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Ms. Karen Gibson and Ms. Soo Kang
U.S. Department of Education
Union Center Plaza, RM 91F1
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Washington, District of Columbia 20202-5405
Transmitted by email: karen.gibson@ed.gov, soo.kang@ed.gov

Dear Ms. Gibson and Ms. Kang:

The Institute for College Access & Success (TICAS) is writing in response to your Request for Information relating to Title IV Student Loan Servicing (Solicitation Number: FinancialAidLoanServicing) posted on FedBizOpps.gov on November 25, 2014. TICAS is an independent, nonprofit organization that works to make higher education more available and affordable for people of all backgrounds. By conducting and supporting nonpartisan research and analysis, TICAS aims to improve the processes and public policies that can pave the way to successful educational outcomes for students and for society.

As the Department of Education explores ways to improve federal student loan servicing through alternatives to the current multi-servicer, multi-system contract model, TICAS urges consideration of the principles and recommendations outlined below, including both administrative and legislative changes that could help borrowers under current or future servicing systems.

Principles to guide changes to student loan servicing

Define and enforce absolute standards. Servicers should be held to high absolute standards, not simply compared to each other or to minimum standards. Data on servicer performance on key measures should be collected, monitored and made public.

Maintain flexibility to change contractors. The Department needs the ability to switch contractors quickly and easily in response to performance, which necessitates not relying on a single contractor or being overly dependent on a small number of contractors if they cannot be easily and quickly changed. The Department should carefully consider the pros and cons of specialty servicers that exclusively service certain kinds of loans or borrowers. While specialty servicers may deliver more expert service, if they perform poorly it may be more difficult and take longer to replace them.

Use data to align incentives for servicers. Incentives, especially compensation, should be designed to facilitate the best outcomes for borrowers, including avoiding delinquency and default, as well as avoiding long-term forbearance or deferment when enrollment in income-driven repayment would be better for the borrower. The Department should consider compensating servicers based on expected risk (e.g., loans of dropouts are more likely to default so they may require additional customer service resources and higher compensation). Compensation should also be tied to numbers of complaints and complaint resolutions.

Prioritize ease of use for the borrower. Borrowers should not face different or conflicting information depending on their servicer, and should not be forced to research and shop for a servicer. While competition can drive improved service and efficiencies, the Department should hold all contractors to high standards and manage competition among contractors without putting additional burdens on borrowers to navigate a complicated system. The Department is much better able than borrowers to assess, compare, and act on servicer performance data.

Establish the Department of Education as the single portal for federal student loans. Because borrowers should not face different or conflicting information about their loans and options, there should be a single Department of Education portal for information about one's federal student loans, including repayment options. All portal screens, loan related correspondence and account information should be branded as the Department of Education, not the servicer, to avoid confusion for students and direct marketing from servicers regarding other products they may offer. There should also be a single Department of Education portal for complaint tracking. Servicers should be responsible for resolving complaints, and the Department should be responsible for tracking complaints, ensuring borrower satisfaction with their resolution, and analyzing trends and outcomes. The Department's focus would be on investigating when borrowers are not satisfied with the servicer's response to the complaint and when the Department sees anomalies in complaints.

<u>Short-term recommendations that can be implemented under the current contact model</u>:

Enforce existing contract provisions, including reporting violations by servicers to the Department of Justice and/or Federal Trade Commission for enforcement.

Align incentives under current contract provisions. Ensure that servicers have no financial incentive to mislead students or provide poor service. For example, currently, servicers may be reluctant to direct borrowers to complete the annual employment certification form for Public Service Loan Forgiveness, because doing so would mean that the loan will be reassigned to a specialty server. In addition to monitoring and enforcing contract requirements, the Department should replace loans that are moved to specialty servicers so as not to disincentive providing advice in the borrower's best interest.

Immediately use the Consumer Financial Protection Bureau's complaint tracking system for all federal loan servicing complaints. The Consumer Financial Protection Bureau (CFPB) already accepts and tracks complaints about the *collection* of federal student loans. Until the Department has its own central portal for accepting and tracking all federal loan servicing complaints, the Department should permit the CFPB to accept and track complaints about federal loan servicing as well as collection. This interim step will make it much easier for borrowers to resolve any problems, and help the Department monitor and improve servicer performance and hold servicers accountable while the Department works to design and implement its own single portal for complaint tracking.

Monitor data for improper servicing to reduce defaults and streamline the cohort default rate appeals process. The Department should use its access to federal loan servicing records and require regular reports from servicers to proactively monitor for improper loan servicing, instead of requiring schools to send a request for records, investigate whether loans were improperly serviced, and file improper servicing appeals to their cohort default rates. The Department could also use such information in its oversight of servicers and thereby reduce rates of default due to improper servicing.

Explore other markets for lessons learned. The Department should convene government agencies, including the CFPB and Department of Housing and Urban Development, as well as outside experts to explore how the crisis in mortgaging servicing during the Great Recession might provide lessons that apply to federal student loan servicing.

Thank you for the opportunity to comment on this important issue.

Sincerely,

Jessica Thompson
Senior Policy Analyst