

**Written Testimony
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**"Strengthening the Federal Student Loan Program for Borrowers"
U.S. Senate Committee on Health, Education, Labor and Pensions (HELP)
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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 one trillion dollars, 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 150 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 FY 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 five years.

Federal Student Aid manages a Federal student loan portfolio of FFEL and Direct Loans of approximately one trillion dollars. We have successfully managed substantial growth in the Title IV 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 website.

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 cancelled 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 six-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% 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 preexisting Income-Based Repayment plan. Today, over 22% 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 website 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 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.