, usually every 2 years; Up to 10 years.	You'll pay more for your loan over time than under the 10-year standard plan.
Income-Based Repayment Plan.	Direct Subsidized and Unsubsidized Loans; Subsidized and Unsubsidized Federal Stafford Loans; all PLUS Loans made to students; Consolidation Loans (Direct or FFEL) that do not include Direct or FFEL PLUS loans made to parents.	Your maximum monthly payments will be 15 percent of discretionary income, the difference between your adjusted gross income and 150 percent of the poverty guideline for your family size and State of residence; Your payments change as your income changes; Up to 25 years.	You must have a partial financial hardship; Your monthly payments will be lower than payments under the 10-year standard plan; You'll pay more for your loan over time than under the 10-year standard plan; If you have not repaid your loan in full after making the equivalent of 25 years of qualifying monthly payments, any outstanding balance on your loan will be forgiven; You may have to pay income tax on any amount that is forgiven.
Income-Contingent Repayment Plan.	Direct Subsidized and Unsubsidized Loans; Direct Plus Loans made to students; Direct Consolidation Loans.	Payments are calculated each year and are based on your adjusted gross income, family size, and the total amount of your Direct Loans; Your payments change as your income changes; Up to 25 years.	You'll pay more for your loan over time than under the 10-year standard plan; If you do not repay your loan after making the equivalent of 25 year of qualifying monthly payments, the unpaid portion will be forgiven; You may have to pay income tax on the amount that is forgiven.
Income-Sensitive Repayment Plan.	Subsidized and Unsubsidized Federal Stafford Loans; FFEL PLUS Loans; FFEL Consolidation Loans.	Your monthly payment is based on annual income; Your payments change as your income changes; Up to 10 years.	You'll pay more for your loan over time than you would under the 10-year standard plan; Each lender's formula for determining the monthly payment amount under this plan can vary.

Table 3.—Overview of Student Loan Repayment Options³²—Continued

Repayment plan	Eligible loans	Monthly payment and time frame	Quick comparison
Pay As You Earn Repayment Plan.	Direct Subsidized and Unsubsidized Loans; Direct PLUS loans made to students; Direct Consolidation Loans that do not include (Direct or FFEL) PLUS loans made to parents.	Your maximum monthly payments will be 10 percent of discretionary income, the difference between your adjusted gross income and 150 percent of the poverty guideline for your family size and State of residence; Your payments change as your income changes; Up to 20 years.	You must be a new borrower on or after October 1, 2007, and must have received a disbursement of a Direct Loan on or after October 1, 2011; You must have a partial financial hardship; Your monthly payments will be lower than payments under the 10-year standard plan; You'll pay more for your loan over time than you would under the 10-year standard plan; If you have not repaid your loan in full after you made the equivalent of 20 years of qualifying monthly payments, any outstanding balance on your loan will be forgiven; You may have to pay income tax on any amount that is forgiven.

The CHAIRMAN. Thank you very much, Dr. Cooper.
Ms. Loonin.

**STATEMENT OF DEANNE LOONIN, NATIONAL CONSUMER
LAW CENTER, BOSTON, MA**

Ms. LOONIN. Thank you, Chairman Harkin, Senator Alexander, and other members of the panel. Thank you for inviting me to testify here today.

I am here today on behalf of my low-income clients. They're a diverse group, really representing or reflecting the broad faces of student loan borrowers today, and it's important to keep that in mind when we look at this issue, because the idea of—or sort of the concept of an 18-year-old going to college, finishing at age 21, is actually more of an anomaly now than what happens in the current environment where non-traditional students are actually the majority of students today.

But there is one common thread of all the clients I've worked with over the years, and that's that they've all sincerely wanted to go to college to better themselves and to better the lives of their families. That may not have been the outcome, but that was their sincere intent.

The great advantage of our system is the opportunity for all to get a college education. But it should be about investing in students most of all, not about government and private profit.

Under the current system, schools may be profiting as tuition continues to increase, private servicers and collectors may be profiting due to borrower distress, and even the government appears

³²“Repay your Direct Loans and Federal Family Education Loan (FFEL) Program Loans.” Federal Student Aid, U.S. Department of Education. Retrieved from: <http://studentaid.ed.gov/repay-loans/understand/plans>.

to be profiting. But it's on the back, largely, of students who are asked to take on nearly all of the risk. We can do better for borrowers, and we can do it within the structure of the Direct Loan program.

The structure is not the problem. The problem is lax oversight, lax management, and misaligned incentives. I believe we need a multi-faceted approach and not assume that there's just one solution to all of this. I want to mention a few, and I have more details in my testimony.

The approach starts with school accountability, as Dr. Cooper mentioned. The best way to prevent defaults is to help students succeed. And then we also want to look at simplifying the student loan system and focusing it more on borrowers. With servicing, which we've already talked quite a bit about, the focus now on private contractors and profit plays out in that servicers too often steer borrowers to the easiest options.

My clients, much of the time, don't even know about IBR, aren't told about IBR, don't know about the optimal options for them. And I believe there are ways that we can streamline servicing, perhaps with competition. Some competition is likely healthy—but create a system that's about putting borrowers first, not ensuring that private companies get every opportunity to promote their brands.

I also discuss collection in greater detail in my testimony. But in a nutshell, the government has given the private collection industry a dispute resolution and counseling role with borrowers, and instead, in my experience, working for many years with clients, the collection agencies routinely violate consumer protection laws and prioritize profits over borrower rights. It doesn't work for borrowers, it doesn't work for taxpayers, and I think it's time to end the experiment with private collection agencies.

We've been giving examples of these problems for years to government agencies, but we haven't had much response. In fact, as has been mentioned, for the most part, the Department of Education has kept renewing contracts even for those servicers or collectors where there's been evidence of offenses. The problems are now more public with the GAO and Inspector General reports, and I believe that we can fix this.

The administration was able to mobilize and implement the transition to full direct lending a few years ago. I think they can put the same level of commitment to fixing the servicing and collection system, and use all the resources available to them, use the CFPB, which has very much improved, the complaint system, oversight over servicers, and, of course, use congressional oversight, too.

Ultimately, it's about giving students the best chance to succeed and recognizing that, as with all investments, some don't work out the first time around. We need to give borrowers another chance, more than one chance at rehabilitation, more than one chance at consolidation, the programs that we know how to get out of default.

Instead, unlike businesses, under current policy, we hammer student borrowers, frankly, until they die. We take earned income tax credit, we take social security, we limit bankruptcy rights. We've basically eviscerated the safety net.

We can do much better for borrowers. It's not just for borrowers. It's for society so that clients like mine who want to go back to

school can go back to school, succeed, repay their loans, and enter the workforce. I believe we can do better.

[The prepared statement of Ms. Loonin follows:]

PREPARED STATEMENT OF DEANNE LOONIN

SUMMARY

Promoting equal access to higher education depends in large part on improving the Federal student loan system. Although Federal student aid is not made up of loans alone, student loans are the centerpiece of Federal aid and are unavoidable for most students and their families. This is mainly because college costs have risen faster than family incomes and available grant aid.

Although there have been some positive developments in recent years, overall the system is focused too heavily on profits for the government and private contractors rather than quality service and protection of borrowers. This is unacceptable and unsustainable.

My testimony focuses on improving the student loan program through a multi-faceted approach. There is no one solution to help more students succeed in college, borrow as little as possible, and manage debt. My testimony highlights the following key recommendations:

1. Target aid to the neediest students and reduce reliance on loans.
2. Encourage success and prevent defaults by:
 - Holding schools accountable. (The best way to prevent default is through student success),
 - Improving information and counseling,
 - Simplifying the Federal student loan system, and
 - Creating an automatic income-driven repayment (IDR) option in late stage delinquency and studying other options.
3. Create a servicing and collection system based on borrower service, not private profit, and make it transparent.
4. Hold the government and contractors accountable through rigorous public and private enforcement.
5. Give borrowers the opportunity for a fresh start. Draconian collection and default policies prevent individuals from getting a fresh start. They also impede economic productivity by preventing many students from returning to school, succeeding, entering repayment on their loans, and entering the labor force.
6. Restore a student loan safety net. Collection should be targeted to those with resources to pay and there must be a safety net. This is critical for borrowers, but also for taxpayers. There are significant costs to taxpayers associated with pursuing the most vulnerable borrowers until they die. Under the current system, lenders and collectors profit as the government pays higher and higher collection fees.
7. Mandate research and innovation.

The National Consumer Law Center (NCLC) thanks the committee for holding this hearing and inviting us to submit this testimony on behalf of our low-income clients. The National Consumer Law Center is a nonprofit organization specializing in consumer issues on behalf of low-income people. We work with thousands of legal services, government and private attorneys, as well as community groups and organizations that represent low-income and older individuals on consumer issues.¹ NCLC's Student Loan Borrower Assistance Project provides information about student loan rights and responsibilities for borrowers and advocates. We also seek to increase public understanding of student lending issues and to identify policy solutions to promote access to education, lessen student debt burdens and make loan repayment more manageable.²

In my work as the Director of NCLC's Student Loan Borrower Assistance Project, I provide training and technical assistance to attorneys and advocates across the country representing low-income student loan borrowers. I have written numerous

¹In addition, NCLC publishes and annually supplements practice treatises which describe the law currently applicable to all types of consumer transactions, including *Student Loan Law* (4th ed. 2010 and Supp.).

²See the Project's Web site at <http://www.studentloanborrowerassistance.org>.

reports on student loan issues and am also the principal author of NCLC's *Student Loan Law* practice treatise.

I provide direct representation to low-income borrowers through Massachusetts-based legal services and workforce development organizations. I also have daily contact with a wide range of borrowers through our student loan Web site. Because of my extensive experience representing student loan borrowers and working on student loan matters, I have served as the legal aid representative at a number of Department of Education negotiated rulemaking meetings.

PROMOTING EQUAL ACCESS TO HIGHER EDUCATION AND IMPROVING THE FEDERAL STUDENT LOAN PROGRAM

The Federal student aid programs began during the 1960s as a way to improve access to education for lower income individuals. In 1965, on signing the Higher Education Act, President Johnson said, “[The Higher Education Act] means that a high school senior anywhere in this great land of ours can apply to any college or any university in any of the 50 States and not be turned away because his family is poor.”³ President Nixon echoed this message in 1970, stating that “No qualified student who wants to go to college should be barred by lack of money.”⁴

Measured by these goals, student aid policy has failed. College completion rates in the United States have been flat since the 1970s among all sectors of higher education. Lack of completion is a particular problem among lower income individuals. The shocking reality is that despite all of the money spent on financial aid, the difference in college graduation rates between the top and bottom income groups has widened by nearly 50 percent over two decades.⁵ U.S. Education Secretary Duncan has admitted that college access disparities are “actually worsening.”⁶ As the *New York Times* reported, this growing gap “. . . threatens to dilute education’s leveling effects.”⁷

Closing the access gap depends in large part on improving the Federal student loan system. Although Federal student aid is not made up of loans alone, student loans are the centerpiece of Federal aid and are unavoidable for most students and their families. This is mainly because college costs have risen faster than family incomes and available grant aid. To compound the problem, the lowest income borrowers tend to borrow the most.

It is not just the levels of debt that cause problems, but the levels of financial distress due to unmanageable student debt. There are nearly 39 million borrowers carrying over \$1 trillion in Federal student loan debt.⁸ About \$120 billion of Federal student loan debt was delinquent in 2012—a 30.5 percent increase from fiscal year 2011.⁹

These problems are exacerbated by a draconian collection system that provides little or no opportunity for a fresh start if a student borrower does not succeed in college the first time around. The challenges are even greater given the changing demographics of college students today. **Most students do not follow a straight line from high school to a 4-year college to graduation.** Only 15 percent of undergraduate students live on campus. Three in ten works full-time and one in four have their own children.¹⁰ Federal student aid policy must reflect and accommodate the reality that “non-traditional” students are now the majority of college students.

The government has nearly boundless powers to collect student loans, far beyond those of most unsecured creditors. The government can garnish a borrower’s wages without a judgment, seize his tax refund, even an earned income tax credit, seize portions of Federal benefits such as Social Security, and deny him eligibility for new education grants or loans. Even in bankruptcy, most student loans must be paid. Unlike any other type of debt, there is no statute of limitations. Even those who

³ Quoted in Peter Sacks, *Tearing Down the Gates: Confronting the Class Divide in American Education* (2007).

⁴ *Id.*

⁵ Tami Luhby, “College Graduation Rates: Income Really Matters.” CNN Money (Nov. 28, 2011).

⁶ Quoted in Omari Scott Simmons, “Lost in Translation: The Implications of Social Capital for Higher Education Access” 87 *Notre Dame Law Review* 205 at 210 (Nov. 2011).

⁷ Sabrina Tavernise, “Education Gap Grows Between Rich and Poor, Studies Say” *New York Times* (Feb. 9, 2012).

⁸ Statistics discussed in Rohit Chopra, Consumer Financial Protection Bureau, “A Closer Look at the Trillion” (Aug. 5, 2013); “Explainer: Changes to Federal Student Loan Interest Rates” (June 21, 2013).

⁹ U.S. Department of the Treasury, “U.S. Government Receivables and Debt Collection Activities of Federal Agencies,” Fiscal Year 2012 Report to the Congress (March 2013).

¹⁰ HCM Strategists, “The American Dream 2.0” (2013).

can make some payments face serious damage to their credit reports or ability to get credit for critical purchases such as cars and homes.

This is unacceptable and unsustainable. Schools may be profiting as tuition continues to rise and private servicers and collectors may be profiting due to borrower misfortune, but we should not be growing our student loan system on the backs of defaulted borrowers or measuring success by private profit rather than student success.

My testimony focuses on improving the Federal student loan program through a multi-faceted approach. There is no one solution to help more students succeed in college, borrow as little as possible, and manage debt. My testimony highlights the following key recommendations:

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3. Create a servicing and collection system based on borrower service, not private profit, and make it transparent.
4. Hold the government and contractors accountable through rigorous public and private enforcement.
5. Give borrowers the opportunity for a fresh start.
6. Restore a student loan safety net.
7. Mandate research and innovation.

There are many challenges highlighted in this testimony, but it is also important to recognize the positive developments, particularly in the government's successful transition to 100 percent Direct Lending. By most accounts, the origination process works well. Memories are short and too many have forgotten the costly abuses in the guaranteed loan program that ended in 2010. It is most important to look forward and focus on making the current programs work better for borrowers, taxpayers and society.

I. TARGET AID TO THE NEEDIEST STUDENTS AND REDUCE RELIANCE ON LOANS

This general goal should include incentives for schools to admit low-income students and help them succeed. Increased support for targeted grants, including Pell grants, is critical.

Although increased grant funds are necessary, we cannot solve the access gap through money alone. Many of the hurdles low-income individuals face go beyond financial issues. There are social trends at work that may provide challenges that are just as significant. We urge Congress to consider testing programs that address the additional challenges so many low-income students face.¹¹

II. ENCOURAGE STUDENT SUCCESS AND PREVENT DEFAULTS

A. *Hold Schools Accountable*

One of the most effective ways to prevent defaults is to incentivize colleges to improve student completion and success rates *and* hold schools accountable for consistently inferior outcomes. Borrowers are most likely to default if they do not complete college and if they are unemployed or earning low wages after leaving or graduating.¹²

It is worth exploring requiring schools to pay directly for student loan defaults. However, there are dangers for borrowers if schools pay off loans and then attempt to collect directly from students. Borrowers in these cases lose the various rights available under the Higher Education Act for Federal student loans. Another option may be to adjust the cohort default rate thresholds and calculations so that more schools with default rate problems are sanctioned.

¹¹ See generally National Consumer Law Center, "No Lost Causes: Practical Ideas to Help Low Income Students Succeed in College" (March 2014).

¹² See generally National Consumer Law Center "The Student Loan Default Trap: Why Borrowers Default and What Can Be Done" (July 2012).

B. Improve Information and Counseling

Congress and regulators should look for opportunities to improve the timing, content and effectiveness of counseling. However, counseling and disclosures should not be substitutes for substantive reform.

This is an important area for additional study as there are mixed results on whether default aversion counseling actually prevents defaults.¹³ In designing these studies, it is not enough to measure whether borrowers increase knowledge through counseling and other interventions. The focus should be on measuring borrower behavior over time after receiving counseling or other default aversion services.

As part of the information and counseling efforts, Congress and regulators should assess the effectiveness of the various ombudsman programs and consider expanding them. The Department of Education's ombudsman office, in our experience, can play a useful role in fostering communication and in some cases mediating disputes between the government and borrowers. We also urge creation of pilot programs to fund non-profit, neutral counseling entities and legal assistance programs.

C. Simplify the Federal Student Loan System

The Consumer Financial Protection Bureau's collection of complaints about private student loans indicates high levels of confusion among borrowers regarding their loans and the financial aid process. Many borrowers did not know the rules for Federal aid eligibility and some could not identify whether they had Federal or private loans.¹⁴ We know first-hand how difficult it is to counsel distressed borrowers about the differences between IBR, ICR, ISR, PAYE and a host of other acronyms. Our clients and others like them all too often end up stuck in a bureaucratic morass when seeking solutions for financial distress.

Simplifying the servicer system will improve repayment rates and prevent defaults, as discussed in the next section. In addition we recommend:

1. Establish a single portal for all borrower transactions. Even if there are multiple servicers, all borrowers should receive communications that are clearly from the government, not from a private servicer or contractor who the borrower may or may not know and may not even associate with student loans. We agree with the Direct Loan Coalition that focusing borrower activity to a single site will improve the simplicity and transparency of the Federal loan process.¹⁵

This confusion has serious consequences. For example, the tax statements (1099s) after a disability discharge come in envelopes from the government contractor Nelnet. Those that we have seen do not specify that there is an important tax document inside or that it has anything to do with a student loan. Peg Julius from the Direct Loan Coalition testified that "Because the servicers are currently allowed to co-brand all mailings (either paper or e-mail) with their company name, students may not open the correspondence and thus, miss important information. . . . This was not an issue when there was a single Federal loan servicer and all correspondence was identified simply as "Federal Direct Student Loans."¹⁶

The improved disability discharge system provides some important lessons in streamlining a government program. While not perfect, the program operates much more efficiently due to a series of legislative and regulatory improvements. The increased effectiveness is due in part to a simplified system where all borrowers apply for discharges through one servicer regardless of whether they have FFEL, Perkins or Direct Loans.

2. Simply the income-driven repayment programs. There is too much complexity in the numbers of income-driven repayment programs and other options. Streamlining these programs, including creating one IDR plan, will make it easier for servicers to provide quality assistance. We agree with the Institute for College Access and Success' (TICAS) proposal to consolidate the complex income-driven repayment plans into one new and improved plan.¹⁷

D. Create An Automatic IDR Option in Late Stage Delinquency

To help catch financially distressed borrowers before they fall into default, we recommend automatically enrolling borrowers in late-stage delinquency in IDR. Bor-

¹³Id.

¹⁴Rachel Fishman, "What Borrowers Don't Understand About Student Loans May Hurt Them" Higher Ed Watch (June 18, 2012).

¹⁵National Direct Student Loan Coalition, "Reauthorization of the Higher Education Act: Proposals for Legislative Change" (September 2013).

¹⁶Statement of Peg Julius on behalf of the National Direct Student Loan Coalition (NDSLCL) before the House Subcommittee on Higher Education and Workforce Training, Hearing on "Examining the Mismanagement of the Student Loan Rehabilitation Process" (March 12, 2014).

¹⁷See The Institute for College Access and Success, "Aligning the Means and the Ends" (February 2013).

rowers could opt out later if they choose. The Institute for College Access and Success (TICAS), for example, has recommended automatic enrollment in IDR at the 6-month delinquency mark.¹⁸

We urge Congress to be wary of the seemingly simple solution of placing all borrowers into a universal IDR program whether payments are made via payroll deductions or other means. It is critical to maintain choice for borrowers and recognize that IDR is not the best payment plan for everyone. Some borrowers will pay more over the life of their loans using IDR. IDR can also increase the amount of time borrowers have outstanding debt, which might impede access to other forms of credit. Further, even a low IDR payment is not affordable for everyone. For example, high private student loan debts are not even counted in the IDR formula. There should be other options such as hardship suspensions or deferments for these borrowers.

Automatic payroll deduction is an option often discussed to improve repayment. This option may seem simple and appealing, but this is not necessarily the case. Small employers in particular may not be equipped to administer even a relatively simple repayment system and we have often experienced problems with both large and small employers mismanaging the wage garnishment process.

In addition, student loan debt is not the same as Social Security payments which are currently collected through payroll deductions. Borrowers often have legitimate defenses to student loan repayment. They must have a way to be able to raise these defenses rather than operate under a system that assumes that the debt is valid. For example, we had a client recently who attended a for-profit school in the Boston area for about 1 month. Despite promises of superior instruction and job placement, the entire first month of “instruction” involved the students sitting in a classroom reading job ads. The client left, but has a \$10,000 outstanding loan. We intend to assist her if possible in challenging repayment based on legal claims against the school. This is not something that would arise in a payroll deduction for Social Security or Medicare. Finally, an automatic enrollment system must not penalize borrowers who are unable to work and/or not required to file taxes.

Congress should proceed carefully and avoid latching on to a seemingly simple, but not necessarily optimal solution. In addition, without proper design, there are the potential unintended consequences of losing leverage to incentivize schools to improve student outcomes. In promoting the idea of automatic IDR, a consortium of advocacy groups recently acknowledged that a system of this sort would not necessarily solve the problem of college affordability or stem growing student debt levels.¹⁹

III. CREATE A SERVICING AND COLLECTION SYSTEM FOCUSED ON BORROWERS, NOT PRIVATE PROFIT AND MAKE IT TRANSPARENT

Servicers and collectors must provide holistic counseling so that borrowers understand all available options. A well-designed system focused on quality service will also help simplify the student loan system and ultimately save money. The goal is to encourage superior service through some competition without bombarding consumers with too much information.

A. Improvements in Servicing

In order to create an improved servicing system, we need more information about the current system, including information about contract structure and performance evaluation. We fear that the Department of Education is moving toward a model in which it justifies withholding basic information about private servicers because of supposed proprietary contract arrangements. This may work well for Department employees seeking to avoid accountability, but it does not work best for borrowers and taxpayers.

The goal of the system should be to provide quality service to borrowers. The current system is not meeting this goal among other reasons because there are too many servicers and too much variation in service. Most important, the Department of Education is not providing sufficient oversight to ensure that all borrowers receive quality service. *Regardless of whether there are multiple servicers or a single servicer, borrowers should have standard, quality service and the Department must award contracts based on metrics that focus on quality service.*

We urge the Department to consider different approaches. We believe that the system that emerges should likely involve multiple servicers competing for accounts. However, as discussed above, all borrowers should receive quality standard service

¹⁸Id. at 65–66.

¹⁹“Automatic for the Borrower: How Repayment Based on Income Can Reduce Loan Defaults and Manage Risk” (2014).

and should be able to deal with the servicer through a single portal that clearly brands the student loans as a government product and service. The performance metrics must be relevant, rigorous and transparent. If there are multiple servicers, borrowers should be allowed to switch if they are not satisfied.

Unfortunately, consistent quality service is not the current borrower experience. Among other problems, we see servicers pushing borrowers into the quickest options, such as forbearance, rather than explaining and assisting borrowers to obtain more favorable long-term solutions, such as income-based repayment. Forbearances can be costly for borrowers because interest accrues during forbearance periods and because they must be renewed more frequently than most other options.

For example, I recently met with a financially distressed client who is barely managing to stay current on an old guaranteed consolidation loan (FFEL loan). She had been living in a domestic violence shelter for some time. She is temporarily living with a friend while her son lives with other family members. She is trying to get back on her feet and find work. It is difficult and she is only earning about \$5,000/year. Yet when she called her Federal loan servicer for help, they put her in a short-term forbearance. For the last several years, they have placed her in forbearances and deferments. She says that no one even mentioned income-based repayment (IBR). She called the servicer while I was in the room and sure enough, the representative mentioned another forbearance. The representative only mentioned IBR when I got on the phone and asked about it.

The servicers often complain that they are “stuck” and must push easier solutions because of flaws in the government servicing contract commission system. Essentially, servicers say that they are not paid enough to take the time to administer the more complex programs. This is unacceptable. When servicers enter into contracts with the government, they know what the commission system will be. Even if there are problems with compensation, those problems are not an excuse to deny borrower rights or provide inferior service. The company is not stuck. It can choose not to bid for a contract it deems unreasonable. In contrast, borrowers are truly stuck if they face servicing problems. They are not permitted to shop around and find better choices. The Department is unequivocal about this trap on the Federal loan side. In on-line FAQs, in response to the question, “Do I select my loan servicer?” the Department’s answer is No.²⁰

The servicing system has become so confusing that an entire industry of for-profit “debt relief” companies has sprung up to supposedly provide the services that the free government servicers are failing to provide. Borrowers run the risk not only of paying exorbitant fees to these companies, but also of losing important rights. We released a report last year focusing on abuses in the for-profit student loan “debt relief” industry.²¹ New York Governor Cuomo’s new Student Protection Unit recently announced that it had sent subpoenas to 13 of these “relief” companies.²²

We have sent examples of poor service and legal violations to the Department of Education for years and more recently to CFPB. The Department has admitted to finding numerous problems with the performance of servicers such as Sallie Mae. For example, the Department responded to a request for information from Senator Elizabeth Warren in December 2013 with a long list of “issues” identified by the Department in audits and reviews of Sallie Mae. These issues with Sallie Mae’s servicing of Federal loans include defects in conversion to repayment, incomplete adjustments to borrower accounts when transferred from a previous servicer, and incorrect calculation of income for the income-based repayment program (IBR). The Department also listed problems with the company’s servicing of FFEL loans uncovered in audits and review, including incorrect billings, due diligence errors, and incorrect repayment terms. However, the Department said that compliance issues have not risen to the level where “penalties were considered appropriate.”

As the Inspector General and GAO recently reported, the Department has not followed up reports of problems with rigorous oversight. To date, we have been able to work out individual client situations, often in conjunction with ombudsman assistance, but have yet to see systemic reform.

²⁰ See <http://studentaid.ed.gov/repay-loans/understand/servicers>.

²¹ See National Consumer Law Center, “Searching for Relief: Desperate Borrowers and the Growing Student Loan ‘Debt Relief’ Industry” (June 2013).

²² See New York State Department of Financial Services, “Governor Cuomo Announces New Student Protection Unit and Launches Investigation into Student ‘Debt Relief’ Industry” (January 22, 2014).

The CFPB's announcement in December 2013 that it will begin supervising large student loan servicers is a promising sign for borrowers.²³ The CFPB can help fill the gaps caused by a long history of lax Federal oversight. The CFPB and Department of Education must work together to ensure that servicers are doing their jobs properly. State Attorney General offices also have an important role in protecting consumers in their States.

Additional Recommendations to Improve Servicing:

1. **Ensure that all borrowers receive quality servicing with a minimum of confusion.** We agree with the Direct Loan coalition that competition among a limited number of servicers can be healthy, but that too many servicers increase complexity and taxpayer cost.

2. **Address potential conflicts in the new program allowing borrowers to choose a servicer when consolidating.** We are very concerned about the potential for abuse with this new consolidation system. We outlined these concerns in a letter to the Department of Education and CFPB dated March 6, 2014 and attached to this testimony. We have not yet heard back. Among other actions, the Department could prohibit third parties from making the choice on behalf of borrowers.

3. **Give borrowers the opportunity to switch servicers.** This will help spur healthy competition.

4. **Ensure smooth transitions if accounts must be transferred.**

5. **Provide public information about how servicers are evaluated, including detailed information about the current performance metrics.**

6. **Ensure that borrowers have access to monthly statements, fair billing and other basic consumer rights that exist in most other consumer credit markets.**

7. **Penalize servicers that violate higher education and consumer protection laws and fail to provide consistent quality service.**

B. Improvements in Collection

The Department of Education refers every eligible debt to one of 22 collection agencies. The business is a huge growth opportunity for collectors. According to one insider, "The student loan market is a \$1 trillion opportunity for the ARM [debt collection] industry that is not going to decline anytime soon."²⁴

We urge Congress to investigate this system, focusing on the cost to taxpayers and borrowers. **Outsourcing collection is not cheap. Taxpayers paid about \$1 billion in commissions to private student loan debt collectors in 2011.**²⁵ Department projections show commissions growing to over \$2 billion by 2016.²⁶

Contractors are too often rewarded based on the amounts collected without regard to borrower rights. In our experience, *collection agencies routinely violate consumer protection laws and prioritize profits over borrower rights.* The GAO report affirmed this unfortunate trend, finding that the Department documented instances where collection agency representatives provided false or misleading information to borrowers. According to the GAO report, when the Department found these violations, it simply provided feedback.²⁷ This is unacceptable. At a minimum, the Department of Education should have referred violations to other agencies that regulate debt collectors, including the CFPB. **The tender treatment of collection agencies breaking the law is in sharp contrast to the way borrowers are hounded forever when they run into financial distress.**

The government must balance the need to collect student loans and the need to assist borrowers. The current system heavily favors high pressure collection and collector profits, to the detriment of financially distressed borrowers seeking the help they so desperately need.

The main problem is that dispute resolution is not the primary mission of loan collection agencies. Debt collectors are not adequately trained to understand and administer the complex borrower rights available under the Higher Education Act, and the government does not provide sufficient oversight of their activities. There are certainly times when a borrower is uncooperative or has exhausted all options. In those cases, the loan holder may have no choice but to focus on collection efforts.

²³ Consumer Financial Protection Bureau, "CFPB to Oversee Nonbank Student Loan Servicers" (Dec. 3, 2013).

²⁴ Mark Russell, "Student Loans: The ARM Industry's New Oil Well?" *Inside ARM* (Oct. 20, 2011).

²⁵ John Hechinger, "Obama Relies on Debt Collectors Profiting from Student Loan Woe," *Bloomberg* (March 26, 2012).

²⁶ Presentation of Dwight Vigna, Education Department, 2013 Knowledge Symposium (Nov. 2013).

²⁷ U.S. Government Accountability Office, "Federal Student Loans: Better Oversight Could Improve Defaulted Loan Rehabilitation" (March 2014).

Yet there are many borrowers who want to find a solution, but are stymied because they cannot get past the rude, harassing, and often abusive behavior of a collection agent.

As noted above, we have provided the Department of Education and more recently the CFPB with consistent examples of problems over the years with little or no response. The criticism has been more public recently from the Inspector General and GAO. The recent GAO report, for example, includes very important findings of Education's failure to monitor its contractors and conduct oversight. In addition, the Department's Inspector General issued a final alert memorandum in May 2013 informing the Department of concerns that Federal Student Aid (FSA) paid estimated commissions and bonuses to private collection agencies based on revised methodologies and without reviewing supporting documentation. FSA was unable to calculate the actual commissions earned due to problems with in-house systems and therefore relied on self-reported estimates during fiscal year 2012.²⁸

The Department and other loan holders often dismiss examples of bad behavior as "anecdotal" and point to low volumes of borrower complaints. This excuse does not take into account that complaints are relatively low in part because borrowers do not know how to complain. There is no clear information for borrowers about how to lodge complaints about collection agencies.²⁹ In any case, there should be no more hiding given the recent GAO and IG investigations confirming the widespread problems in oversight and management of private contractors. The GAO reported that with respect to rehabilitation, the Department did not have data to track loan rehabilitation performance or data on the extent to which borrowers that rehabilitate stay out of default.³⁰

In addition to pushing for greater oversight, we urge Congress to require the Department of Education to reveal how it measures collection agency performance. We have attempted for some time to obtain more information through FOIA requests, but have been stonewalled for the most part. *We are very concerned about the trend away from providing the public and legislators with the information needed to ensure that borrowers and taxpayers are protected.*

An accessible complaint system and increased transparency will not solve all student debt problems. However, improvement in these areas can help restore the balance between borrower rights and extraordinary government collection powers. The government has nearly unlimited power to collect student loans. At a minimum, the government must be accountable to the public about how it uses this power and how much it costs all of us in the long run.

We urge Congress to monitor the Administration's response to the recent GAO and Inspector General findings. It is past time to focus on fixing not just loan rehabilitation, but the entire Federal loan servicing and collection system. The Administration was able to mobilize and implement the transition to full direct lending a few years ago. Now the government must put this same level of commitment to fixing the servicing and collection system.

We will know the collection system is working better if servicers and collectors start complying with existing laws and learn to explain these laws without bias to borrowers. The government must measure success on this basis instead of focusing only on higher collection levels.

Additional Recommendations to Improve Collection

1. Eliminate private collection agencies from the dispute resolution role.

Until such time as the government identifies viable alternatives to private collection agencies, we call on the Administration to issue a moratorium on using private collection agencies for student loan dispute resolution. Congress should also act to prohibit use of private debt collectors and create a pilot program to study the effectiveness of other debt collection techniques.

2. Provide public information about the cost of outsourcing to private debt collectors and about performance. Collection agency performance must be about more than dollars collected.

3. Monitor Department oversight of collection and require public information about how performance is tracked and the results.

²⁸ U.S. Department of Education, Office of Inspector General, "Federal Student Aid Paid Private Collection Agencies Based on Estimates," Control Number ED-OIG/L02N0002 (May 15, 2013).

²⁹ See Deanne Loonin & Jillian McLaughlin, "Borrowers on Hold: Student Loan Collection Agency Complaint Systems Need Massive Improvement." National Consumer Law Center (May 2012), p. 15-17.

³⁰ U.S. Government Accountability Office, "Federal Student Loans: Better Oversight Could Improve Defaulted Loan Rehabilitation" at 20 (March 2014).

4. Require information about the process for handling complaints against collection agencies and any disciplinary actions taken against those agencies.

IV. HOLD PRIVATE ENTITIES AND THE GOVERNMENT ACCOUNTABLE THROUGH RIGOROUS PUBLIC AND PRIVATE ENFORCEMENT

As the recent GAO and IG studies confirm, Federal and State enforcement of HEA requirements has been generally lax. While government enforcement is important, borrowers cannot rely on public actions to get relief. Congress must act to ensure that borrowers have private enforcement rights, not only to challenge predatory school practices, but also servicer and collector abuses. *This requires amending the HEA to create an explicit private right of action.*

Congress has created many new and improved options for borrowers. The Department of Education also signs numerous contracts with servicers and collectors to provide essential services. Theoretically, these entities could lose their contracts if they do not comply with the law. But even if this occurs, there are no provisions requiring relief for borrowers harmed by these practices. For example, what happens if the lender, guaranty agency or school refuses to discuss loan rehabilitation even when a borrower clearly has a right to such a plan? Currently the borrower can complain to the Department of Education. Given documented problems with the Department's oversight, this is less than a complete solution even for those borrowers who persist and manage to speak to someone. Beyond complaining, it is virtually impossible for a borrower to enforce her rights. Even in the case of the now well-documented breakdown in the Department's rehabilitation system, the GAO report shows in detail how most borrowers were left in the cold. According to GAO testimony, less than 10 percent of the estimated 80,000 borrowers affected by the delays in loan rehabilitation received assistance to make them whole.³¹

The lack of private enforcement shuts the door on borrowers seeking to access programs that they are entitled to under the Higher Education Act. This glaring problem also undermines the effectiveness of new borrower-friendly programs because loan holders and servicers are not held accountable when they fail to comply with the law.

Congress should also prohibit mandatory arbitration clauses in school enrollment and lending contracts. Mandatory arbitration provisions, buried in many kinds of consumer contracts, require consumers to waive their right to use the court system, and instead limit consumers to resolving their disputes with the lender or seller through a binding arbitration process. This constraint puts the lender or seller in a stronger position, because little discovery is available, the business can pick the arbitration service provider (and repeat players bring more business, leading to an incentive for the arbiter to rule for the lenders), and decisions cannot be appealed.

V. GIVE BORROWERS THE OPPORTUNITY FOR A FRESH START

Current Federal aid practices and policies hammer students who do not succeed the first time around. Draconian collection and default policies prevent individuals from getting a fresh start. It also impedes economic productivity by preventing many students from returning to school, succeeding, entering repayment on their loans, and entering the labor force.

I am always moved by how hard so many of my clients try even if they do not always succeed. Each client has an individual story and entire populations never fit into neat categories, but I can say that most of my clients keep their dreams of higher education alive even after repeated failures. This is why we need to provide them with the opportunity to start fresh.

Providing a fresh start recognizes the reality that everyone makes mistakes and that not everyone succeeds the first time around. The main difference for low-income individuals is that one slip can be the end of the educational journey. There is little or no margin for error or cushion when they fall.

The first step to a fresh start is, as discussed above, to ensure that borrowers are working with neutral entities, not aggressive collection agencies, in accessing programs to assist them.

A. Study and Improve Existing "Get Out of Default" Programs

Rehabilitation and consolidation are the two main options currently available to Federal student loan borrowers seeking to get out of default. Overall, consolidation

³¹Statement of Melissa Emrey-Arras, U.S. Government Accountability Office, Testimony before the Subcommittee on Higher Education and Workforce Training, Committee on Education and the Workforce, House of Representatives (March 12, 2014).

is much faster than rehabilitation, mainly because a borrower in default does not have to make any preliminary payments to qualify. Further, there is no resale requirement. The faster process is especially important for borrowers seeking to go back to school quickly. In addition, with consolidation, borrowers do not have to make preliminary payments and so are not forced to negotiate “reasonable and affordable” payments with a collector. The main advantage of rehabilitation relates to credit reporting. However, this benefit is often oversold.

There is a dearth of research on the effectiveness of either consolidation or rehabilitation, particularly with respect to borrower success rates.³² Department of Education staff confirmed in a phone call with NCLC that they did not know of any studies comparing the effectiveness of the two programs. This is particularly shocking since the Department collection contracts incentivize rehabilitation. The GAO also noted the Departments’ failure to track the effectiveness of rehabilitation.³³

We urge Congress to study these programs to evaluate effectiveness and in the meantime enact the recommendations below to ensure that the programs truly afford borrowers a fresh start.

Key recommendations:

1. Eliminate the one-time limit on rehabilitation.

2. Eliminate the FFEL program resale requirement. Because of this “requirement,” borrowers who make the necessary payments can get stuck with no possibility of completing the rehabilitation simply because their guaranty agencies cannot find buyers. At a minimum, agencies that cannot find buyers should be required to assign the loans to the Department of Education.

3. Provide full credit reporting benefits. Lenders should be required to erase all negative history in the borrower’s credit report, not just the default notation. This is a much more complete “credit clearing” benefit.

B. Prevent Ballooning Loan Balances by Limiting Collection Fees

Collection charges should be limited to only those fees that are bona fide and reasonable and actually incurred. As long as collection agencies are still employed to collect student loan debts, Congress should act to limit the profits they earn on the backs of borrowers.

C. Provide a Fresh Start for Those Harmed by Predatory Schools

Through our work consulting with legal services and other attorneys across the country, as well as our direct representation work, we have seen a continuous stream of student loan borrowers who are struggling to pay 10, 20, and even 30-year old loans. The vast majority of these borrowers, including single parents, veterans, non-English speakers, first-generation students, and seniors, enrolled in for-profit schools in order to earn higher wages and improve their lives and the lives of their families. Too many of these schools, however, preyed on these borrowers’ dreams by falsely promising high quality educations that would lead to high paying careers. By the time our clients reach us, their hopes and dreams have been shattered. Unable to find the employment promised, they face aggressive debt collection tactics for student loan debts they cannot afford to repay. Many of them have no way out.

A July 2013 *New York Times* article describes hundreds of borrowers (and maybe more) in New York City facing financial devastation due to loans incurred at a number of cosmetology schools that have been closed for years.³⁴ One of the borrowers summed up the trap she is in: “It would have been worth it,” she said “for a school that gave me a future.”

Although the Department of Education has recently worked at creating regulations designed to curb future abuses, these regulations do nothing to provide relief for the countless number of borrowers who have been harmed by fraudulent schools. The three main types of existing cancellations (or “discharges”) that are intended to address fraud—closed school, false certification, and unpaid refund cancellations—are narrowly defined and provide relief to only a small subset of harmed borrowers. These cancellations are not available to borrowers harmed by other kinds of deceptive practices, including those that are prohibited by Federal regulation. For example, a school may routinely pay admissions officers by commission, fail to provide educational materials or qualified teachers, or misrepresent a student’s likeli-

³² See generally “The Student Loan Default Trap: Why Borrowers Default and What Can Be Done” (July 2012).

³³ U.S. Government Accountability Office, “Federal Student Loans: Better Oversight Could Improve Defaulted Loan Rehabilitation” (March 2014).

³⁴ Emily S. Rueb, “Beauty School Students Left with Broken Promises and Large Debts,” *The New York Times* (July 28, 2013).

hood of finding a job or earning a particular salary after completion. All of these violations harm students, but none of them are currently included as grounds for student loan discharges.

Congress and the Department of Education can fill in these gaps by creating a fresh start relief program. For too long, the risk of predatory school practices has fallen almost entirely on individual borrowers, who were not in a position to discover fraud and police schools before they enrolled.³⁵

D. Use HEA Authority to Provide Relief for Private Loan Borrowers

Much of the statutory authority for private lending is outside of the HEA. However, the government can use the HEA as an oversight tool to protect private loan borrowers attending schools that receive title IV funds. We recommend using this tool to require schools to certify private loans. As part of the certification process, schools should be prohibited from certifying loans that fail to provide basic consumer protections such as death and disability discharges.

VI. RESTORE A SAFETY NET FOR ALL ALL STUDENT LOAN BORROWERS

Collection should be targeted to those with resources to pay and there must be a safety net. This is critical for borrowers, but also for taxpayers. There are significant costs to taxpayers associated with pursuing the most vulnerable borrowers until they die. Under the current system, lenders and collectors profit as the government pays higher and higher collection fees.

At the National Consumer Law Center, we see and hear the human toll of the tattered student loan safety net every day from the low-income borrowers we represent. Here is just one example.

I had a client (Mr. A) who passed away last year at age 84. He was a veteran of the Korean War. After retiring from the insurance industry in his 70s, he was living alone, subsisting only on limited Social Security income.

Mr. A sought legal assistance because the government had started taking a large chunk of his Social Security income and he could no longer afford to buy the medications he needed for an array of serious health problems. It took a while to unravel the source of the offset because Mr. A insisted that he had never taken out any student loans to pay for education. He was correct that he had never taken out loans to finance his *own* education because he was able to use the G.I. bill. Instead, the offset occurred because of parent PLUS loans from the early 1990s. There was a large balance outstanding and Mr. A could not pay. His children could not help him financially either.

I contacted the loan holder Sallie Mae to figure out a way to at least reduce the Social Security offset. We submitted detailed proof of Mr. A's income and expenses. It took hours to document these expenses. Sallie Mae eventually agreed to reduce the offset to an amount that allowed Mr. A to purchase most of the medications he needed to keep going.

I discussed the possibility of a disability discharge with Mr. A, but this proud man insisted despite all evidence to the contrary that he could still work. Even after the suspension of the offset, Sallie Mae kept placing the account with collection agencies. I asked the Sallie Mae representatives to take the file back from the collection agency. Among other problems, the constant phone calls and letters were very upsetting to Mr. A. The Sallie Mae representative said they cannot take files back from collection agencies, but they did agree to put our name on the account as the contact.

Eventually after numerous stints at nursing facilities due to declining health, Mr. A agreed to apply for a disability discharge and was successful. However, he missed the paperwork requiring him to document his inability to work for 3 years because he was not picking up his mail while he was hospitalized. We were able to restore the discharge, but then Mr. A received a tax statement claiming he owed taxes on the discharged amount. This was one of the most upsetting aspects of the case for Mr. A. We were in the process of proving his insolvency when he died.

Despite this human toll, there is a common view that aggressive collection is necessary to shore up the student loan system. An attorney filing lawsuits on behalf of the government to collect student loans stated,

³⁵For more information about existing authority to create this type of program and ideas for legislative change, see National Consumer Law Center, "Promoting Higher Education Access and Success: Higher Education Act Reauthorization Recommendations" (August 2013).

“For every dollar collected from defaulted student loans, it’s money that can be used again for student loans or taken off the deficit or used for other issues.”³⁶

One of the government’s largest collectors, ECMC, justified aggressive collection practices by emphasizing that its efforts keep Federal financial aid programs solvent.³⁷

These statements emphasize keeping the loan programs alive, but at what cost? Should the Federal Government support a growing student loan program on the backs of defaulted borrowers? If the goal of Federal policy is to hound defaulted student loan borrowers until they die, then Mr. A’s case and others like them are policy successes. But we do not believe that this should be the goal.

Key reforms to restore a safety net include:

1. **Eliminate offset of earned income tax credits** (one of the most important programs that help working families keep working).

2. **Eliminate Social Security offsets.** Social Security helps give aging and disabled Americans peace of mind. Offsetting this lifeline is an extraordinary collection tool that should be eliminated.

In the meantime Congress should increase the exempted amount from a flat \$9,000/year to an amount that is sufficient for basic survival and tied to an annual index. The \$9,000 limit has not been raised since the legislation was passed in the mid-1990s. It is even below the current poverty level for a single person of \$11,670.

3. **Eliminate the 3-year reinstatement period for borrowers in the Social Security Medical Improvement Not Expected category.** The Department of Education recently amended the HEA regulations to allow borrowers to provide certain SSA determinations as presumptive proof of disability discharge. However, the Department did not eliminate the reinstatement period for these borrowers. This is in contrast to the V.A. process in which certain veterans may receive discharges without a 3-year reinstatement period. Eliminating the reinstatement period for these most disabled borrowers will also save money by reducing unnecessary bureaucratic requirements and oversight.

4. **Place a moratorium on offset of borrowers receiving SSDI so that they can apply for disability discharges.**

5. **Restore Bankruptcy rights for all student loan borrowers.**

6. **Restore a statute of limitations for Federal student loans.** The elimination of the statute of limitations for government student loans in the early 1990s placed borrowers in unenviable, rarified company with murderers, traitors, and only a few violators of civil laws. Despite the governmental and social interest in pursuing criminals, statutes of limitations apply to nearly all Federal criminal actions. Among other reasons, statutes of limitations are essential because of the serious problems and abuses associated with adjudicating old claims. The limitless pursuit of vulnerable student loan borrowers has serious human and financial costs.

7. **Eliminate adverse tax consequences for Borrowers Receiving Administrative Discharges.** Under current law, borrowers obtaining discharges due to disability or death (e.g., for parents surviving their children) or after IBR forgiveness face potential tax consequences while most other borrowers obtaining discharges do not. The current insolvency system is insufficient to protect many vulnerable borrowers.

VII. MANDATE RESEARCH AND INNOVATION

One way to improve efficiency is to conduct more empirical research and pilot projects to find out what works. According to New America, higher education generally suffers from a lack of rigorous experimentation, both in terms of practice and policy.³⁸

We urge the Department of Education to make long-term data available to researchers AND to conduct internal studies using this data. Requiring private lenders to report data on private student loans, potentially through the NSLDS system, would open up another set of data to study borrower behavior over time.

It is critical to isolate the main predictors of default by using appropriate regression analyses. This regression research should focus particularly on the extent to

³⁶ Ron French, “Michigan Goes Hard After Student Loan Defaulters” Bridge Magazine (May 15, 2012).

³⁷ John Hechinger, “Taxpayers fund \$454,000 Pay For Collector Chasing Student Loans” Bloomberg (May 15, 2012).

³⁸ Stephen Burd, Kevin Carey, Jason Delisle, Rachel Fishman, Alex Holt, Amy Laitinen, and Clare McCann, New America Foundation, “Rebalancing Resources and Incentives in Federal Student Aid” (Jan. 2013).

which lack of completion causes higher default. Studies should also include interviews and surveys of borrowers. Many of these studies will take time as borrowers are tracked over longer periods.

In addition to research mandates, Congress should require the Department of Education to release data about key Federal aid metrics including extensive default rate information, effectiveness of post-default programs, costs of collection, commissions to collectors and servicers, and other critical information.

Giving borrowers a chance to get back in good standing may be less costly in many cases than the relentless gauntlet of collection tactics. We particularly need more information about the costs of the Department's collection programs.

CONCLUSION

The student loan programs work well for many students who are able to complete their educations and earn sufficient income after graduation to repay their debts within a reasonable period of time. Unfortunately, this scenario is becoming less common as borrowers get deeper into debt earlier in the process and do not know about available options that could help them avoid problems down the road. Once these problems begin, collection costs and fees accrue so rapidly and aggressive collection efforts hit so hard that many borrowers never recover.

While the student loan programs are here to stay, there are ways to alleviate the burden for the most vulnerable and lower income borrowers. Our higher education system and economic productivity depend on how we resolve these issues.

Thank you for your consideration of these recommendations. Please contact Deanne Loonin (dloonin@nclc.org; 617-542-8010) with questions or comments.

ATTACHMENT

NATIONAL CONSUMER LAW CENTER (NCLC),
March 10, 2014.

ROHIT CHOPRA,
*Assistant Director and Student Loan Ombudsman,
 Consumer Financial Protection Bureau.*

JAMES RUNCIE,
*Chief Operating Officer,
 Office of Federal Student Aid,
 U.S. Department of Education.*

DEAR MR. CHOPRA AND MR. RUNCIE: We have been following the Department of Education's plans to launch a new Direct Loan consolidation system. We understand from the January 7, 2014 announcement that the Department has begun implementing the first phase of this system and that the second is likely to occur this spring.³⁹ According to the announcement, most borrowers without loans in default should be applying for consolidation through the new *studentloans.gov* portal.

We have been unable to navigate the system because it requires a borrower PIN number. Based on the announcement and discussions with Department staff, we understand that borrowers will, for the first time, be required to choose a specific loan servicer as part of the consolidation application. This "chosen" servicer will be responsible for completing the consolidation application and acting as the borrower's general loan servicer. Borrowers will be able to choose between FedLoan Servicing (PHEAA), Great Lakes Educational Loan Services, Nelnet and Sallie Mae.

Although we agree generally with enhanced borrower freedom to choose servicers, we are very concerned about the potential for abuse with this new consolidation system. This could occur in a number of ways, including:

1. **Collection agency referrals:** Phase one does not include borrowers with loans in default. However, the current plan is to require these borrowers to use the new system once phase two is implemented. These borrowers are almost always dealing with a collection agency. Although borrowers should be able to bypass collection agencies and consolidate on their own, our experience is that the collection agencies pressure borrowers to allow the agencies to process the consolidation applications. Under the new system, we fear that these agencies will make servicer choices without consulting the borrowers.

³⁹We refer to this announcement: <http://www.ifap.ed.gov/eannouncements/010714NewDirectConsolidLoanProInfoPhaseOneTran.html>.

There is very serious potential for abuse. Kickback arrangements are one possibility. Even more directly, one of the servicers on the list, Sallie Mae, owns collection agencies.

2. For-Profit Debt Relief Companies. The National Consumer Law Center released a report last year focusing on abuses in the for-profit student loan “debt relief” industry.⁴⁰ New York Governor Cuomo’s new Student Protection Unit recently announced that it had sent subpoenas to 13 of these “relief” companies.⁴¹

We found that the only “service” most of these companies perform, if they perform any service at all, is processing government loan consolidation applications on behalf of borrowers. This appears to be yet another area of potential abuse if these companies seek compensation to steer borrowers to particular servicers. Our investigation found that these companies generally do not provide reliable information to consumers. Therefore it would not be surprising if they selected servicers on behalf of borrowers without informing the borrowers about their right to choose servicers. Most of these companies seek powers of attorney to act on behalf of borrowers.

3. School Referrals. A number of our clients with loans in default have told us that for-profit school staff seeking to recruit them have offered to get their loans out of default for free. Many then tried to process loan consolidation applications on behalf of the borrowers. In some cases, we believe that the schools may be working with “debt relief” companies described above.

In addition, many schools, both for-profit and non-profit, counsel students on handling loans after leaving school. In many cases, the schools are working with borrowers seeking to consolidate loans. It is unclear how these schools can counsel borrowers on comparing servicers and making informed selections.

4. FFEL (Federal Family Education Loan or Guaranteed Loan) Conflicts. Borrowers with FFEL loans often seek to consolidate into the Direct Loan program. All four of the “consolidation servicers” has a legacy FFEL portfolio. All but Sallie Mae were FFEL guaranty agencies, although Sallie Mae owns a guaranty agency. We fear that these agencies will steer borrowers into choosing them as the Direct Loan servicer, perhaps even inaccurately informing borrowers that they are required to keep the same servicer as they transition to Direct Loans.

We are also concerned about the lack of information available to consumers to help them make servicer choices. The only information we know of showing servicer performance is the quarterly servicer survey information that is generally available only on the Department’s Information for Financial Aid Professionals (IFAP) Web site.⁴² While imperfect, this information gives borrowers some sense of servicer performance. However, it is hidden on a site that consumers rarely visit or even know about. Further, we have noticed that the most recent information has not been posted. We have not seen an update since August 2013. There are media reports that the Department is making adjustments to some of the data categories. However, we do not understand why this would preclude the Department from continuing to release updated information in the other categories.

We are requesting that you send information about any and all information that is publicly available for consumers to learn about servicer performance. Please also indicate whether any information will be available in the future. Please be specific about this information. For example, can borrowers access the redacted transcripts from borrower satisfaction surveys? What other information is available?

In addition, we request that you contact us as soon as possible to explain any precautions the Department or other agencies have taken to avoid potential abuses and to provide information so that consumers can truly shop for servicers. This is particularly critical since once they make a choice, as far as we know, the Department will not let borrowers switch to a different servicer.

Sincerely,

DEANNE LOONIN,
National Consumer Center.

The CHAIRMAN. Thank you, Ms. Loonin.
Ms. Johnson, welcome back.

⁴⁰ See National Consumer Law Center, “Searching for Relief: Desperate Borrowers and the Growing Student Loan ‘Debt Relief’ Industry” (June 2013), available at: <http://www.nclc.org/issues/searching-for-relief.html>.

⁴¹ See <http://www.dfs.ny.gov/about/press2014/pr1401221.htm>.

⁴² See, e.g., <http://www.ifap.ed.gov/eannouncements/082213LSIQrtlyCustSatisSurveyBeginSept2013.html>.

**STATEMENT OF ROBERTA L. JOHNSON, DIRECTOR OF
STUDENT FINANCIAL AID, IOWA STATE UNIVERSITY, AMES, IA**

Ms. JOHNSON. Thank you. Chairman Harkin, Ranking Member Alexander, and members of the committee, thank you for inviting me here today to testify.

As has already been mentioned, I've been at Iowa State University for a number of years. I have had experience with both the FFEL program as well as the Direct Loan program. Iowa State University was a year-one school in 1994 in the Direct Loan program, and I have the experience of the Direct Loan program prior to 100 percent DL and post that period of time. So I can talk to both sides of that issue.

To help you better understand the whole borrower experience, I want to start with the application process, which Senator Alexander showed. It's a 10-page process through the FAFSA form, and it cannot be completed until January 1st of the student's senior year in high school. For many students, they're already emotionally invested in the institution.

Because many institutions, like ours, use a deadline for making decisions about disbursement of campus-based and institutional dollars of March 1st, students are often estimating their information and getting that application in by March the 1st. Then what ends up happening, of course, is that they don't have their taxes filed until April 15th, and the information is incorrect. Schools are going back and forth with them several times to try to rectify this situation.

I would suggest that some of the recent studies on the prior-prior year evaluation of tax—or using that tax information would be something that bears consideration, primarily because it would allow that information to go to students in the fall semester of their senior year, potentially, so that they would have opportunity to think about saving, they would know their cost, and they could potentially make other plans before they're so emotionally invested in your institution if it turns out that that institution is simply financially unfeasible for them.

Iowa State University is using the Financial Aid Shopping Sheet as our official award notification to students. I was very skeptical about using this initially, but the feedback that we've received from our students and their families is that they're very appreciative of this information, it's clear to understand, and it did provide them with a definite picture of what their costs would be prior to borrowing any loans.

However, the shopping sheet does not work well for graduate and professional students because the metrics are all tied to undergraduate performance indicators. So we need to think about how we can change that. Also, there are a number of consumer information required disclosures, College Navigator, the Shopping Sheet, and the Score Card—we need to think about making these consistent and utilizing the same measurement points so that they're truly helping families to compare their school choices rather than adding to their confusion.

Now, once a decision has been made to borrow, the students are directed to the Department of Education's Web site, *studentloans.gov*, to complete the master promissory note, entrance counseling.

They will ultimately utilize the site for entrance counseling, and they also go here to use the Financial Awareness Counseling Tool, which Mr. Runcie discussed.

The Financial Awareness Counseling Tool is very robust. Our institution is using it when working with students to develop their own budgets, to help explain repayment plans, and to assist them in realizing what their repayment amounts will be once they complete the degree program.

The up front processing of loans, known as origination, works very well via an electronic transmission of information that goes to a contractor that the department has working for them. And this year, we will be providing even additional information beyond just loan period and grade level, as we need to also provide program information so that when students have received 150 percent of their program borrowing, they will no longer be able to borrow through a subsidized Stafford loan.

But it's after the loan is disbursed that things are now more challenging for the borrowers. When the Direct Loan program was first implemented, there was a single servicer, and all correspondence was branded as the Federal Direct Student Loan Program. Now, the correspondence that comes to borrowers is co-branded with the name of the servicer on it, and, oftentimes, it's my experience that the name of the servicer appears in larger print than the Department of Education's information. So it is difficult for the borrower to know that this is coming from the Direct Loan program.

I would suggest that also the studentloans.gov needs to be the single point of contact for borrowers to be able to log back in to access their student loans. Currently, a student has to go to that individual servicer's Web site, sign up, get a sign-in, login, and that is very confusing and, I think, leads to a lot of challenges with repayment, because students have to take some extra steps. If we can streamline this and put it into one stop for students, I think it will help.

I think because loan contracts are up later this year, the department has the opportunity to think about how contracts need to be awarded. Do the loan servicers need to come from a previous FFEL environment, or are there servicers that are working in other financial sectors, such as credit card agencies, that may do just as good if not a better job?

I think the plethora of student loan repayment plans can be confusing, particularly all of the income-based plans for students. We need to think about that.

And, finally, I would say in response to comments about the cost of loans, I think there is some substantial revenue that's being made, and we need to look at things like the origination fee, as well as the capitalization of interest for our borrowers, and see if there are some ways that we can streamline those processes.

So, in conclusion, let me state that it works well, but there are definitely areas that we can fine tune and find efficiencies to assist our borrowers.

Thank you.

[The prepared statement of Ms. Johnson follows:]

PREPARED STATEMENT OF ROBERTA L. JOHNSON

SUMMARY

Testimony on Strengthening the Federal Student Loan Programs for Borrowers walks through the process of borrowing a student loan, both from the perspective of the borrower as well as that of the school.

Starting with the financial aid application process, comments include ways to minimize the burden to both borrowers and schools by suggesting serious consideration be given to utilization of prior-prior year financial information to minimize the amount of followup required to confirm the family's estimated financial contribution. Comments are also made on the benefits and challenges of utilizing the Financial Aid Shopping Sheet, a mechanism by which schools indicate to borrowers how much they can borrow.

Once a decision has been made to borrow, the lifecycle of the loan begins. Commencing with completion of the master promissory note and entrance loan counseling, continuing with in-school servicing and exit counseling, and concluding with repayment, the testimony highlights both the positive and negative aspects of the current environment with suggestions as to how the challenges might be addressed.

Finally, comments are made regarding areas where legislation could effect changes to impact the perception that the Federal Government is making money off student loans through the elimination of the origination fee and capitalization of interest.

Chairman Harkin, Ranking Member Alexander, and members of the committee: thank you for inviting me to testify today at this hearing regarding Federal student loans. My name is Roberta Johnson and I am the director of Student Financial Aid at Iowa State University in Ames, IA. Iowa State University is the public land-grant institution in Iowa, enrolling 33,241 students. Last year, 84 percent of our total student body received some type of financial aid and 53 percent of all students received a student loan. Average indebtedness at graduation has hovered near \$30,000 for the last 5 years, although the percent of students graduating with debt has dropped from 71.2 percent to 61.8 percent over the same period.

My tenure in the financial aid office at Iowa State University spans 31 years, including 29 years involved in some capacity with the administration of the student loan programs on our campus. I was involved in Iowa State University's transition to the Federal Direct Loan Program as one of the original 104 schools that entered the program in 1994 and have remained fully committed to this program in the ensuing years, working both locally and nationally to strengthen and streamline the program.

To help you better understand the experience of borrowers of Federal student loans, I would like to start at the beginning of the financial aid process. Regardless of the type of Federal loan, all borrowers must complete the Free Application for Federal Student Aid (FAFSA). Because the FAFSA cannot be completed until January 1 for the year in which the student seeks enrollment, information regarding how to finance educational costs is often the last piece of information a student and their family receives prior to deciding whether to matriculate. Many institutions, including Iowa State University, have a priority financial aid filing deadline of March 1 to be considered for aid from campus-based allocations and institutional sources. Because the tax filing deadline occurs 6 weeks later, estimating errors are common and require significant followup by both students/parents and financial aid personnel. Recent studies on prior-prior year tax information are promising. Not only would the possibility for estimating errors be virtually eliminated, but students and their families would have information regarding college costs and available resources much earlier. This additional time would allow more time for saving, additional incentive to apply for non-institutional scholarships, and the opportunity to make decisions regarding enrollment before the student is so emotionally invested in the institution that they are willing to incur whatever debt is available to matriculate.

In the short time between when a family files the FAFSA form and the official financial aid award letter is sent, many families must participate in a process known as verification. For most institutions, approximately 30 percent of their FAFSA filing population will be selected for additional review, requiring them to submit extra forms and/or obtain copies of the Tax Return Transcript from the IRS. While Iowa State University, along with 142 other institutions of higher education, participates in the Quality Assurance Program which enables us to determine our own selection criteria for verification, we are still verifying a sizable number of

FAFSA applications. Schools have the option to delay release of the financial aid award letter until verification is completed or send an award that may change due to the fact it is based on estimated data. Our institution has chosen the latter option since the time between receipt of the FAFSA and when a family should hear something about financial aid is short. But it means that we see some changes and have difficult conversations with students when the initial financial aid award changes after they've already committed to our institution. Use of prior-year would mitigate these situations.

Due to the requirement that military students covered by the Principles of Excellence Executive Order 13607 receive a Financial Aid Shopping Sheet prior to enrollment, Iowa State University transitioned to utilizing the Shopping Sheet as our official financial aid award letter. Incoming students receive this document both via a hard-copy sent via mail and a link directing them to an electronic version within our secure student portal. Continuing students receive only the electronic version. While originally skeptical that the Financial Aid Shopping Sheet would provide families with the details necessary to fully understand their financial aid award, we provided supplemental information that met this need. Feedback from incoming families indicated they found the information clear to understand and provided them with a definite picture of what their costs would be prior to borrowing any loans. However, the Shopping Sheet does not work well for graduate and professional students as the metrics are all tied to undergraduate performance indicators. The number of consumer-information required disclosures, College Navigator, Shopping Sheet, and Score Card need to be consistent, utilizing the same measurement points so that they are truly helping families to compare school choices rather than add to their confusion.

Once the decision has been made to borrow, students are directed to a Department of Education Web site, www.studentloans.gov, to complete the master promissory note, entrance loan counseling, and ultimately will utilize this site for exit counseling. The Department worked with their contractor to develop a Financial Awareness Counseling Tool to provide additional information regarding student loans, repayment options and obligations, and budgeting. The Financial Awareness Counseling Tool is very robust and our office uses it when working with students to develop their own budgets, to help explain the repayment plans, and to assist them in realizing what their repayment amounts will be once they complete their degree program.

The up-front processing of students loans, known as origination, works very well via an electronic transmission of specific information such as loan period, grade level, and accepted loan amount being part of the transmission. Beginning this academic year, schools are also required to submit additional information regarding the program in which the student is enrolled so the Department can calculate when a student has reached 150 percent of the published length of their program and the expiration of subsidy for any future Stafford Loans. The vast majority of students would probably have reached the cumulative maximum in their subsidized Stafford Loan of \$23,000 or have been identified via a school's Satisfactory Academic Progress policies without this requirement. While supportive of the desire to encourage students to graduate as quickly as possible and be good stewards of taxpayer resources, the requirement currently feels like additional regulatory burden.

After the loan is disbursed, things get more challenging for borrowers. When the Direct Loan program was first implemented, there was a single servicer and all correspondence with the borrowers was identified only as the William D. Ford Federal Direct Loan Program. The servicer was invisible to the borrower for this Federal loan. Understanding that the Department needed to have greater capacity in the servicing arena when we moved to 100 percent Direct Lending, initial utilization of servicers who had experience with student loans through the FFEL program was probably the most expedient option. However, servicers have been permitted to co-brand correspondence with the Department, often times with the Servicer's logo appearing so much larger that the Department's logo is almost unnoticeable. Borrowers are confused why they are receiving correspondence, whether via letter or e-mail, from an agency they've not heard from previously. In conversations I have had with servicers, it has been reported that the percentage of their e-mails that are opened is very low. This indicates to me that borrowers believe the correspondence to be junk mail or spam. These comments are concerning as it would indicate the potential for delinquency and default is greater when borrowers don't heed their correspondence.

From a school perspective, counseling borrowers whether in-school or during repayment is also difficult. Rather than providing a single telephone number or Web site for borrowers to make contact with their servicer, we must now go to the National Student Loan Data System, locate the servicer and contact information, and

then share that with the borrower. It would be far more expedient to utilize *www.studentloans.gov* as the single portal through which the borrower accesses loan information. Technology is sophisticated enough that students should be able to log in on *www.studentloans.gov* and be routed directly to the company servicing their loan(s) and/or dial a single toll-free telephone number which will route them to their servicer after supplying appropriate identifiers. Borrowers need not know who their servicer is. Borrowers and schools should be confident that payments, deferments, forbearances, etc. are all being handled identically across servicers. Servicers should not advertise for private loan products on the sign-in page for a Federal loan as is currently the case with at least one Federal Student Loan servicer. And servicers should cease offering training on topics that have nothing to do with student loans to garner more favorable responses from financial aid personnel when the Department conducts quarterly surveys. I contend that the most important respondent in the surveys should be the borrowers and their feedback would be even more meaningful if they were not aware of which entity is providing the service. Other agencies in the Federal Government, such as the IRS or the Social Security Administration, contract with other agencies to service the work and student loans should be no different.

Because the contract for loan servicers is up for renewal later this year, the Department has the opportunity to rethink how contracts are awarded. Does a loan servicer need to come from the previous FFEL environment or can superior service be achieved by contracting with entities from other financial sectors, such as credit card processors? How should servicers be compensated and are contracts equitable and "right priced"? Surpluses, if any, should be reclaimed to enhance the Federal Pell Grant rather than being used at the discretion of the servicer only for a subset of the borrowing population.

Another area of confusion is the plethora of repayment plans from which borrowers can choose. While it is good that options exist, understanding the intricacies of Income-Based Repayment, Pay as You Earn, Income Contingent, and Income Sensitive plans besides the Standard, Extended, and Graduated repayment plans is overwhelming. Servicing contracts should be set up to help borrowers understand their options and guiding them into a payment plan that best meets their needs should be rewarded more than placing a borrower in forbearance to minimize the telephone time required for the transaction. Better yet, the opportunity to consider a repayment plan such as H.R. 1716, the Earnings Contingent Education Loans (ExCEL) Act, introduced by Representatives Petri and Polis, which ties repayments amounts to a borrower's income is an idea worth serious review. While I would advocate that assisting borrowers to repay their loans quickly is always the most desirable option, collecting loans by linking repayments to the borrower's income could completely eliminate defaults and assist recent borrowers seeking employment in a still weakened economy to tie their payments to their income without the additional hassle of submitting significant paperwork annually.

There is no doubt Federal budget scoring rules are complicated and I am no expert on them, but it seems that potentially substantial revenue is raised for the Federal Government in its student loan programs. Loans are clearly an investment in the future and a good investment by government, but I think the return should be in improved human capital, better earnings, increased participation in civic life and general well-being. I would encourage the committee to support these long-term benefits and reduce the immediate revenue that may accrue from the loan programs and raise the expense of borrowing for students. An example of what should be reviewed is the existence of an origination fee. It is difficult to explain to the student or parent why the Federal Government must keep a portion of their loan funds. And with the advent of sequestration, the origination fee adjustments became even more difficult for schools. A second area that should be reviewed is interest capitalization whenever there is a change in a borrower's status. Legislatively, student loan interest capitalization doesn't seem to be prescribed so why does this practice exist? Eliminating capitalization (not interest accrual) seems to be an area that could minimize burgeoning indebtedness.

In conclusion, let me state that the Direct Student Loan program works extremely well but like any program that has existed 20 years, some areas need fine tuning to enhance efficacy for all—borrowers, schools, and taxpayers. Thank you for the opportunity to provide insights as one who has been in the trenches for years and I look forward to the changes you will enact to improve the program for years to come.

The CHAIRMAN. Thank you very much, Ms. Johnson.
Ms. Dill, welcome and please proceed.

**STATEMENT OF MARIAN M. DILL, DIRECTOR OF STUDENT
FINANCIAL AID, LEE UNIVERSITY, CLEVELAND, TN**

Ms. DILL. Thank you. Chairman Harkin, Ranking Member Alexander, and members of the committee, thank you for inviting me to testify today.

I currently serve students at Lee University, a Christ-centered institution located in east Tennessee, with an enrollment of almost 5,000 students. In 2013, 55 percent of our students participated in the Federal Direct Loan programs, and the average per borrower indebtedness for graduates was just over \$29,000.

Today, I want to give you some practical insights from my experience, and I will divide my comments into two parts, first, focusing on student success strategies, and, second, focusing on simplification and reduction of non-essential administrative burdens.

First, student success strategies. Currently, the Federal Government, the regulations, prohibit schools from requiring additional loan counseling for students who appear to be over-borrowing or who, by statistical indicators, appear most at risk for defaulting. Statistical indicators may include marginal academic performance or borrowing beyond direct cost. Also, schools are not permitted to limit part-time students from borrowing at full-time rates.

Based upon the research and discussion with my fellow aid administrators, I submit the following recommendations.

No. 1, institutions should be allowed to require additional counseling for students meeting those various identified risk factors before any loan disbursement, not just the first. Currently, schools can offer additional counseling, but we can't require it. Additional counseling would reinforce key borrower responsibility.

Educating the borrowers while they're still in school is key to successful repayment. Institutions need the authority to require such training in order to promote student success and to reduce default rates.

No. 2, institutions should be allowed to limit borrowing based upon broad categories of students, for example, those students who are enrolled part-time and still able to borrow the annual loan amounts. In doing so, they can exhaust their aggregate limits prior to completing even half of their academic programs.

As an aid administrator, this is alarming. Yet we have no authority over borrowing, thus no practical tools to stop this from occurring. This over-borrowing pattern can have severe consequences for the student, the institution, and the Federal program.

No. 3, parent-plus loans should be held to a more restrictive underwriting standard. Currently, plus approvals are based solely upon credit worthiness and are blind to the ability to repay. In moving to direct lending, I observed a drastic increase in plus loan approvals.

I recall one conversation with a single mom living solely on various forms of public assistance. She was approved. She didn't have bad credit. She had no credit and was thus approved. And she said to me, "What are they thinking? I cannot pay this back."

No. 4, income-based repayment should be considered the automatic repayment plan for borrowers. This would provide a simplified process and ensure that no borrower's repayment amount

would ever exceed their ability to repay and, therefore, reduce the probability of default.

Next, I believe there are some practical administrative shifts that would both strengthen the loan program and reduce the unnecessary administrative burden.

No. 1, Congress should mandate the creation of a single web portal where institutions and students can go and easily access information about all Federal, private, and institutional loans. The non-profit organization, National Student Clearinghouse, currently provides a free service, Meteor Network, which has the capacity to meet this objective. The department's directive is needed to achieve reporting of all student loan information.

No. 2, the department should overhaul existing entrance and exit counseling to provide clear, concise information which meets the legislative requirements. This generation is dependent on social media and is accustomed to sound bites and You Tube videos. The Financial Awareness Counseling Tool, FACT, is well designed and student friendly, but it doesn't satisfy the legislative requirement. This resource needs to be enhanced to meet those standards.

No. 3, the primary responsibility of default management should shift back to the Federal servicers or the former guarantee agencies. This responsibility shifted to the schools in the transition from FFEL to DL, direct lending. Schools are now faced with the need to hire additional staff to oversee the process, hire costly third-party servicers, or risk the penalties of rising cohort default rates. We do not have the system resources to conduct skip tracing, robo-calling, or other means formerly employed by the FFEL lending community.

Finally, I hope that my testimony provides insight into how our current student loan policies could be enhanced to better serve our students. Thank you for your time, and I'm happy to answer your questions.

[The prepared statement of Ms. Dill follows:]

PREPARED STATEMENT OF MARIAN M. DILL

SUMMARY

STUDENT SUCCESS STRATEGIES REGARDING BORROWING

Research

- Research shows student borrowers are not in the most appropriate repayment plans.
- Research shows that degree completion and making the first payment on a student loan is critical.

Recommendations

- Allow institutions the authority to require additional counseling and financial literacy while students are still in school.
- Allow institutions the flexibility to limit borrowing, based on broad categories of students (enrollment status, degree, or program level), without compromising the authority to let students borrow up to the Federal annual and aggregate limits, on a case-by-case basis.
- Hold Federal Parent PLUS Loan borrowers to a more restrictive underwriting standard based more on ability to repay.
- Consider making the Income-Based Repayment (IBR) plan the default payment plan for student loan borrowers.

SIMPLIFICATION AND REDUCTION OF ADMINISTRATIVE BURDEN

Recommendations

- Mandate creation of a single web portal where institutions and students can easily access information about Federal, private and institutional loans.
- Overhaul the existing on-line entrance and exit counseling making it easier for student navigation and clearer understanding.
- Update the Financial Awareness Counseling Tool (FACT) to meet legislative requirements to be used for an enhanced counseling option.
- Shift the primary responsibility of default management to the Federal servicers or former guarantee agencies.

CONCLUSION

- Complexity of the current system is not working for students and families. It also creates an unnecessary administrative burden on institutions.
- The above recommendations are practical administrative shifts that would strengthen the student loan program and reduce administrative burden.

Chairman Harkin, Ranking Member Alexander, and members of the committee: Thank you for inviting me to testify today. I am Marian Malone Dill and am currently serving as director of Financial Aid at Lee University in Cleveland, TN. I am a first generation college graduate and was a recipient of title IV aid as both an undergraduate and graduate student. During my 20 years of aid administration, I have served at 2-year and 4-year institutions in the public and private sectors. I believe in the power of financial aid to assist students in attending college in order to propel them to a better life personally as well as for the prosperity of this great nation. America's brightest and most talented should not be inhibited by their socio-economic status. Federal student aid exists to help students reach their fullest potential and empower them to lead America and continue our prominence as the greatest country on earth. Education is critical to keeping America competitive in the world market.

To assist the committee in understanding the student population that I currently serve, please allow me to introduce Lee University. Lee is a comprehensive, Christ-centered university located in the Appalachian region of east Tennessee. Lee has become a higher education pioneer by incorporating service learning and cross-cultural studies as a regular part of every student's educational experience. In 2013, Lee University enrolled almost 5,000 students. Of Lee's undergraduate student population:

- Twenty-five percent were first generation college students.
- Thirty-five percent received a Federal Pell Grant.
- Fifty-five percent participated in the Federal Direct Loan Programs.
- Sixty-one percent of the graduating class borrowed Federal student loans with an average per borrower indebtedness of just over \$29,000.

Today I want to give you some of the practical insights from my experience as a financial aid administrator working directly with students and parents on Federal student loan issues. These insights will demonstrate why our current student loan policies—and how the complexity of regulations in particular—aren't working well for students, families and financial aid administrators. I will divide my comments into two parts, first focusing on student success strategies regarding borrowing and second focusing on simplification of Federal student loan programs and reduction of nonessential administrative burdens.

STUDENT SUCCESS STRATEGIES

In recent research to determine the profile of Lee students who find themselves most economically harmed by student loan debt, the following information was found:

- Seventy percent of Lee borrowers were in the standard repayment plan, and only 13 percent were in the Income Based Repayment (IBR) plan.
- The 2010 national 3-year Cohort Default Rate (CDR) is 14.7 percent. Lee University's CDR for the same period is 12.9 percent as calculated by the U.S. Department of Education. Of the Lee students who defaulted,
 - Eighty percent did not complete their degree, and
 - Ninety-four percent of those students did not make the first payment.

Under current Federal regulations, schools are prohibited from requiring additional loan counseling for students who appear to be over-borrowing or who by sta-

tistical indicators appear most at risk of defaulting. Statistical indicators may include marginal academic performance, borrowing beyond direct cost or borrowing beyond potential future earnings based on program of study. Also, schools are not permitted to limit part-time students from borrowing at full-time rates or to slow over-borrowing by students enrolled in academic programs that produce a disproportionate share of loan defaults.

Based on the research and discussion with my fellow aid administrators, I submit the following recommendations:

1. Institutions should be allowed to require additional counseling (if deemed appropriate) for students meeting various identifiable risk factors and before *any* loan disbursement, not just the first one. Currently, schools can offer additional counseling and financial literacy programs, but cannot *require* it in order for the loan to be disbursed. Financial literacy goes beyond the required loan counseling. Its purpose is to educate students on basic budgeting principles and living within their financial means. Additional counseling would reinforce key responsibilities on the part of the borrower and assist in keeping students updated and informed. Institutions should also be allowed to require financial literacy in addition to entrance counseling. I believe educating the borrower while they are still in school, is **key** to successful repayment. Institutions need the authority to require such training in order to promote student success and reduce default rates.

2. Institutions should be allowed to limit borrowing based on broad categories of students while retaining the authority to allow students to borrow up to the Federal annual and aggregate limits on a case-by-case basis. Currently financial aid administrators are prohibited by regulation from requiring extra counseling or financial literacy as a prerequisite to the disbursement of Federal student loans. For example, students who are enrolled part-time are still able to borrow the full loan annual amount. This past year, I discovered a student who had only earned 58 credit hours and had virtually exhausted her loan eligibility. How is she going to graduate? She hasn't even reached the junior status. How is she going to successfully repay the almost \$57,000 in student loan debt? As an aid administrator, this situation is very alarming, yet because we have no authority over borrowing, we have no practical tools to stop this student from going into further debt. This over-borrowing pattern can have severe consequences for the student, the institution and the Federal program.

3. Parent PLUS loan borrowers should be held to a more restrictive underwriting standard. Currently PLUS approvals are based solely upon credit worthiness and are blind to debt to income ratios or ability to repay. In the shift from FFELP to Direct Lending, I observed a drastic increase in PLUS loan approvals. Some parents were actually astonished when they received an approval. I recall one phone conversation with a parent from Baltimore. She was a single mom living solely on various forms of public assistance and was approved for a PLUS loan. She didn't have bad credit. Rather she had no credit and was thus approved. She said to me, "What are they thinking? I can't pay this back." However, in the absence of bad credit the parent was approved.

4. Income-Based Repayment (IBR) should be considered as the automatic repayment plan for borrowers. This would provide a dramatically simplified process for the borrowers and ensure that no borrower's repayment amount would ever exceed their ability to repay and therefore reduce the probability of default. The various iterations of repayment plans can be daunting for borrowers and a move to automatic IBR could help streamline the options. At Lee, we recently held a short seminar for faculty and staff, to assist them in determining what repayment plan would be most appropriate for their individual situation. One participant reported they had been out to the *studentloans.gov* Web site and had been researching for over an hour trying to find the right answer. There was just too much information along with unfamiliar terms to easily come to clear understanding.

SIMPLIFICATION AND REDUCTION OF ADMINISTRATIVE BURDEN

Of course, there are other areas of consideration to strengthen the student loan programs. I believe there are some practical administrative shifts that would both strengthen the program and reduce some unnecessary administrative burden. This is the second area I would like to submit for your consideration today.

1. Congress should mandate the creation of a single web portal where institutions and students can go and easily access information about Federal, private and institutional loans. The nonprofit organization National Student Clearinghouse (NSC)—currently provides a free service, Meteor Network, to both students and schools via a single portal access for both Federal and private loans. NSC serves as the unified point of connection between 3,300 institutions representing 93 percent of the na-

tional postsecondary enrollment. The Clearinghouse Meteor has the capacity to meet the objective. The U.S. Department of Education should facilitate the development and delivery of a single web portal which would contain all student loan information (Federal, private and institutional).

Currently institutions and borrowers must go to multiple sources to determine their entire loan portfolio. This creates an unnecessary burden for institutions and borrowers. In addition, it increases the probability that an outlier loan will be missed in the repayment or consolidation process. The lack of a simple single source for obtaining all student loan information increases the probability of default.

2. The Department of Education should overhaul existing entrance and exit counseling to provide clear, concise, customer friendly information which meets legislative requirements. Borrowers need ample information to make an informed decision not volumes of consumer information rhetoric. Currently students quickly become lost in the overwhelming amount of information on *www.studentloans.gov*, which leads to further confusion. This generation is dependent on social media and is accustomed to sound bites and YouTube video for obtaining information. The counseling tools need to provide student friendly verbiage.

Also, the Financial Awareness Counseling Tool (FACT) does not satisfy legislative requirements. FACT is a well-designed and student friendly interactive resource, but does not meet the regulatory requirements for counseling. This resource needs to be enhanced to satisfy legislative requirements for loan counseling. FACT should provide enhanced counseling options that can be used by institutions to promote success for students meeting various statically at-risk trigger points. These trigger points include poor academic performance, academic programs with high default rates or students borrowing above fixed cost.

3. The primary responsibility of default management should shift to the Federal servicers or the former guarantee agencies. In the shift from FFELP to Direct Lending the burden of default management shifted from the lenders and guarantee agencies to the schools. Schools are now faced with the need to hire additional staff to oversee the process, hire costly third party servicers or risk the penalties of rising cohort default rates.

Over the last year, the Lee University staff has spent a considerable amount of time researching this one topic. The task is daunting. We do not have the system resources to conduct skip tracing, robo-calling or other means formerly employed by the FFELP lending community.

The task of evaluating a student's situation alone is very time consuming for the financial aid administrator. Weeding through the various types of loans a student may have from various schools and multiple servicers adds to the confusion and hinders repayment efforts. For example, the research for one delinquent borrower might take up to 45 minutes. Then staff reported taking as much as 1 hour to assist just one delinquent borrower on a three-way call with the Federal servicer to ensure the borrower received all the appropriate repayment options in order to prevent default.

Students sometimes believe they are successfully repaying their loans or have consolidated all their loans to later find out one was omitted from the process and is now in default. Without expensive software, adequate staff and time to assist students in preventing or resolving defaults, schools are left to outsource default management to third-party servicers.

In summary, I hope that my statement and testimony provides insight into why our current student loan policies—and how the complexity of these regulations in particular—are not working well for students and families. I have offered four recommendations regarding student success strategies regarding borrowing that will allow institutions to educate students and families on borrowing, to control loan indebtedness and to assist students and parents regarding loan repayment.

I have also offered three areas of consideration to strengthen the student loan program. These recommendations are practical administrative shifts that would both strengthen the student loan program and reduce administrative burden.

Thank you for your time. I am happy to answer your questions and reserve the right to revise and extend my remarks.

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The CHAIRMAN. Thank you all very much. You all touched on all the elements of what we're trying to grapple with here on students loans, just every aspect of it. We'll start our 5-minute rounds of questions.

We have two divergents here. Dr. Cooper, you discussed a need to streamline current repayment options. You recommended also that maintaining the standard repayment plan and offering a single income-based plan would allow borrowers to benefit if they experience extended financial hardship. You go on to note, "The single income-based plan should aim to target protections to borrowers in most need."

I think Ms. Dill is saying that the income-based system ought to be basically everybody. Am I wrong in that?

Ms. DILL. I'm suggesting that the income-based be the automatic plan that students are assigned to, but that the students still be allowed to opt in to the standard repayment plan.

The CHAIRMAN. You said that we should maintain the standard.

Ms. COOPER. We do.

The CHAIRMAN. Why would you disagree with this?

Ms. COOPER. The issue about making the income-based repayment plan automatic or universal—sometimes those terms are used interchangeably—I think is an interesting concept, and it's a concept that we at IHEP actually recently studied in depth with five other organizations. From the conclusion of our work with those other organizations, we as an organization came out of it believing that while we should study it and it might be viable, there are just too many things about it right now that don't make it ready yet.

For example, some of the problems are that some students may end up actually borrowing more over time. That's not something that we want. We don't want them to borrow—not borrow more—repay more. We don't want that. They actually—some will pay longer than they would pay under the standard repayment plan. We don't want that, either.

And the third thing is without the proper institutional reforms in place, we might be incentivizing bad actors to really take advantage of the most vulnerable students. So while I definitely believe that there is some promise in this maybe down the road, until we work out and refine these kinks that can ultimately hurt students more, I'm not ready to say full scale that we should make it automatic just yet.

The CHAIRMAN. Ms. Dill, I don't know if you want to respond to that. I understand from your testimony that 70 percent of the students at Lee are in the standard repayment plan.

Ms. DILL. Yes, sir.

The CHAIRMAN. It seems like you don't have any kind of an exorbitant default rate. Your default rate seems to be right in place with everybody else.

Ms. DILL. That's correct, sir.

The CHAIRMAN. So it appears that most of those borrowers are repaying their loans. So if that's the case, why would we—that's the current default system right now.

Ms. DILL. Yes, sir.

The CHAIRMAN. Why would we want to change it? I'm just trying to figure this out. I don't have a dog in this fight one way or the other. I'm just trying to figure it out.

Ms. DILL. Sure. My goal is student success, not just in the classroom, but once they graduate from the classroom. And by allowing the income-based repayment to be the initial, the automatic repayment plan, it ensures that no student would have a loan repayment that would exceed their ability to repay, therefore, reducing the default rate. It simplifies the process, it makes it more user friendly for the borrower, and it ensures their ability to repay.

The CHAIRMAN. This is something I think we're going to have to take more of a look at. I like income-based repayment, but should it be the default, or should it be just one in an arsenal of different things?

The problem I have with that is sometimes people will take the easiest course out, which means they lower their payments. Even though they could pay more, they stretch it out. And what do they do over that period of time? They wind up paying more in interest charges rather than on the principal. That's the only kind of problem I personally see with it.

Ms. Loonin, I want to talk to you about—could you respond a little bit on the issue of—and you mentioned it in your testimony—on collection agencies and how they operate? And I think you were very provocative. You even said something about doing away with them or something.

Ms. LOONIN. Yes.

The CHAIRMAN. How can you do that?

Ms. LOONIN. I don't know if I meant do away with them completely in the world. I was just speaking, obviously, on student loan issues. It isn't the case that all government agencies use third-party private collectors to collect debts. The IRS, for example, tried it for a while and changed their minds and went back to using other internal collection.

So what I'm saying is that from my experience, having dealt directly with the collection agencies myself on behalf of the clients for years, it's not a typical collection model. It's not just about collection. It's about the Higher Education Act, and I don't think it works.

The CHAIRMAN. And I've had experience in that area, too, and I've seen where a collection agency writes one letter, and they get to keep 18 percent to 20 percent for doing almost nothing. I know that's the trial lawyer little thing we got into earlier today. But it seems to me that is an outlandish kind of thing, and plus the hounding that goes on from these collection agencies. I think we need to look at that. My time has run out.

Senator Alexander.

Senator ALEXANDER. Thanks, Mr. Chairman. I won't bring it up again.

[Laughter.]

Just an observation—and this was a debate we had in 2013 when we, by 81 to 18, passed the law which put a new market-based interest rate formula on the student loan program. Our goal there was for neither taxpayers nor students to profit off of each other. So we asked the Congressional Budget Office to tell us how we could get as close to zero as we could. And those of us who voted for that felt we did not change what was already happening, according to the Congressional Budget Office.

It's true that if you take the way the law says, you cannot—whether students are profiting or students are paying—that over 10 years, it is \$185 billion based upon what we were already doing. On the other hand, if you do what the Congressional Budget Office says we should do, which is called fair market accounting, which is the way we did TARP, the Troubled Relief Asset Program, then the students would pay \$85 billion more. In other words, the students are profiting off the taxpayers.

That's a debate we're likely to have this year between two different ways of accounting. But our goal there was not to have one profit over the other when we imposed that new rate on loans that cut in half the undergraduate rate to about 3.86 percent.

I thank you for your testimony today and your specific suggestions.

Ms. Johnson, your comments about early notification of the amount of money you can borrow or loan, we heard before, and we're taking that into account dealing with the FAFSA and trying to simplify it. All of you suggested ways to simplify the—you could count eight different options, if you count forbearance and other things, available to a student in terms of repaying a loan.

So I'd like to specifically ask you—and we asked our earlier witnesses about the application form—if you could—although some of you have done it in your testimony, if you would like to give us very specific suggestions in a letter about how you would rewrite this 5-page—these 5 pages, which is very small type, that would be very helpful to me and I suspect to others here. This is not an ideological inquiry. This is just a simplification inquiry.

And I think, Dr. Cooper, you used the words, layering new over old. We don't want to layer new over old. We've reauthorized the Higher Education Act eight times, and that happens when we do that.

So if you were starting from scratch and saying—you mentioned the single standard repayment plan, the single income-based repayment plan—what would you include on this 5-page form if you were starting from scratch, each of you? That would be very, very helpful to me and I suspect to others.

Senator ALEXANDER. Finally, I would like to ask you, Dr. Cooper, or anyone else—you mentioned skin in the game. One of the problems with over-borrowing—that's not really the subject of this hearing but several of you have commented about it. Ms. Dill commented on things we could do, like you shouldn't be able to borrow as if you were a full-time student if you're a part-time student. That's one suggestion.

Second, we could change the law or the regulations that prohibit institutions from counseling students in some cases or limiting the amount of money that could be borrowed. Or a third idea is the skin in the game idea, that an institution or some institutions, at some point, if they lend more money to a student, would have some responsibility for repaying that.

What do you mean by skin in the game? And have you got recommendations about that?

Ms. COOPER. In terms of addressing the issue of skin in the game, we believe that when it comes to higher education and the cost of it and how to pay for it, it's a shared responsibility. It's one that goes with the States, the institutions, and the government, as well as students. So we believe that everyone should be involved in that particular endeavor. When it comes to the issue of over-borrowing, specifically, I think—

Senator ALEXANDER. But how would you do skin in the game? Give me an example. What would you say to the University of Tennessee? How would the University of Tennessee put skin in the game on borrowing?

Ms. COOPER. One of the proposals that we recommend is a risk-sharing model. There are some risk-sharing models that are already out there. For example, guarantee agencies have used them. TICAS has proposed some. We participated in the consortium that I just talked about, where we—

Senator ALEXANDER. Can you give me an example? I'm very interested in it.

Ms. COOPER. Yes. What we could do is we could have the institutions pay into a fund a proportion that is—they could pay a proportion that's equivalent to their cohort default rates, for example, so if their cohort default rate is about 20 percent, then they can themselves put 20 percent into that fund, and that—

Senator ALEXANDER. That's 20 percent of the amount they—

Ms. COOPER. Of students who are in default or who are in repayment. And it's really a way of trying to better protect students from institutions that have a history of causing this issue of over-borrowing, and not just over-borrowing for the sake of over-borrowing, but over-borrowing and then students not getting a high-quality degree at the end where they can get a job to repay it back.

Senator ALEXANDER. Thank you. My time is up. If any of you would like to respond in writing, I would appreciate that.

Mr. Chairman, I think one of the things we should examine is how do we get the institution more involved, either to have some say in how much money they loan or some responsibility for paying it back.

The CHAIRMAN. I agree with that, and I have some thoughts on that. But I'm going to recognize Senator Murray since Senator Murray didn't have a chance in the last round.

Senator Murray.

STATEMENT OF SENATOR MURRAY

Senator MURRAY. Thank you very much, Mr. Chairman. This is such an important hearing that you're having, and I really appreciate all of the thoughts and the panelists' discussion on this.

It's so telling when we have so many people in our country today who are spending all of their extra income paying back a student loan, and they're not buying clothes, houses, cars, you know, contributing to our economy in other ways. And it is really prohibiting young people from even thinking about their future beyond college. So I think this is extremely important, and I really appreciate all of our panelists for being here.

One of my priorities during the negotiations last winter on the Bipartisan Budget Act was to maintain our investments in student aid and not ask our students to contribute even more toward deficit reduction. And, fortunately, as you know, Congressman Ryan and I were able to work together and provide some relief to struggling borrowers. The way we did it was by reducing the collection fees that guarantee agencies charged on defaulted loans.

Ms. Loonin, I'm really glad you're here, and I wanted you to talk a little bit more about how these guarantee agencies collect fees on student loans. And do you have any estimates on how many struggling students will save because of the changes that we all did put in place because of that budget agreement?

Ms. LOONIN. Yes. Thank you. It was a very sensible idea, among many, to save some money. I believe the Congressional Budget Office estimated that that particular reduction in the amount of guarantee agency collection fees, as well as both the amount that's charged to the borrower and the amount that goes to the government, would save somewhere around \$2.5 billion.

Specifically, on the point of reducing the 18.5 percent that is, frankly, automatically—the guarantee agencies automatically put that onto the loan balance, so it's capitalized. So a borrower coming out of rehabilitation actually has a very much higher balance, which makes it even harder for them to repay the loan. And as was mentioned earlier, it's not tied at all to what amount of time or work the collection agency has actually put into that account.

I actually have a client right now, for example—I can't get the collection agency to call me back to do a rehabilitation. I've been working on it for the last couple of weeks. Even the ombudsman's office actually has been involved.

Eventually, I'm going to do most of the work that, I think, will get this rehabilitation done. This borrower really wants to work. She's had a stroke and she's doing her best. But that collection agency will automatically put 18.5 percent onto about a \$40,000 balance.

Senator MURRAY. Describe so we all understand how these guarantee agencies actually collect these fees on student loans.

Ms. LOONIN. Most of them use third-party collection agencies, just like the Department of Education does as well. And then the fees are actually charged to the borrower as payments are made, so it's on a commission system, essentially, whether a borrower makes a voluntary payment or, as in this case, post-rehabilitation.

Senator MURRAY. Or how much work the guarantee agency actually does.

Ms. LOONIN. Again, it's third-party debt collectors, and it's not tied to how much work is actually done per borrower.

Senator MURRAY. Thank you very much.

Mr. Chairman, the other issue that I am extremely interested in is this issue of financial literacy, and it's something I've talked and worked a lot about and have authored legislation to help ramp up some financial and economic education efforts for students, beginning a lot younger than when they get to college. But I think the more you know, the more you can make reasonable decisions, and we just do a very bad job in this country of doing financial literacy.

But several of the panelists here have talked about strengthening loan counseling, and I want some of you to comment on how much loan counseling is done right now. Is it done by colleges, or do the servicing agents do it? How do most students get the information about the interest rate that they're paying or how long they're going to have to pay it off or what all this means to them?

Anybody?

Ms. JOHNSON.

Ms. JOHNSON. Sure. At our institution, this happens through a variety of mechanisms. Primarily, we started this because our average indebtedness has hovered near \$30,000 for about the last 5 years. And as a large public institution, I'm continually questioned about why, as a public institution, our debt is as high as it is, and there are a variety of reasons. But we implemented some counseling. The first primary mechanism for counseling is the entrance loan counseling that borrowers can do prior to completing the promissory note.

Senator MURRAY. Can do or—

Ms. JOHNSON. They are required to do it.

Senator MURRAY. They are required to do it?

Ms. JOHNSON. They are required to do it. So if they haven't done entrance counseling, we don't—

Senator MURRAY. Is this a university requirement?

Ms. JOHNSON. No, this is a Federal requirement. So they can do the master promissory note and then do entrance counseling all as one process on *studentloans.gov*. We put a hold on any disbursement of funds until that entrance counseling has occurred. The challenge with the entrance counseling is that, like many other things that are internet-based, it's text heavy, and you can scroll through, scroll through, click, click, click, and it doesn't take you very long to do all the clicks and get through that process.

Senator MURRAY. Without really reading it.

Ms. JOHNSON. Without really reading it. Anecdotally, we've also heard that there are parents that are doing this on behalf of their children. That makes us shudder, because the borrower is not getting that information.

We are utilizing a Financial Awareness Counseling Tool on our campus for our private loan borrowers. We are mandating that they come in and visit with us in person before they borrow through a private loan program and using that tool to assist them to make sure they understand things like interest rates. We've been very successful in reducing or even averting some of that private loan borrowing that has occurred.

One of the pieces that we're most pleased with is that 5 years ago, 71 percent of our undergraduate students were graduating with debt. We've dropped that to about 61 percent. So over a 5-year period of time, 10 percent fewer of our students are leaving our in-

stitution with debt. Now, those that are borrowing are still borrowing the same amount of debt, but there are fewer of them that are borrowing. So we're making some progress, we think.

Exit counseling is also mandatory for borrowers. So prior to their departure from our institution, they must go through the exit counseling. But you don't have a lot of teeth in that, because if a student does not do their exit counseling, you don't withhold their diploma or put a hold on their transcript for getting a job. So we tell them it's a requirement, but they may not do it.

Senator MURRAY. I think this is a really important area. And, again, Mr. Chairman, thank you to you and Senator Alexander for focusing on this.

The CHAIRMAN. I think if there's one thing that definitely cuts across party lines here and that we all agree on is that there has to be better loan counseling. Senator Alexander has talked about even going into high schools and getting it at that level, which I agree with. I think the central thesis is that we need to have better loan counseling. There may be some differences on the edges, but I think that's sort of a common theme, I think, that runs through all of this.

Senator Warren.

Senator WARREN. Thank you, Mr. Chairman.

Ms. Loonin, you recently wrote a report on Sallie Mae, which is doing both servicing under the Direct Student Loan program and, of course, still has outstanding old federally guaranteed loans. Sallie Mae touts its status as the loan servicer with the lowest default rates.

I recently sent a letter to Sallie Mae, asking for more information about its default prevention strategies, because I think it's important to understand the default aversion programs that borrowers are using, whether it's a deferment, a forbearance, an income-based repayment, or something else. And I asked for data on all of its Federal loans, including both the federally guaranteed and the Direct Loan program.

Sallie Mae recently responded to my letter, but it did not respond to the extensive data request. Instead, Sallie Mae cited three pieces of data, all related only to the Direct Loan program, its default rate, its forbearance rate, and its income-based repayment rate.

Ms. Loonin, I wanted to ask if these data are sufficient to give us an accurate picture of Sallie Mae's default prevention strategies?

Ms. LOONIN. Thank you. It's great that your work has been in holding Sallie Mae more accountable, and I really am sorry that they're not here today. But it's excellent that they revealed some information, because we do want to have more data. But that's very incomplete.

First of all, by not including the FFEL information, it does not give a complete picture. And, surely, Sallie Mae has control over its FFEL—no worries about any kind of instructions from the Department of Education not to release that information. So that would be extremely useful information that would be—and you'd get more historical data, too, because the program has gone on for longer.

Also, within default prevention, it's helpful to see what their statistics are. But default prevention is about much more than just this cliff of who actually falls into default. We like to parse that out and see by times of delinquency, for example, and look at similar—observe the HAMP program, which I know you're familiar with, or one of the mortgage programs; how many people inquired about income-based repayment or other things; what was the acceptance rate; and what's the retention rate. That would give you a much deeper picture of whether people are just out of default one moment in time, but over time.

Senator WARREN. Good. Thank you very much. I'm very disappointed that Sallie Mae did not come today. I think it's important that we take a closer look at how all of our servicers are performing. But we need accurate data to be able to do that. So thank you.

I want to ask a second question, and that's about the student loan program. Just loans from 2007 to 2012 are now on target to make \$66 billion in profits for the U.S. Government—just that small cohort. And let's keep in mind that these are the best data that we have available. These are Government data. These are not data anybody else made up. The GAO, the CBO, the Fed are all looking in the same direction on what's happening to students that are loading up on student loan debt.

Right now, the best estimate we have is that the interest rate that we're going to charge next year to our students is double, nearly double, the rate that undergraduates would have to pay in order to have the program break even, and as much as triple for graduate students and for plus loans. I think it is obscene for the Federal Government to be making profits like this, measured in the billions of dollars, off the backs of our students.

So the question I want to ask is with \$1.2 trillion in outstanding student loan debts and a third of borrowers more than 90 days delinquent on their student loan debt—this is crushing our young people. I'd like you to talk about what the implications of this are for young people who are trying to start their lives.

Dr. Cooper, could you talk about that, please?

Ms. COOPER. Absolutely. I think that we definitely need to keep these things in mind, because as we extend even some of our repayment options to 20 or 25 years out, we have to recognize that that then delays students' ability to make some life choices, like buying a home, saving for retirement, things that we've all heard about, I'm sure, in various articles and reports. So we need to be mindful.

We want our students to be effective and active parts of our economy. We don't want them saddled with debt for the first 20 years out of college.

Senator WARREN. Thank you very much. I see that my time is up.

Would it be all right if we had a couple more responses on that, Mr. Chairman? Just responses. I won't ask another question.

The CHAIRMAN. Go ahead.

Senator WARREN. Anyone else?

Ms. LOONIN. Sure. Thank you. And I want to say that what I see with my clients—many of whom, as I mentioned, did not succeed

the first time around—is that the debt is really crushing their opportunity to try again. They really are trying again. I think if we looked at the cost that way in the long term, it would cost us less to have them actually succeed.

Ms. JOHNSON. I would answer from the perspective of having a number of new young staff in my office, as well as the students that we serve, and, yes, they're delaying those life choices. They are utilizing the income-based repayment plans just to assist them. But home ownership and all of the things that we think contribute to a successful economy and that we want to have happen to drive our economy toward more health are being deferred or delayed because of the debt.

Ms. DILL. I would say that it is a burden, and I concur with what the other individuals have said. I appreciate what this committee is doing to help our students be successful, not only in school, but in the repayment process.

Senator WARREN. I appreciate all of you coming here today. I appreciate the work you're doing day in and day out.

Thank you, Mr. Chairman and Ranking Member Alexander, for having this hearing today. There is no problem that is more urgent in our economy and in our country. We don't build a future if we crush our young people with debt and don't let them have a fighting chance to get a start.

Thank you.

The CHAIRMAN. Thank you, Senator Warren.

None of you in your testimony touched on something that we also need to look at. That is the lack of any limits on graduate student loans. Prior to 2005, kids going to graduate school could borrow Stafford loans up to a certain limit. In 2005, a new program was started, the Grad-Plus Loan program. So today, a student going into graduate school can borrow up to the maximum of their Stafford loan, and then they can go to this new program created in 2005 that has no limits.

I'm just amazed at this. I'm wondering if—I've seen that a lot of these loans to grad students has really accelerated since 2005—huge. I'm going to get more data on that—what's happened there.

I have two questions. No. 1, should we be looking at, again, establishing limits on Grad-Plus loans? And, No. 2, how much does the fact that these graduate loans, going up to \$100,000, \$200,000, raise the average national loan indebtedness that we see of all students? I've said before that I think the average is \$29,000. How much of that is boosted up because of the Grad-Plus loans that are out there? So those two questions—do we put limits on it?

Ms. JOHNSON.

Ms. JOHNSON. First of all, the statistic about the average indebtedness—when schools are required to report their indebtedness on common data set, et cetera, the question is always asked: What is the average indebtedness of your undergraduate students?

The CHAIRMAN. Oh, I see.

Ms. JOHNSON. I have never been asked to report on the average indebtedness of my graduate students.

The CHAIRMAN. Do you have that data?

Ms. JOHNSON. No.

The CHAIRMAN. How come?

Ms. JOHNSON. We've been trying to do a study on our campus, because we did get a grant to study this. It's difficult, because you have to sort out—many students come to you later, after having done their undergraduate study. They've already consolidated some of their loans, which are then in a big balance, and trying to figure out what's graduate and what's undergraduate is a difficult prospect. But, no, we've never been asked to do that.

The CHAIRMAN. Are you telling me that we don't really know—

Ms. JOHNSON. I don't know.

The CHAIRMAN [continuing]. the indebtedness of these Grad-Plus loans? Is that a fact?

Ms. COOPER. Senator Harkin, what I can say to that is that I don't know the indebtedness, but I do know that graduate student borrowing has increased between 2008 and 2012, which does suggest that we may want to take a closer look at Grad-Plus loan policy.

The CHAIRMAN. But the Grad-Plus loans come through the Department of Education Direct Loan program, right?

Ms. COOPER. That's correct.

Ms. JOHNSON. Yes.

The CHAIRMAN. We really don't have a handle on how much is going out there and how much students are borrowing? I find that very disturbing, because I have—some of it is anecdotal—about \$200,000 debts and things like that. Kids go to graduate school, and they have these huge debts, and they may not get jobs after that that really can cover that. Maybe they're going into teaching, and they can't pay that back. Am I missing something here?

Ms. COOPER. It would also be worthwhile to look at how much of that is grad school debt versus how much of that is undergraduate debt. Sometimes in the reported totals, we're not able to disaggregate what belongs to the undergraduate level versus what's at the graduate level. But, as I said before, it has been for the Grad-Plus loan program that we have seen increases in the number of borrowers in that program.

The CHAIRMAN. Just a moment. I wish Mr. Runcie or anyone else was here from the Department of Education. I intend to ask them and find out for this committee what kind of data they have on these Grad-Plus loans, how much is outstanding, how many are being defaulted on, and separate that out from the regular Stafford loans. This is amazing.

The last thing I would say is I have a bill in, which is S. 546, the Smarter Borrowing Act, to strengthen loan counseling, to create more requirements for schools. I have a lot of co-sponsors on it. I would ask you to take a look at it and tell me what needs to be done to it. What else do we need to do to change it and modify it?

[The information referred to may be found in additional material.]

The CHAIRMAN. One more question I have—Ms. Dill, you said something that, again, startles me. You said under current Federal regulations, schools are prohibited from requiring additional loan counseling for students who appear to be over-borrowing or who, by statistical indicators, appear most at risk of defaulting. Is this so?

Ms. DILL. Yes, sir. Thank you, Mr. Harkin. Absolutely. The Federal regulations require entrance counseling as a prerequisite to disbursement, the initial disbursement.

The CHAIRMAN. Yes.

Ms. DILL. But after that, institutions are not allowed to require additional counseling for disbursement. We can offer it, but we're not allowed to require it. And without the ability to require it, there's no teeth in it.

The CHAIRMAN. Does anybody have any—I saw you nodding your head.

Ms. JOHNSON. I would agree with her assessment. There was one school, I believe, in Florida that was attempting to do this, and then the department told them to cease, because it was not written in the statute. So they didn't have a legal—

The CHAIRMAN. Is there a reason for this? Is there any kind of logical reason that schools are prohibited from doing this? Anybody?

[No verbal response.]

Again, I think that's definitely something we have to look at. I was not aware of that.

Thank you very much, Ms. Dill. I'm sorry.

Senator Alexander.

Senator ALEXANDER. I appreciate Senator Harkin's line of inquiry. I was handed this information from an article this year from Inside Higher Education that said the median overall indebtedness for a borrower who earned a graduate degree increased in inflation adjusted dollars from \$40,000 in 2004 to \$57,000 in 2012.

Ms. Dill, you said that the average indebtedness—Lee is a university with—you don't have graduate programs, right?

Ms. DILL. We do have graduate programs.

Senator ALEXANDER. You do have, but most of your students are undergraduates.

Ms. DILL. That's correct, sir.

Senator ALEXANDER. And your average indebtedness is \$29,000?

Ms. DILL. That reported data element is, as Ms. Johnson referred to, the undergraduate.

Senator ALEXANDER. That's undergraduate.

Ms. DILL. Yes.

Senator ALEXANDER. Ms. Johnson, yours is \$30,000 for undergraduates.

Ms. JOHNSON. Correct.

Senator ALEXANDER. Is that because that's about the maximum a student can borrow in an undergraduate 4 years or 5 years? What I'm trying to get to—are students simply—because the interest rate is 3.86 percent today, are they borrowing all they can, all they're allowed to? Is that not right? Why are your numbers about the same?

Ms. DILL. That is an interesting question. The aggregate loan limit for a dependent undergrad student is \$31,000. The aggregate limit for an independent student is \$57,000.

Senator ALEXANDER. So they could borrow more.

Ms. JOHNSON. Correct.

Senator ALEXANDER. Is it your judgment that if you were allowed to—if students were required with each disbursement to have some

sort of financial counseling, that that would be good for the student? Or would that just be another Federal regulation that causes college administrators to do a lot of unnecessary work?

Ms. DILL. What I am advocating is that it would be allowed that we could require the additional counseling.

Senator ALEXANDER. But not required.

Ms. DILL. But not required, because you do have the statistical indicators of the students that are most probably capable and will repay, and you don't want to create an unnecessary administrative burden. But I am asking and advocating for the authority.

Senator ALEXANDER. Ms. Johnson.

Ms. JOHNSON. What we have done at our institution is that prior to disbursement, we require a student to at least say, "Yes, I still want this disbursement" or "No, I don't." And there is a link to a repayment, which says, "Oh, by the way, if you take this disbursement, here's how much it's going to cost you now."

Senator ALEXANDER. You just slide around it.

Ms. JOHNSON. Yes.

Senator ALEXANDER. But you do do it with private loans.

Ms. JOHNSON. Yes, we do.

Senator ALEXANDER. You'd like to have it as a tool. Is that correct?

Ms. JOHNSON. Correct. I would agree. I would not make it mandatory, but allow it to—or permit it.

Senator ALEXANDER. And that would require changing a department regulation. Is that correct?

Ms. JOHNSON. Correct, yes.

Ms. DILL. Yes.

Senator ALEXANDER. The only other thing—I'd like to end up where I started out. I can't remember anyone who said to me it's easy to pay for college, and for me, it wasn't so easy—scholarships and jobs and all that. But I think it's important, as we have this discussion, to remember that according to the New York Federal Reserve at the end of 2012, 40 percent of borrowers had loans of less than \$10,000 or less, 70 percent had loans of less than \$25,000, and less than 4 percent had Federal student loan debt above \$100,000, and the college board said the college degree is worth a million dollars over your lifetime.

While all these problems we've raised, we need to address, I don't want to exaggerate them so much that students are afraid—that students miss the point that if you want to go to community college, it's free, basically, on average, as far as tuition and fees are concerned, and it's a few thousand dollars at a public university, as far as tuition and fees are concerned, and that loans are available, and the opportunity is there.

My hope is that because of this, we can simplify the application form and simplify the various options people have for loan repayment—and we'll probably have a debate about expanding those opportunities—and as a result, many more students will find it easier to go to college and easier to find out in advance, as you've suggested, what their loan and grant will add up to before they apply to Iowa State or to Lee or somewhere else, and that they'll have an easier way to find out what their loan repayments are. So I

thank the chairman for such an excellent hearing and appreciate being involved.

The CHAIRMAN. Thank you very much.

Senator Warren. We have time. I know the vote has been called, but we've got time.

Senator WARREN. Thank you, Mr. Chairman. I appreciate you holding this hearing. It's very important, and thank you all for coming.

The CHAIRMAN. This has been great. We had really good testimony here today. I, again, would ask all of you to please look at that bill I mentioned and tell me what we need to do to modify or change it, that type of thing. I would really appreciate that.

I want to thank all of our witnesses for sharing their expertise today and all my colleagues. I request the record remain open until April 10th for members to submit statements and additional questions for the record.

Ms. Johnson, I can't let this moment pass without thanking you for wearing the red and gold of the Cyclones, and I'll take advantage of the fact that Mr. Murphy is not here to say tomorrow night, "Go, Cyclones."

[Laughter.]

Senator ALEXANDER. Just a minute here.

[Laughter.]

At 7:15, Tennessee plays Michigan.

The CHAIRMAN. Oh, tonight? I thought it was tomorrow night. Well, we're about the same——

Senator ALEXANDER. We'll all be cheering.

The CHAIRMAN. Right.

Thank you very much.

[Additional material follows.]

ADDITIONAL COMMENTS FROM MARION M. DILL

Chairman Harkin, Ranking Member Alexander, and members of the committee: Thank you for the opportunity to submit followup comments regarding practical strategies to improve the student loan process. First, I would like to commend the work of the Senate HELP Committee on their efforts with student loan reform. The hearing held on March 27 regarding Strengthening the Federal Student Loan Program for Borrowers was the first time I have ever testified before a Senate Committee. I left with the impression that Senators from both parties are seeking to gain a greater understanding of the grassroots effects of the current legislation and to find ways to improve the process for students. Student success is the priority! I appreciate your determination to gain greater understanding and insights and for taking the time to listen. As I stated in my testimony, there are a number of enhancements I believe could contribute to the advancement and improvement for student borrowers.

My followup comments and recommendations will be divided into specific topics for ease of readability. Some of the recommendations are framed from the perspective of questions that I believe should be answered. Finding the answers to the questions should lead to greater insight and understanding for improving student access, student success and the integrity of the Federal Direct Loan Program.

Response to Senator Harkin's Request Regarding S.546—Smarter Borrowing Act

Enhancing loan entrance counseling is important and beneficial to the borrower. This would both improve the integrity of the program and hopefully reduce the national cohort default rate.

Recommendation 1: Provide clear authority to schools to require additional counseling as a contingency for disbursement. It seems the proposed bill stops short of providing this authority. Schools are held accountable for the cohort default rates, but are not given the authority and tools to either limit borrowing or to require additional counseling. The Office of Postsecondary Education provided additional guidance in GEN-11-07. Pam Moran is the Senior Policy Analyst with the main focus of FFELP and Direct Lending Programs and could provide additional insight to this regulation.

During the Tennessee Association of Student Financial Aid Administrators (TASFAA) conference held this week, the Federal Trainer reminded the aid community that we are prohibited from adding additional eligibility requirements. Institutions are not allowed to require additional restrictions. Since there is nothing in the statute to allow for additional counseling, schools are prohibited from requiring any additional (beyond the entrance) counseling as a requirement for disbursement.

Statutory Citation

Sec. 685.304 Counseling borrowers

(a) *Entrance counseling.* (1) Except as provided in paragraph (a)(8) of this section, a school must ensure that entrance counseling is conducted with each Direct Subsidized Loan or Direct Unsubsidized Loan student borrower prior to making the first disbursement of the proceeds of a loan to a student borrower unless the student borrower has received a prior Direct Subsidized Loan, Direct Unsubsidized Loan, Subsidized or Unsubsidized Federal Stafford Loan, or Federal SLS Loan.

Recommendation 2: Tie any mandated additional counseling to a set cohort default rate rather than the national average. This is consistent with current regulation. The national average is a moving target and could quickly become confusing in the administration of the regulation. Precedence has already been set regarding the use of a set threshold of 15 percent.

Statutory Citation and Guidance

34 CFR 682.604

34 CFR 685.303

Cohort Default Rate Guide—Benefits for schools with low official cohort default rates—Page 2.4—2

A school with a cohort default rate of less than 15.0 percent for each of the three most recent fiscal years for which data are available, including eligible home institutions and foreign institutions.

Response to Senator Alexander's Request—Regarding Simplification of the Application Process

Recommendation 1: Implement the use of income data from the second prior year, commonly referred to as prior-prior year as the basis for the EFC calculations across the board. Listed below are some expected benefits and off-sets:

- Should increase the use of the IRS data retrieval, thus making the process easier for students and parents.
- Should allow earlier application processing (as early as fall of the senior year).
- Earlier notification should assist families in making better informed decisions earlier in the admissions application process.
- Should decrease the amount of verification which should reduce administrative burden.
- As per NASFAA research—*A Tale of Two Income Years*: the use of prior-prior year income should not drastically change the eligibility for dependent students. For a view of the full report go to: <http://www.nasfaa.org/ppy-report.aspx>.
- Realistically will increase the number of professional judgment requests due to 2 years for possible change to income. This would increase the administrative burden; however that should be off-set by the reduced number of verifications.

Recommendation 2: As recommended in NASFAA's Preliminary Reauthorization Task Force Report, research the feasibility of utilizing the 1040 as the application for Federal student aid. For a view the full report go to: <http://www.nasfaa.org/reauth/>.

Determining the best repayment plan for the borrower (Standard vs. IBR Repayment Plans)

Recommendation 1: I recommend the following questions be answered. Are the servicers reaching out to the borrowers that indicated something other than the standard repayment plan during the exit interview provided on *studentloans.gov*? If not, I hope you will ask why not!

Currently the exit interview provided on *Studentloans.gov* explains the various repayment options. It provides a detailed overview of how much will be repaid over the life of the loan using each repayment option and asks the borrower which repayment option they would like to use.

According to Wood Mason, Program and Management Analyst for the U.S. Department of Education, this information is being forwarded to the Federal servicers. How is it being used? Is it being used at all? Additional research is needed here. Are the servicers using this information to assign repayment plans? Thus the questions, are the servicers reaching out to the borrowers that indicated something other than the standard repayment plan? If not, I hope you will ask why not!

Below is a screenshot from the www.studentloans.gov exit counseling.

Jump to: [Repayment Plan](#)

Compare Available Repayment Plans

Repayment Plan Information
 The repayment plans listed below are provided for comparison. You may not be eligible for all of the different plans. The Initial Monthly Payment and Total Loan Repayment figures are estimates based on the loan balance, projected income, and family size that you entered on Plan to Repay.

Loan Balance : \$ 27,630.00 Projected Income : \$ 27,500.00 Family Size : 3 Your Loan(s)

Repayment Plan	Repayment Period	Monthly Payment Initial to Final Amounts	Projected Loan Forgiveness	Total Interest Paid	Total Amount Paid
Standard	120 months	\$ 277 to \$ 277		\$ 5,525	\$ 33,255
Graduated	120 months	\$ 153 to \$ 464		\$ 7,010	\$ 34,640
Pay as You Earn	240 months	\$ 0 to \$ 127	\$ 28,254	\$ 10,275	\$ 38,275
Income Based Repayment (IBR)	360 months	\$ 0 to \$ 177	\$ 23,103	\$ 25,903	\$ 49,430
Income Contingent Repayment (ICR)	180 months	\$ 103 to \$ 237	\$ 0	\$ 10,159	\$ 37,799

*Calculations assume income increases of 5% a year, and poverty guideline increases of 3.3% a year.

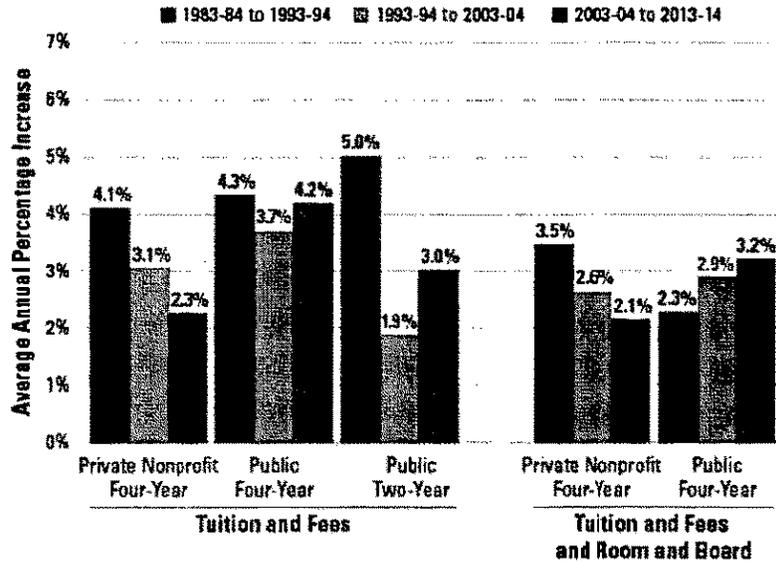
Which repayment plan are you interested in?
 Select the repayment plan you prefer below. Your repayment plan preference will be made available to your loan servicer. Contact your loan servicer before the end of your grace period to ensure you are placed on the repayment plan you prefer.

Repayment Plans for Students

Recommendation 2: I recommend the following question be answered. Who is helping delinquent student borrowers with exploring deferment, forbearance, and repayment options? Another possibility would be to require servicers to communicate the various repayments options to any borrower that is beyond 60 days delinquent. If servicers were systematically required to explore repayment options with delinquent borrowers, then more students might utilize the various options to avoid default and continue to make on-time monthly payments. Thus, helping the student and improving the integrity of the program.

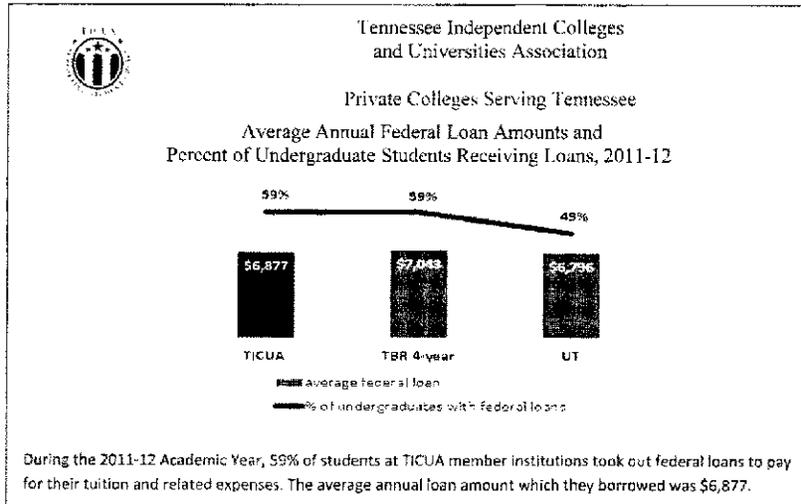
Response to Senator Alexander's Request—Why is the undergraduate per borrower indebtedness for Iowa State University, a public institution, and Lee University, a private institution, almost the same—approximately \$29,000?

This might speak to affordability of some private institutions that have similar cost structures to State institutions. There are schools that are providing excellent educational opportunities at an affordable cost and with self-initiated accountability. Lee University has worked extremely hard to keep our cost low in order to allow the greatest access to students from all socio-economic backgrounds. In 2014–15 Lee's tuition & fees for all full-time undergraduate students is \$14,280 and Iowa State Out-of-State tuition & fees for a full-time undergraduate student is \$20,617. According to The College Board, as seen in the following chart, public 4-year institutions have incurred a greater average annual increase during the last two decades.



Currently, Lee's cost is similar and sometimes less than the amount charged for out-of-State tuition at many State institutions. There are institutions that do a great job in providing a quality education at an affordable rate. It is my hope that legislators will consider the integrity of these institutions when developing legislation regarding accountability. Indeed, there are bad apples out there and Congress needs to address those cases of abuse. Abuse can be addressed without making blanket regulations that create unnecessary administrative burden for all institutions.

The Tennessee Independent Colleges and Universities Associations (TICUA), published the following: *TICUA Fact*—April 9, 2014.



Another contributing factor might be the **institution's lack of authority to reduce loan amounts** for specific populations, academic programs, credential levels, or other broad categories.

As per GEN-11-07, institutions only have authority to reduce the loan amounts on a case-by-case basis Section 479A(c) of the Higher Education Act, as amended (HEA), and the Direct Loan Program regulations at 34 CFR 685.301(a)(8). This creates a considerable administrative burden and many schools do not have sufficient staffing to accomplish such a burdensome task, therefore resulting in awarding maximum annual amounts.

GEN-11-07 goes on to state,

“Schools do not have the authority to limit Direct Loan borrowing by students or parents on an across-the-board or categorical basis. For example, schools may not limit all student and parent Direct Loan borrowing to the amounts needed to cover only institutional costs, if the borrowers would otherwise be eligible to receive additional loan funds.”

Statutory Citation

Loan Limits

HEA § 428(b)(1)

[20 U.S.C. 1078(b)(1)]

Professional Judgment

HEA § 479A(c)

[20 U.S.C. 1087tt(c)]

Recommendation: Allow institutions to set lower loan limits for specific populations, academic programs, credential levels or other categories established by the school. Some examples might include:

- students enrolled in associate degree programs borrowing more than 50 percent of the aggregate limit.
- part-time students borrowing full-time loan amounts.

Response to Accountability of Institutions—Any legislation must consider the populations being served by the institution rather than just looking at a base scorecard

Considerations—How can Congress help schools who are doing the right thing by making college affordable and by enrolling low-income students? Accountability must consider the schools that are doing the noble thing of helping all students attain a higher education degree rather than just those that are most academically and financially prepared for college. Lee University is an institution of excellence, doing the right thing by keeping cost low and allowing students who are less academically prepared to attend. Doing the noble thing does not help the institutions' statistical indicators on the current score card. Nonetheless serving a broader base of students is still the right thing and creates accessibility. Critical data elements that must be considered are:

- i. Admissions requirements
- ii. Percentage of Pell Eligible students

Congress should mandate the creation of a single web portal where institutions and students can go and easily access information about Federal, private and institutional loans.

The lack of a single web portal has significant impact on students today. Loans are missed during the consolidation process. Students think they are making satisfactory payments, to later learn that one loan was omitted and is now in default. The capability is presently available through the “Meteor Network” managed and operated by the National Student Clearinghouse (NSC).

According to Eugene G. Cattie, managing director, Financial Aid Services National Student Clearinghouse, this can be remedied without legislation or anything more than a letter of approval from the Department of Education/Federal Student Aid (DOE/FSA). The Meteor Network is **a free portal access to borrowers of their loans in real time**. NSC has owned the rights to this system for 3 years and has upgraded and enhanced its capabilities to include the Federal Direct Loan Program (FDLP). Although this free system is able to access the Federal Family Education Loan Program (FFELP) and a majority of the private loans through the TIVAs, it has been prevented access to the FDLP loans by the DOE/FSA. Mr. Cattie reports that, NSC has repeatedly made the request for the last 3 years. All questions related to security, privacy and administration of Meteor have been addressed through several meetings with DOE/FSA yet they have not responded to NSC's request.

It is interesting to note, that a simple letter authorizing NSC to access the FDLP loans would allow immediate access to students and schools to utilize this system in real time review. Mr. Cattie further indicates this system was offered to DOE/FSA for free to use. Why is this beneficial resource which would be provided at no cost to the national budget, being withheld from student borrowers?

DEFAULT MANAGEMENT

The primary responsibility of default management should shift to the Federal servicers or the former guarantee agencies. Even for schools with low cohort default rates, there is a disproportionate workload associated with default management. For example: at Lee the 2010 3-year cohort default rate is 12.9. Even so, we could easily increase staff hours associated with DL by 50 percent to effectively implement a default management plan. Let me clarify—if it takes 40 hours per week to manage the DL portfolio for 100 percent of borrowers at Lee, it would take an additional 20 hours per week to implement the default management plan for less than 15 percent of those borrowers. The labor is disproportionate to the volume of students.

It is true that Lee's current cohort default rate is below the 14.7 percent national average. This "low" rate might cause some to ask, "Why should we be concerned?" Even these "low" rates translate to significant amounts at the national level. Our goal should be successful repayment for every borrower. This is important to the student, the institution and the Federal program. The at-risk borrowers even at schools with low cohort default rates need reasonable access to the income-sensitive repayment options.

Create a U.S. Department of Education Hotline for Loan Borrowers.

Consider tapping into the \$66 billion of yearly profits created from the DL program and provide a resource for students to have ALL their Federal loan questions and options answered by highly trained staff (similar to the hotline already provided for the application process at 1-800-4FED-AID) This is a "middle ground" for shifting the primary responsibility for Default Management back to the servicers and guarantors.

In a recent survey to NASFAA members (Katy Hopkins, NASFAA Communications Staff, 3/6/2014), 34.19 percent of the aid professionals reported the biggest challenge to be "understanding Loan Repayment Options and conveying the 'right' message to students."

In short, colleges across the country are struggling to have working call centers and "high touch" services by highly trained staff. In the absence of this, community colleges in particular may be required to "outsource" these types of services for borrowers in school or who become delinquent in order to avoid the consequences of rising Cohort Default Rates.

Let's work together to wisely utilize some of the \$66 billion of yearly profits generated from Direct Loans to serve students better, provide meaningful services and to improve the integrity of the program.

Hold the Direct Loan Servicers to the same standardized Due Diligence standards as the former FFELP lenders.

Listed below is the Common Manual which prescribes the FFELP collection due diligence requirements in *Chapter 12.4.A* (it's a huge document and takes a few minutes to upload). The Common Manual is the FFELP "bible" that translates regulation into procedure and is used uniformly by all guarantee agencies. <http://www.commonmanual.org/doc/ECMarchive/ECM2013.pdf>. Why aren't Direct Loan Servicers held to the same standard? Why doesn't legislation provide the same protection to borrowers under DL? Examples of requirements:

- Make at least four diligent efforts (each consisting of one successful contact or at least two attempts) to contact the borrower by telephone.

Statutory Citation: § 682.411(d)(1); § 682, Appendix D, Q&A #1; DCL 96-L-186/96-G-287, Q&A #53

- Send the borrower at least four written notices or collection letters informing the borrower of the delinquency and urging the borrower to make payments. The required notices or collection letters sent during this period must include, at a minimum, information regarding deferment, forbearance, income-sensitive repayment, income-based repayment, loan consolidation, and other available options to avoid default.

Statutory Citation: § 682.411(d)(1) and (2)

- The lender must engage in collection efforts that ensure that no gap in collection activity of greater than 45 days occurs through the 270th day of delinquency. These efforts must urge the borrower to make the required payments on the loan.

At a minimum, these efforts must provide the borrower with options to avoid default and advise the borrower of the consequences of defaulting on a loan.

Statutory Citation: § 682.411(e); DCL FP-04-08]

In summary, I hope that my statement and testimony provides insight to the current functioning of the Federal student loan program and some possible enhancements that would benefit students and improve the integrity of the program.

Thank you for your time.

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RESPONSES BY JAMES W. RUNCIE TO QUESTIONS OF SENATOR HAGAN AND SENATOR WARREN

SENATOR HAGAN

Question 1. 1. How is someone who was just called to serve our country supposed to determine if consolidating their loans for the Public Service Loan Forgiveness program is a better bet than taking the 6 percent interest rate cap? Or if deferring payment on their student loans would be better than opting into an income based repayment program? Can you tell me what steps the Department of Education is taking to make it easier for servicemembers to understand their benefits?

Answer 1. The Department is committed to ensuring that our servicemembers fully understand and have access to all of the student loan-related benefits for which they are eligible. We have taken a number of steps to ensure that clear, comprehensive guidance on these benefits is broadly available. Last year, the Department worked with our contracted servicers on a servicemembers' brochure that provides explanations of all benefits. The brochure is available on all servicer sites, as well as on our main Web site here: <https://studentaid.ed.gov/sites/default/files/military-student-loan-benefits.pdf>.

In addition, the Department worked with our Federal student loan servicers to develop servicemember-focused Web sites, interactive voice response (IVR) functionality, and robust scripts and processes to identify military personnel during counseling /conversations/servicer contact. Our servicers provide tailored guidance to borrowers identified as servicemembers on many topics, including:

- Public Service Loan Forgiveness (PSLF) benefits;
- Steps and processes to apply for benefits under the Servicemembers Civil Relief Act (SCRA);
- The advantages and disadvantages of various repayment options, including income-driven plans, deferment or forbearance.

Finally, we now require our Federal loan servicers to check the names of all their borrowers against the Department of Defense's Defense Manpower Data Center (DMDC) database to identify borrowers who qualify for the SCRA interest rate limi-

tation, and then apply the limit to a borrower's eligible loans if the borrower would benefit from the change without requiring a specific request from the borrower and without additional paperwork from the borrower.

Question 2. Given that the Nation's largest loan servicer—Sallie Mae—is facing an enforcement action due to its violating the rights of servicemembers. Can you describe for me steps the Department can take to hold Sallie Mae and other loan services accountable going forward?

Answer 2. The Department is committed to providing a high quality customer experience to our borrowers. We investigate all allegations of wrongdoing, and appropriately resolve any issues. If we determine that any of the Department's loan servicers have violated any laws, regulations, policies, or other contractual terms and conditions, the Department will assess the findings and determine the most appropriate course of action. Remedies could include monetary relief, termination of the contract in whole or in part, or other appropriate corrective actions.

As you are aware, on May 13, 2014 the Department of Justice and Sallie Mae (now Navient) agreed to a consent order to address Sallie Mae's compliance with the SCRA on the private and Federal student loans it owns or services. Building on our work with the Department of Justice, the Department has initiated its own review of all of our loan servicers, starting with Sallie Mae, to determine their compliance with all provisions of the SCRA for our federally serviced loans, and determine if further actions should be taken.

Question 3. What is the Department doing, in both the FFEL program and the Direct Loan program, to ensure compliance for servicemembers?

Answer 3. Federal Student Aid (FSA) is reviewing all of its servicers' operations and procedures on providing servicemembers their benefits under SCRA. Our internal review of the servicing of the Direct Loan program will inform how and when we review Federal Family Education Loan (FFEL) lenders and servicers.

In addition, we now require our Federal loan servicers to check the names of all their borrowers against the DMDC data base to identify borrowers who qualify for the SCRA interest rate limitation, and then apply the limit to a borrower's eligible loans if the borrower would benefit from the change without requiring a specific request from the borrower and without additional paperwork from the borrower. Prior to this recent process change, a borrower seeking benefits under SCRA was required to make a written request and provide a copy of their military orders reflecting active duty status.

We will issue guidance to the FFEL community through a Dear Colleague letter on how to implement the SCRA and access the Department of Defense's data base soon.

SENATOR WARREN

The Federal Reserve Bank of New York reports that more than 30 percent of borrowers whose loans are in repayment are 90 days or more delinquent on their debts. This is an alarming number. The Department of Education does not seem to make similar data public.

What measures do you believe the Department of Education, Congress, and the public should focus on to judge how well student borrowers are faring in the Federal loan program? Do you think delinquency rates are an important measure? Please explain what student loan data the Department of Education makes public, and why.

In February, I sent a letter to Sallie Mae requesting more detail regarding its recent claims about its success at keeping borrowers out of default. I requested this information because I think it is important to understand which default aversion programs borrowers are using—Whether it's a deferment, forbearance, income-based plan, or something else. As you know, not all strategies to reduce defaults put students on a path to successful repayment, and some may even add to a borrower's debt load.

In my letter, I asked for data on all of Sallie Mae's Federal loans, including both federally guaranteed and Direct Loans. Sallie Mae responded to my letter by citing only three pieces of data, all related to its Direct Loan portfolio only; its default rate, its forbearance rate, and its income-based repayment rate. In explaining their limited response to my request, Sallie Mae argued that the company is restricted from releasing certain information under its contract as a Federal student loan servicer. The information they did provide, however, is presumably covered by those same restrictions, suggesting that the Department of Education is willing to release data, at least in certain instances.

Please provide the following information about Sallie Mae's performance relating to servicing Federal loans, distinguishing Sallie Mae's servicing performance on its portfolio of privately held FFEL loans, Federal Direct Loans, and federally owned FFEL loans. Please also provide relevant data for each of the servicers under the Direct Loan program.

1. The share of borrowers who successfully moved directly from a deferment or forbearance into an income-based repayment plan in the last year.

For the number of borrowers who moved from a deferment or forbearance into an income-based repayment plan, the Department considered loans in an Income-Based Repayment (IBR) plan up to September 4, 2014. The logic used to determine if a loan was successfully transitioned to an IBR schedule looked for an IBR plan start date before or within 10 days of the deferment or forbearance end date. The denominator used to calculate the percentages consists of loans that exited a deferment or forbearance in the last year. Please note that some borrowers may have successfully transitioned into other repayment plans.

2. The portion of borrowers not currently in school who have used multiple forbearances or deferments (excluding in-school deferments).

For borrowers who have used multiple forbearances or deferments, the data include only borrowers who were not in an "in-school" or "grace" status as of the date of the query.

3. The portion of loans that became delinquent in the last fiscal year, the percentage (by dollar value and number of borrowers) that are currently in various statuses.

Responses for all servicers are based on Direct Loans. The responses related to the Not-for-Profit Servicers are provided on a separate page. For comparison purposes, it is important to note that there are significant differences in the way borrowers were allocated to TIVAS versus the NFPs. In general, the NFPs received accounts that had been in active repayment for several years. The TIVAS have received loans in all statuses. In addition the TIVAS have been receiving new borrowers entering repayment for the first time since 2010. The NFPs have not received first-time repayment borrowers. Also, "income-driven repayment plan" includes borrowers in Income-Based Repayment, Pay As You Earn, and other income-driven repayment options.

4. Of loans that became delinquent in the last fiscal year, the percentage (by dollar value and number of borrowers) that are currently in various statuses.

For the portion of loans that have become delinquent in the last fiscal year, the data include all loans greater than 30 and fewer than 361 days delinquent. The data reflect the servicer at the time the loan became delinquent. The denominator used to calculate the percentages consists of loans that became delinquent at any point during the fiscal year. Also, "income-driven repayment plan" includes borrowers in Income-Based Repayment, Pay As You Earn, and other income-driven repayment options.

5. The number of defaulted loans assigned to Pioneer Credit Recovery that were originally serviced by Sallie Mae, as well as the amount paid in commissions for these loans.

Included is the requested data for defaulted loans assigned from Sallie Mae's Federal portfolio to all private collection agencies (PCAs) under contract with the Department of Education. These assignments are made based on a methodology determined by each agency's performance as determined by metrics specified in the PCA contracts. Department loan servicers have no role or influence in determining which PCAs receive defaulted loans from their portfolio.

[Whereupon, at 12:02 p.m., the hearing was adjourned.]