the institute for
college access & success
405 14th Street
Suite 1100
Oakland, CA 94612
510.318.7900
www.ticas.org

Comments on Request for Information Regarding Student Loan Servicing

Docket No. CFPB-2015-0021

Submitted July 13, 2015

The Institute for College Access & Success (TICAS) is an independent, nonprofit organization that works to make higher education more available and affordable for people of all backgrounds. Through 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. Since 2005, our Project on Student Debt has been analyzing and raising awareness of the impact of student debt on students, families, and the economy.

Student loan debt and its servicing have an enormous effect on the lives of students, former students, their families, and the economy at large. Recent data show that more than 40 million borrowers owe $1.4 trillion in outstanding federal and private loans, with about 87% of the outstanding debt composed of federal loans and 13% composed of private loans.[1] There are growing signs that increased student debt burdens may be contributing to broader economic trends in home ownership, car purchases, small business development, and retirement savings.[2]

Effective student loan servicing helps borrowers manage their debt and stay on top of their monthly payments, while servicing problems can have serious implications for borrowers' credit and their contributions to the broader economy. For example, when loan servicers misapply loan payments, borrowers may end up becoming delinquent on their loans at no fault of their own. Additionally, if servicers do not effectively alert borrowers in income-driven repayment (IDR) plans about the annual deadline to update their income information, borrowers can see their monthly payments skyrocket and their unpaid interest capitalize. The U.S. Department of Education (Department) recently shared that the *majority* of borrowers in IDR plans are missing that deadline, which raises questions about the adequacy of their student loan servicing.[3]

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[1] Calculations by TICAS on data from Board of Governors of the Federal Reserve System. Consumer Credit–G.19. http://www.federalreserve.gov/releases/g19/HIST/cc_hist_memo_levels.html. Accessed May 7, 2015. U.S. Department of Education. Federal Student Aid Data Center. "Federal Student Loan Portfolio Summary." https://studentaid.ed.gov/sites/default/files/fsawg/datacenter/library/PortfolioSummary.xls. Accessed May 20, 2015.

[2] Consumer Financial Protection Bureau (CFPB). 2013. *Student Loan Affordability: Analysis of Public Input on Impact and Solutions.* http://files.consumerfinance.gov/f/201305_cfpb_rfi-report_student-loans.pdf. Federal Reserve Bank of New York. April 17, 2013. "Young Student Loan Borrowers Retreat from Housing and Auto Markets." http://bit.ly/1izd1Jw. Kim, Dongbin and Therese S. Eyermann. 2006. "Undergraduate Borrowing and Its Effects on Plans to Attend Graduate School Prior to and After the 1992 Higher Education Act Amendments," *Journal of Student Financial Aid* 36(2): Article 1. http://publications.nasfaa.org/jsfa/vol36/iss2/1.

[3] U.S. Department of Education. "Sample Data on IDR Recertification Rates for ED-Held Loans." Shared on April 1, 2015 at the second negotiated rulemaking session. http://www2.ed.gov/policy/highered/reg/hearulemaking/2015/paye2-recertification.xls.

There is an urgent need to improve student loan servicing. As documented by the federal Consumer Financial Protection Bureau (CFPB) and reports and investigations by others,[4] student loan servicing is inconsistent, oversight is lax, and borrowers lack a clear way to enforce their rights. The result: borrowers cannot count on servicers to provide information and assistance that could help them make affordable payments and stay out of default. Indeed, poor servicing has spawned a growing industry of for-profit "debt relief" companies that charge high fees for services that the government is already paying federal loan servicers to provide at no cost to borrowers.[5]

These comments focus on the need for more and better data to improve student loan servicing. Appendix A contains the recommendations to improve student loan servicing that we submitted to the Department earlier this year.[6] These include defining and enforcing absolute standards, ensuring the Department can quickly change contractors, immediately using the CFPB's complaint tracking system to track all federal loan servicing complaints, using data to identify improper servicing, changing servicer incentives to better align with those of students and taxpayers, prioritizing ease for the borrower, exploring other markets for applicable lessons, and creating a single student loan portal for all federal loans.

We have also developed related policy recommendations to reduce the burden of federal and private student loan debt, including by improving federal loan counseling and private loan disclosures, requiring school certification of private loans and informing students of any untapped federal aid eligibility, providing struggling private loan borrowers with refinancing opportunities, and restoring fair treatment of private loans in bankruptcy.[7]

Lack of available data on student loan servicing and loan repayment

We have identified five major areas where current gaps in both federal and private education loan data pose serious obstacles for policymakers and other stakeholders seeking to evaluate and address consumer risks related to student loan servicing:

- Data on Federal Family Education Loans (FFEL) and private education loans
- Servicer-level data
- College-level data
- Data on factors associated with delinquency and default
- Data by demographic characteristics of borrowers

[4] See, for example, the National Consumer Law Center. 2014. *The Sallie Mae Saga: A Government-Created, Student Debt Fueled Profit Machine.* http://bit.ly/1HAkcBb. Marian Wang, *Student Loan Borrowers Dazed and Confused by Servicer Shuffle*, ProPublica (Apr. 23, 2012). http://www.propublica.org/article/student-loan-borrowers-dazed-and-confused-by-servicer-shuffle.

[5] See National Consumer Law Center. 2013. *Searching for Relief: Desperate Borrowers and the Growing Student Loan 'Debt Relief' Industry.* http://www.studentloanborrowerassistance.org/wp-content/uploads/File/searching-for-relief-report.pdf.

[6] TICAS. 2015. "Recommendations for Improving Federal Student Loan Servicing." http://ticas.org/content/pub/recommendations-improving-federal-student-loan-servicing.

[7] TICAS. 2014. *National Policy Agenda to Reduce the Burden of Student Debt.* http://ticas.org/sites/default/files/legacy/files/pub//PolicyAgenda_Nov_2014.pdf.

Each of these issues is discussed in further detail below.

Federal Family Education Loans (FFEL) and private loan data

More than two out of five (41%) outstanding student loan dollars are from private education loans and Federal Family Education Loans (FFEL) for which there are no servicer-level data, and in some cases no data at all, on loan status, loan terms, or repayment plans. Much of the data that the Department has recently made available on the Federal Student Loan (FSA) Data Center[8] for the Direct Loan (DL) portfolio is not available for FFEL loans,[9] and no comparable data are available for private loans.

FFEL Data

Several important indicators published for the DL portfolio are not available at all for the FFEL portfolio or not available at the servicer level (see also the "servicer-level data" section below). For example, the Department provides a breakdown of the DL portfolio by delinquency status, but does not offer the same information for the FFEL portfolio. As a result, policymakers are unable to assess the level of distress for a sizable share of federal student loan borrowers; specifically, whether borrowers with FFEL loans who are listed as being in "repayment" are actually current on their loans or are falling behind on payments and close to defaulting. There are also *no servicer-level data* on the loan status of the FFEL portfolio like there are for the DL portfolio, including whether loans are in repayment, deferment, forbearance, or default.

Additionally, the Department does not publish a breakdown of the FFEL portfolio by repayment plan, making it impossible for policymakers to know whether FFEL servicers are adequately informing borrowers about the availability of Income-Based Repayment (IBR), the only IDR plan available in FFEL. Other IDR plans, such as Pay As You Earn (PAYE), as well as Public Service Loan Forgiveness (PSLF), are only available for Direct Loans. However, borrowers with FFEL loans can access these plans by consolidating their FFEL loans into a new Direct Loan. If borrowers with FFEL loans are less likely to be enrolled in these plans than similar DL borrowers, it would suggest that servicers are not adequately informing borrowers and helping them consolidate and enroll.

The Department also does not publish a breakdown of the FFEL portfolio by forbearance type (e.g., administrative vs. discretionary) though it does provide that information about the DL portfolio. Data are also not available on how long FFEL or DL borrowers remain in forbearance. Forbearance is easy for servicers to process but costly for borrowers because interest accrues and capitalizes: the longer the forbearance, the more borrowers owe.

Private Loan Data

Even less is known about the private loan market. As we discussed in our 2012 comments to the CFPB on private loans,[10] federal regulators and the public do not have sufficient information to ensure that

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[8] For more information, visit https://studentaid.ed.gov/sa/about/data-center/student/portfolio.
[9] FFEL loans account for about one third of outstanding federal loan balances: https://studentaid.ed.gov/sa/sites/default/files/fsawg/datacenter/library/PortfolioSummary.xls.
[10] TICAS. 2012. "Comments in Response to the Consumer Financial Protection Bureau's Request for Information Regarding Complaints from Private Education Loan Borrowers." http://bit.ly/1GL9XmI.

private lenders and servicers are complying with fair lending laws. Several private lenders claim to be making loan modifications available to borrowers, but they have not published any eligibility criteria, and borrowers continue to report being unable to negotiate affordable repayment terms. The CFPB should work with the Department and other agencies to collect and disseminate comprehensive annual data on private loan volume, loan status, repayment plans, loan modifications, and loan terms and conditions, along with relevant student and institutional characteristics at the college, state, and national levels.

To address these gaps in available data, we recommend *regularly* making the following FFEL and private loan data publicly available:

- FFEL
  - Loan status of FFEL portfolio, broken out by servicer[11]
  - Delinquency data for FFEL portfolio, overall and broken out by servicer
  - Repayment plan usage for FFEL portfolio (including consolidations into DL to access options only available for DL borrowers), overall and broken out by servicer[12]
  - FFEL portfolio by forbearance type and duration, overall and broken out by servicer

- Private loans
  - Origination data, including by school, lender, and student demographic characteristics
  - Servicing data that are comparable to the data for federal loans, such as loan status (current repayment, delinquency, default, forbearance) using consistent definitions for those categories

Servicer-level data

To assess the effectiveness of student loan servicing, key data on borrower outcomes must be broken out and made available by loan servicer. Such data, when combined with federal loan servicing complaint data collected through the CFPB's complaint tracking system, would provide servicers with a strong incentive to improve their performance and promptly identify and resolve common loan servicing issues and would enable the Department to better hold servicers accountable.

Loan status of borrowers and utilization of different repayment plans

The Department releases some data on loan status and repayment plan utilization for federal loans, but in many cases those data are not broken out by servicer for the FFEL portfolio or at all, hindering the ability of policymakers to assess loan servicers' effectiveness in helping borrowers stay current on their loans. For example, as discussed above, the Department provides some servicer-level data on loan status and repayment plans for Direct Loans and Department-held FFEL loans, but not for the full FFEL portfolio. And there are *no servicer-level data* available for either Direct Loans or FFEL loans on the share of borrowers who: have become delinquent on their loans (and how long they have failed to make

[11] These data are available for the overall FFEL portfolio, but not broken out for all FFEL servicers. There are servicer-level data for Direct Loans and FFEL loans that are owned by the Department, but not for the full FFEL portfolio.
[12] These data are currently only available for Direct Loans and FFEL loans that are owned by the Department, not for the full FFEL portfolio.

payments); go into default; are in each type of deferment or forbearance; or are transferred to the servicer assigned to borrowers planning to seek PSLF.

Having this information at the servicer level would allow policymakers to identify problems with serious implications for borrowers and taxpayers. For instance, it would indicate whether some servicers are not adequately informing borrowers of PSLF or of repayment plans that are not available for FFEL loans.[13] It would also identify whether servicers are placing borrowers in deferment or forbearance when it is not in the borrower's best interest, either because it is easier for the servicer than placing borrowers in a more appropriate repayment plan or because a school's "default management" contractor or employee persuaded the borrower to request a deferment or forbearance regardless of whether it was in the borrower's best interest. There is abundant evidence that some schools are pushing borrowers to seek deferment or forbearance as a way to lower the school's default rate during the period when schools are held accountable for defaults.[14] Servicers should not be facilitating such default-rate manipulation. Rather, they should be ensuring that borrowers are informed of other options before being placed in forbearance and conducting additional outreach to borrowers in long-term forbearances and deferments.

Treatment of borrowers in income-driven repayment (IDR) plans

There is a specific need to regularly publish servicer-level data on borrowers in income-driven repayment plans, where poor servicing can lead to borrowers suddenly facing unaffordable loan payments and can significantly increase their total borrowing costs. As mentioned earlier, the Department recently shared a startling figure: 57% of borrowers in IBR and PAYE missed the annual deadline to update their income information.[15] As a result, those borrowers are required to make higher monthly payments that are not based on income and may be unaffordable, and any unpaid accrued interest will capitalize, increasing the total cost of their loans.

The fact that the majority of borrowers are not updating their income on time raises questions about the effectiveness of communications from loan servicers. To improving servicing, the Department should regularly publish data by servicer on the number and share of borrowers in IDR who miss their annual income recertification deadline. To identify where problems are occurring, these data should indicate *when* borrowers are missing the deadline and *which* borrowers are missing the deadline.[16] This

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[13] Servicers may be reluctant to inform borrowers of PSLF and direct them to complete the annual employment certification form for PSLF because doing so currently leads to the loan being reassigned to a specialty server. Similarly, servicers may be reluctant to tell borrowers with FFEL loans about PAYE or the proposed REPAYE plan because it may lead to the borrower consolidating their loans into DL and the consolidation loan being serviced by a different servicer.

[14] See pages 12-17 of TICAS' October 22, 2014 comments at http://bit.ly/1Gghj11, and the executive summary and pages 151-159 of the Senate Health, Education, Labor and Pensions Committee report "For Profit Higher Education: The Failure to Safeguard the Federal Investment and Ensure Student Success," July 29, 2012, at http://www.help.senate.gov/imo/media/for_profit_report/PartI-PartIII-SelectedAppendixes.pdf.

[15] U.S. Department of Education. "Sample Data on IDR Recertification Rates for ED-Held Loans." Shared on April 1, 2015 at the second negotiated rulemaking session. http://www2.ed.gov/policy/highered/reg/hearulemaking/2015/paye2-recertification.xls.

[16] Such data would, for example, identify whether income rectification problems are most common among borrowers in their first year in an IDR plan, among those whose incomes are so low their monthly payment is zero, or among borrowers who servicers do not allow them recertify their income online by electronically transferring their tax information from the Internal Revenue Service.

would help identify the problems, potential solutions, inform policy changes, and enable the Department to better hold servicers accountable.

To address these gaps in available data, we recommend *regularly* making the following data publicly available at the servicer level:

- Loan status, delinquency, and default of DL and FFEL loans, broken out by servicer
- Use and duration of deferments and forbearances for DL and FFEL loans, overall and broken out by servicer
- Repayment plan usage for all FFEL loans, broken out by servicer[17]
- FFEL loans consolidated to DL, broken out by servicer
- DL and FFEL loans transferred to the servicer for PSLF, broken out by servicer
- Data on borrowers in IDR plans:
    - The number and share of borrowers who miss the deadline to recertify income, overall and broken out by servicer[18]
    - Of the borrowers who miss the deadline to recertify income (overall data and broken out by servicer):
        - After which year are they missing the deadline?
        - What was their payment amount in the previous year?
        - Were they able to electronically transfer their tax information or were they required to provide paper tax returns or "alternative documentation of income"?
        - How long did it take them to provide the documentation and get back on track with making payments based on income?
        - What number and share eventually became delinquent or defaulted on their loans?

Here are just a few examples of how such data could be used to improve servicing and income recertification for borrowers in IDR. If the data show that borrowers typically miss the income recertification deadline during their first few years in IDR, then additional servicer outreach could be targeted to borrowers during that time frame. If missed recertification is mainly a problem for very low-income borrowers with $0 monthly payments the previous year, it might be important for servicers to target outreach to those borrowers and/or to emphasize that borrowers need to update their information even if their income remains the same.

College-level data

To better hold schools and loan servicers accountable, more and better data are needed at the level of the institution (college) the borrower attended. Currently, the only institution-level data available on loan status is on borrowers who defaulted on their loans within three years after entering repayment (3-

[17] These data are currently only available for Direct Loans and FFEL loans that are owned by the Department, not the full FFEL portfolio.

[18] The Department provided a one-time snapshot of data at the second negotiated rulemaking meeting of the 2014-15 session, but did not commit to providing these data on a regular basis and did not break down the data by servicer. "Sample Data on IDR Recertification Rates for ED-Held Loans." Shared on April 1, 2015. http://www2.ed.gov/policy/highered/reg/hearulemaking/2015/paye2-recertification.xls.

year cohort default rates, or CDRs). Some types of additional institution-level data, such as cumulative debt at graduation and a loan repayment rate, would be most useful for college accountability purposes. Others, such as forbearance, deferment, and delinquency data, would be useful for both institutional and servicer accountability purposes.

As discussed above under the need for more servicer-level data, servicers are allowing schools to abuse forbearance and deferment to delay defaults until after the period when schools are held accountable for them. According to a September 30, 2014 analysis by Compass Point, "the general improvement in CDRs among the for-profits is likely attributable to greater utilization of 'default management' whereby schools work to push defaults out beyond the three-year measurement window through the use of forbearance and/or deferment."[19] In most cases, students struggling to make loan payments are better served with counseling on how to repay their loans and the availability of IDR plans. They should not simply be pushed into forbearance or deferment and left to default on a higher balance when it no longer affects the school's access to federal funds. Loans always accrue interest while in forbearance, and unsubsidized loans accrue interest during both forbearances and deferments. The additional interest accrued is added to the principal loan balance at the end of the forbearance or deferment, and interest then begins accruing on an even larger balance. Having institution-level data on the use of serial forbearances and deferments would therefore help policymakers identify cases where borrowers are not receiving proper counseling about IDR and other repayment options and where schools may be attempting to manipulate their default rate.

Additionally, for both college and servicer accountability purposes, it would be helpful to report college-level default rates for a longer period (e.g., for the first five years after entering repayment rather than the current three-year period for CDRs). Tracking borrowers by institution for a longer period of time would provide a more comprehensive picture of how successfully students are able to repay their loans after leaving a given school. These data would also identify cases where a significant share of borrowers is defaulting soon after the period that is counted for schools' federal aid eligibility, suggesting servicers were facilitating default rate manipulation. Disclosing longer term default rates would also provide key information to consumers and policymakers without compromising the timeliness of the shorter-term CDRs used for assessing a school's eligibility for Title IV funding.

To address these gaps in available data, we recommend *regularly* making the following data publicly available at the institution level:

- Loan status, broken out by institution, including the use of deferment and forbearance
- Default rates in the first five years of repayment, broken out by institution
- Repayment plan usage, broken out by institution

Data on factors associated with delinquency and default

Far too little is understood about why borrowers fall behind on their payments and what can help borrowers stay current on their payments or help them get back on track if they have fallen behind. For example, are borrowers more likely to stay current on their loans if they are in an IDR or extended repayment plan, or does it depend on other factors, such as the loan balance and/or degree attained?

[19] Compass Point Research and Trading, LLC. 2014. *Higher Education Landscape: Fundamental & Policy Update Education Market Monitor - September 2014*

Controlling for other factors, are borrowers more likely to stay current on their loans if they repay by auto-debit or if they successfully completed loan counseling? Research consistently shows that students who don't complete their programs are at greater risk of defaulting, but what are other characteristics of borrowers who become delinquent or default (e.g., debt amounts, socioeconomic status, repayment plan, servicer, type of program or school attended)? Regularly released data that address these questions can help inform both policy and practice, including borrower outreach efforts and what loan servicers and others should recommend to borrowers.

In addition, there are no publicly available data on borrowers' success in getting out of default and staying out of default, which is a huge obstacle to policymakers and others seeking to help reduce the number of borrowers in default. For example, what share of borrowers end up re-defaulting? Are borrowers more likely to re-default if they consolidate out of default rather than rehabilitate their loans, or does it vary based on other factors? Are borrowers more likely to re-default if they go into particular repayment plans after rehabilitation or consolidation? To answer these questions, it is necessary to have data on borrowers' loan status over time.

Neither are any data available on the prevalence of "split servicing" or its effect on delinquency and default. Split servicing is when borrowers have the loans assigned to more than one servicer. Despite taking steps to reduce split servicing, the Department reports that the incidence of borrowers with loans held by multiple lenders and serviced by more than one servicer has increased.[20] Having multiple servicers can create challenges for borrowers, who may receive multiple notices on payments due and need to track multiple loan holder and servicer contacts. The Department has suggested that split servicing has led some borrowers to default, but has not provided any data to support this conclusion.

To address these gaps in available data, we recommend *regularly* making the following data publicly available, both *overall and by servicer*:

- Loan status, broken out by repayment plan
- Characteristics of borrowers who become delinquent or default (e.g., debt amounts, socioeconomic status, repayment plan, whether they completed their program, type of program or school attended)
- Borrower use of auto-debit (i.e., automatically deducting monthly loan payments from a bank account) and its effect on loan status, controlling for other factors
- Completion of exit counseling and its effect on loan status, controlling for other factors
- Split servicing and its effect on loan status, controlling for other factors
- Borrowers' loan status over time, including the number and share of borrowers who re-default, broken out by:
    - The actions borrowers took to get out of default: consolidate, rehabilitate, or pay off their loans in full
    - The repayment plan borrowers went into after rehabilitation or consolidation

[20] U.S. Department of Education. "Adjustment of Calculation of Official Three Year Cohort Default Rates for Institutions Subject to Potential Loss of Eligibility." September 23, 2014. http://www.ifap.ed.gov/eannouncements/092314AdjustmentofCalculationofOfc3YrCDRforInstitutSubtoPotentialLossofElig.html.

Data by demographic characteristics of borrowers

Additional data on borrowing behavior and outcomes broken out by the demographic characteristics of borrowers would help shed light on whether certain populations are experiencing a heavier burden of loan debt, being serviced differently, and/or experiencing disproportionately poor outcomes, such as delinquency and default. Such data are currently only available, if at all, from sample surveys conducted every four to eight years by the Department, including the National Postsecondary Student Aid Study, the Baccalaureate and Beyond Longitudinal Study, and the Beginning Postsecondary Students Longitudinal Study.

For example, data on racial/ethnic differences in private loan borrowing are only available every four years (and only at the national level). Significant racial/ethnic differences in private loan borrowing emerged at the height of the private loan market in 2007-08, when African Americans were more likely than other groups to take out private loans. In contrast, there were no substantial differences in students' likelihood of borrowing private loans by race/ethnicity in 2003-04 or in 2011-12. However, since private loan borrowing rates by race/ethnicity are not available annually, there are no public data on whether differential rates of borrowing are reappearing as the market is expanding again.

To address these gaps in available data, we recommend *regularly* making these and other data publicly available:

- Percent borrowing and average amount borrowed in federal, private, and total education loans for different demographic groups
- Status of loans for different demographic groups, including the share of loans in current repayment, delinquency, default, deferment, and forbearance
- Repayment plan usage for different demographic groups, including enrollment in IDR plans

Thank you for this opportunity to comment and for the Bureau's continued attention to improving the quality of student loan servicing. If you have any questions about these comments, please contact Pauline Abernathy, Diane Cheng, or Jessica Thompson at (510) 318-7900.

Appendix A

the institute for
college access & success
405 14th Street
Suite 1100
Oakland, CA 94612
510.318.7900
www.ticas.org

January 30, 2015

Ms. Karen Gibson and Ms. Soo Kang
U.S. Department of Education
Union Center Plaza, RM 91F1
830 First Street, NE
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