Statement
Of
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Before the

Senate Banking Subcommittee on Financial Institutions and Consumer Protection

Hearing On

“Student Loan Servicing: The Borrower’s Experience”

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Testimony: "Student Loan Servicing: The Borrower's Experience"

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

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

Denison's endowment allows us to award annually financial aid from Denison University funds to 97% of our student body. The generous financial aid that Denison awards to our students results in an average of 47% of our graduates borrowing federal loans and 4% borrowing private loans during their 4 years of attendance.

The cumulative federal indebtedness for Denison's Class of 2014 is $21,470.

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

When the Direct Loan program was first implemented, all loans were serviced by a single contractor and any correspondence to borrowers was identified as the William D. Ford Federal Direct Loan Program and the logo for the Department of Education made the servicing contractor for these federal loans invisible to the students. The Department of Education had to expand the number of servicers to accommodate the increased volume of loan servicing required for the federally backed student loans purchased in 2008 and the 100% transition of all schools to the federal Direct Lending program. The Department issued new DL servicing contracts to agencies who had experience servicing loans to students in the FFEL program

and allowed, but did not require, these new servicers to co-brand all their correspondence with the Department's logo. Since the Servicer's logo appears larger than the Department's logo, borrowers are confused as to why they are receiving written or electronic correspondence from an unknown agency. Servicers report that they experience a large percentage of unopened mails from borrowers because they believe the correspondence is junk mail or spam. When borrowers ignore the correspondence from the servicers of their federal loans they will ultimately default on their loans. The inherent flaw with the current multiple servicer environment is that borrowers do not understand who is servicing their loans.

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

The federal contractors who service the loans need to be invisible agents of the federal government with identical processes and policies. When the Department of Education has the opportunity to renew the servicer contracts, it should rethink how contracts are awarded. It should consult with all of the

stakeholders in student loan servicing to find best practices to eliminate the confusion and frustration that exists today for borrowers. The Department should open the contract bidding process to other entities in financial sectors outside the previous FFEL environment such as credit card or mortgage servicers.

Borrowers in repayment need their point of contact for all repayment activities to be a single web portal and one phone number for account access which utilizes available technology to route the borrower to the contractor. The Department of Education has made significant progress toward creating a single portal for students who borrow federal loans with the creation of StudentLoans.gov, a very efficient and robust portal at which students can:

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

StudentLoans.gov can be expanded to allow students to begin the repayment

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

Senator Brown, I would like to thank you and other members of the committee for being a co sponsor for the following two Senate bills that are focusing on student loan debt and the repayment of these loans:

<u>S.2292—Bank on Students Emergency Loan Refinancing Act</u>

Students in repayment of federal loans that were originated when interest rates were higher, would certainly benefit from having the ability to refinance these loans to rates that are being offered to new federal loan borrowers established by the Bipartisan Student Loan Certainty Act of 2013.

"In addition, about 6 million borrowers have one Direct Loan and at least one FFEL loan, which requires them to submit two separate monthly payments, a

complexity that puts them at greater risk of default."[1] The ability to refinance these loans could be another opportunity for students, who still have multiple loan servicers, to consolidate their loans for a lower payment and a single servicer and to reduce the risk of defaulting on their loans.

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

S. 1803—Student Loan Borrower Bill of Rights

The additional disclosures to student borrowers that are being proposed in this bill for servicers of private loans are needed to help borrowers from defaulting on these loans and adversely impacting their credit rating for a long time. I concur with the provision in the bill that requires servicers to notify borrowers who are delinquent in repayments with information about income -based repayment options. However, with all of the good options of

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

repayment from which a borrower can choose, it is extremely confusing for students to understand the intricacies of Income-Based Repayment, Pay as You Earn, Income Contingent, and Income Sensitive plans in addition to the Standard, Extended, and Graduated plans.

To streamline student loan repayment, reduce confusion for the students, and eliminate defaults, I encourage Congress to reduce the current number of loan repayment plans to two options—standard and income based. The loan repayments in the income based plan would be based on Adjusted Gross Income with the payment not to exceed a small percentage of the borrower's income and would be collected through payroll withholding to the IRS and passed through to the Department of Education. The concept of this income based repayment option is based on the student loan repayment model in the United Kingdom which sees almost no default from borrowers who continue to live in the U.K after college.

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

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

servicers are required to do.

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

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

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