



Student Veterans of America
1625 K STREET NW, STE 320
WASHINGTON, DC 20006
www.studentveterans.org

**TESTIMONY OF
MR. WILLIAM HUBBARD
VICE PRESIDENT OF EXTERNAL AFFAIRS
STUDENT VETERANS OF AMERICA**

BEFORE THE

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

**LEGISLATIVE HEARING ON THE TOPIC OF:
"STUDENT LOAN SERVICING: THE BORROWER'S EXPERIENCE"**

JUNE 4, 2014



Chairman Brown, Ranking Member Toomey and members of the subcommittee:

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

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

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

o

Current Issues

The First Step: Greater Access to Information

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

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

Despite avid efforts to increase protections against abusive practices, getting servicemembers and veterans the right information about those protections at the right time remains a challenge. Servicemembers and veterans have access to protections under the Servicemember Civil Relief Act (SCRA) and access to many

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



different student loan repayment options. Unfortunately, this web of support does not function cohesively and programs often function independent of each other.

The Unspoken Burden of Existing Debt

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

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

Additional Factors for Borrowers

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

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

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

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

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



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

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

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

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

The Case Study of Sallie Mae

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

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

⁵ Approximately 848,000 of 1.39 million members of the armed forces in 2012 were cited as reservists; Department of Defense, 2012, Demographics Profile of the Military Community, http://www.militaryonesource.mil/12038/MOS/Reports/2012_Demographics_Report.pdf, pg. vi

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

⁷ Ibid.



infractions have been brought to light, it is clear that similar tactics continue to be implemented throughout the industry.

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

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

The Need for Loan Data Aggregation

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

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

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

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

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



Detrimental Impacts

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

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

Future Solutions

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

1. *Automatic Service Status Confirmation*: Some servicers require individual servicemembers to certify their military status on an annual basis or more frequently, despite having access to DoD databases that could allow them to easily accomplish the required task. SVA encourages Congress to compel loan servicers to automate this status confirmation process via DoD’s database, thus lifting the burden off of individual servicemembers who may not be able to certify their status due to deployments or other duties. This would increase the timeliness of these confirmations as well as increase the accuracy of the determinations, while reducing the requirement to complete frivolous paperwork.
2. *SCRA Durability – Consolidations*¹¹: Servicemembers may be forced to choose between the protections afforded through SCRA and the option to pursue loan consolidation. SVA would like to see SCRA’s protections maintained regardless of how loans are consolidated. We would also like to see rigorous consumer education included when this financial option is pursued. Aggregating loans into one payment allows those loans to keep protections that are recognized by the law. This aggregation will preserve the intent of the protections afforded under SCRA.
3. *SCRA Durability – Refinancing*: Similar to consolidations, SCRA protections are often lost when individuals pursue refinancing options for their loans. SVA would like to see SCRA protections extended throughout the life of the loan, including if a servicemember chooses to refinance.

⁹ Chronicle of Higher Education, 2014, “2 Years On, Two-Thirds of This Graduating Class Aren’t Financially Self-Sufficient”, <http://chronicle.com/article/2-Years-On-Two-Thirds-of-This/146813/?key=GmgmlgVtZCIWYn82YzoRaG5WP3Y/Yh96NndGYiojblIQEw%3D%3D>

¹⁰ University of Arizona, 2014, “Life After College: Drivers for Young Adult Success”, <http://aplus.arizona.edu/wave-3-report.pdf>

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



4. *Disability Carryover:* If a servicemember or veteran has a 100% disability rating by the Department of Veterans Affairs, that status should automatically carryover to their profile within the ED. To require recertification of an individual's disability rating is shameful, causes unnecessary paperwork and may also result in inaccuracies.
5. *Aggregated Loan Data:* Presently loan data is difficult to manage and is rarely available in a single view unless consolidated. The NSC's METEOR Program would enable this aggregated view of loans for free, but is being held up in the Department of Education. SVA recommends that this body compel ED to authorize the program to access Direct Loan data to enable all students to be able to benefit from METEOR.
6. *Program Coordination:* Many programs exist to support loan repayment of student loans, though very few of these programs have coordinated inter-program relationships. A *major opportunity* exists if current programs were coordinated and streamlined to function seamlessly. An example of this would be to better coordinate the DoD State Loan Repayment Programs (SLRP) and the Public Service Loan Forgiveness (PLSF). If servicemembers and veterans could apply the PLSF as qualifying payments, loans would be significantly more manageable. Putting the pieces of this puzzle together would be an important step forward.

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

Our Final Thoughts

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

○

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