Statement

Of

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On behalf of the National Direct Student Loan Coalition
(NDSLC)

Before the

House Subcommittee on Higher Education and Workforce Training

Hearing on

"Examining the Mismanagement of the Student Loan Rehabilitation Process"

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Chairwoman Foxx, Senior Democratic Member Hinojosa, and members of the subcommittee, thank you for the opportunity to speak to you today.

My name is Peg Julius, a member of the Executive Council of the National Direct Student Loan Coalition and Executive Director of Enrollment Management, and Financial Aid Director at Kirkwood Community College in Cedar Rapids, Iowa. We are a public 2-year institution enrolling approximately 23,000 students annually, 51% receive student financial aid, and 34% receive Pell Grants. Kirkwood joined Direct Lending in the second year of the program, 1995. I believed strongly then, and continue to believe now, that Direct Lending is the best student loan option for our students. It is understandable for students and their families, it is simple, and it works. When borrower benefits were being used to entice schools away from Direct Lending in the late 90's, my administration moved out of Direct Lending and back to Federal Family Education Loan Program (FFELP). Even at that time, I felt so strongly that Direct Lending was the best option that I made that change with much apprehension for my students and the service we would be able to provide for them. After three years of participation in the FFELP program, and many concerns about the level of service provided to our student borrowers, the opportunity presented itself to initiate a move back to Direct Lending. My staff and I happily made that change. The Direct Lending Program continues to be the best student loan option.

The switch to 100% Direct Lending in 2010 was an enormous undertaking by the Department of Education, and the National Direct Student Loan Coalition worked closely with them to ensure that the new schools joining the program would have the support they needed to make a successful transition. The Common Origination and Disbursement System works very well for schools, and was a great improvement on the procedure used to originate FFELP loans, which were processed with little standardization and common practices. The Direct Loan Coalition assisted hundreds of schools through our mentoring program, and the transition to 100% Direct Loans was smooth and uneventful. Students all got the money they needed to pay their bills, and schools were able to draw down funds without issue. As with any change of this magnitude, fine tuning continues to happen on the back end, particularly the servicing aspect. The Coalition has worked with Federal Student Aid to make suggestions on changes we believe would improve the student experience, and have included those in our suggestions for Re-authorization. We believe that the servicing of loans could be improved with the following changes:

- Borrowers need a single point of contact for all their loan repayment activities; we suggest that studentloans.gov is where they should go.

- This can be accomplished by having a single portal for all students that once entered can take them directly to their servicer.
- The new option for students to choose their servicer during the consolidation process provides potential for fraud and abuse in the industry and should be eliminated.
- Service levels, loan terms and borrower benefits must be equal and uniform.
- Performance measures should be relevant and uniformly applied to all servicers.

Competition among a limited number of servicers is healthy, too many servicers increase complexity and taxpayer cost. Complexity itself can increase defaults due to borrower confusion.

We encourage the Department to take advantage of the opportunity presented by the renewal of servicing and collection contracts to move that system to the best practices of the industry as a whole. We understand new approaches exist. Prior experience with student loans and use of old methods is not necessary to provide the most cost effective and best service to borrowers. It should be made clear to proposers that anyone in the industry is encouraged to compete. The department has worked hard and accomplished much, correcting the issues with the private collection agencies, and the loan rehabilitation process. This is not a Direct Lending issue, per se, but a Servicing issue, with communication between lenders, guarantees agencies, and the Department. Best practices in communication, for instance, allow for a consistency in servicing which is a key component to borrowers successfully repaying student loans.

Despite the simplicity of the program, there are still challenges for students when making repayments. Because the servicers are currently allowed to co-brand all mailings (either paper or e-mail) with their company name, students may not open the correspondence and thus, miss important information about their grace period and the repayment start date. This was not an issue when there was a single federal loan servicer and all correspondence was identified simply as “Federal Direct Student Loans”. And when students don’t pay their loans, the resulting default is concerning both for them and for the taxpayers of this nation. We suggest that correspondence from all servicers use the identification of the federal Direct Stafford Loan program as the primary identifier. The name of the servicer should be a secondary or nonexistent identifier to assure students understand the importance of the communication. Students need to understand this is a federal loan provided by Congress, not a loan from a servicer.

We believe these changes will make the current model for Direct Lending and servicing even better than it currently is.

We are encouraged by improvements made in the consolidation process for students on studentloans.gov. Real-time information about all the loans a student has, and an easy process for pulling in IRS information for income based repayment options will no doubt reduce defaults. The Direct Loan Coalition would suggest that all borrowers be placed into Pay As You Earn (PAYE) repayment option by default, unless the student opts out. There should be clear information about the possibility that the student might be paying more interest over time, and that there is always the option to send extra with each payment. We see an opportunity for modifying the income based repayment options into a single option, easier to understand, and allowing students to opt out easily as they are able to pay more on their student loans, thus saving on the total interest that they pay.

Students find themselves with defaulted student loans for a variety of reasons. The need for rehabilitation of those loans is not uncommon. We find that students come to us for two main reasons, because they need to return to school, and want to reinstate their eligibility for financial aid, or because they are in a situation where their credit history affects them. We have found that while the process is not quick, it's also not daunting. Most can navigate the process on their own, but when students ask for our help, it's a fairly smooth hand off, from the repayment counseling we provide, and the processes required by the Department to put the loan in a rehabilitated status. There were serious reporting problems for rehabilitated loans when the change in debt collection servicing occurred. The systems are operating properly now and those problems have been resolved.

I want to thank you, Madam Chairman, for the opportunity to speak with you today. I am honored to be able to give you some perspective on this very important issue from the student borrower and school viewpoint. I'm happy to answer any questions.