

Congress of the United States
Washington, DC 20515

March 27, 2012

The Honorable Gene Dodaro
Comptroller General
U.S. Government Accountability Office
441 G St., N.W.
Washington, D.C. 20548

Dear Mr. Dodaro:

On July 1, 2010, the Federal Family Education Loan (FFEL) program was eliminated and replaced by 100 percent direct lending. Since 1965, the FFEL program leveraged hundreds of billions of dollars in private sector capital to help Americans pay for college. However, with the new elimination of FFEL, the government now originates and oversees every single new federal higher education loan in the country.

During debate on the measure, Republicans expressed concerns about the department's capacity to originate, service, and collect on all federal student loans. In testimony provided to the Committee on Education and the Workforce's Subcommittee on Higher Education and Workforce Training, administration officials repeatedly insisted the department is capable of handling all federal student loans. At a hearing on October 25, 2011, Federal Student Aid Chief Executive Officer James Runcie praised the successful transition to the Direct Loan program, and stressed the department's ability to collect on all defaulted student loans:

"...with the growth in the number of federal student loans owned by the department comes greater risk for a higher number of defaulted borrowers whose accounts must be serviced. Over the years, we have increased the number of debt collection vendors under contract to 23, and are implementing a new default management system that features more flexibility and greater analytics to increase the effectiveness of our debt collection efforts."

However, we are increasingly concerned the department may not be appropriately managing student debt, particularly when helping borrowers who have defaulted on their loan payments.

Under the Direct Loan program, borrowers who are in default can "rehabilitate" their loan and return their credit to good standing by making a certain number of consecutive payments on their loans. Unfortunately, we recently heard from a borrower who claims to have made the required amount of on-time payments in an effort to rehabilitate his loan, but, due to the department's delays, is unable to remove the black mark of default from his credit report and take advantage of better repayment options.

As part of our oversight responsibilities, it is important for us to understand challenges with the Direct Loan program. Bureaucratic problems within the department that are creating additional issues for borrowers could have serious implications not only for the Direct Loan program, but also for the financial stability of all student loan borrowers.

To better understand the scope of this issue, we request GAO answer the following questions:

1. What is the department's current capacity for moving loans through the rehabilitation process?
2. Do the department and its contractors conduct outreach and communicate with borrowers?
 - a. Are borrowers informed about the benefits associated with rehabilitation, such as the removal of the default from their credit and the ability to take advantage of deferments or alternative repayment plans?
 - b. Are borrowers able to track their payments and ensure the payments are being appropriately applied to their account?
 - c. What options or recourse, if any, do borrowers have if they believe there is an error in how their payments are credited?
 - d. Does a borrower have the ability to proactively enter into the rehabilitation process before being contacted by the department or its contractors?
3. Since September 2011, how many loans have been rehabilitated? How many borrowers are eligible yet have not been rehabilitated?
4. Describe the department's process to obtain the Debt Management Collection Service. What was the department's original timeline for the transition to the new system and has it adhered to the schedule?
5. Has the department managed the collections contractors in a way that protects taxpayers' interests?
 - a. Does the department provide regular evaluations of the contractors and award collections accounts to the most effective contractors?
 - b. How does the department compensate the contractors?
 - c. Has the department ensured protection of taxpayer dollars by using all available collection tools since the transition to the new system?
 - d. How does the department ensure its contractors are abiding by all federal debt collections laws?

We appreciate your assistance in this matter. If you have any questions regarding this request, please contact Mandy Schaumburg (mandy.schaumburg@mail.house.gov) or Amy Jones (amy.jones@mail.house.gov) with the House Education and the Workforce Committee at 202-225-6558 or Chris Eyler (christopher_eyler@help.senate.gov) with the Senate Health, Education, Labor and Pensions Committee at 202-224-6596.

Sincerely,



JOHN KLINE
Chairman
House Committee on Education and
the Workforce



VIRGINIA FOXX
Chairwoman
House Subcommittee on Higher Education
and Workforce Training

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Page 3



MICHAEL B. ENZI

Ranking Member

Senate Committee on Health, Education, Labor,
and Pensions



JUDY BIGGERT

Member of Congress



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