Written Statement of
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Pennsylvania Higher Education Assistance Agency
before the
Senate Committee on Banking, Housing, and Urban Affairs
Subcommittee on Economic Policy

The Student Debt Burden and Its Impact on Racial Justice, Borrowers & the Economy
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Chairwoman Warren, Ranking Member Kennedy, and members of the Subcommittee on Economic Policy, my name is James Steeley, and I am the President and CEO of the Pennsylvania Higher Education Assistance Agency - also known as PHEAA. Thank you for the opportunity to speak with the Committee today as you examine America's Student Debt Burden and Its Impact on Racial Justice, Borrowers, and the Economy.

PHEAA is a multi-faceted Pennsylvania State agency offering financial aid services to students and families throughout the Commonwealth; a contracted federal student loan servicer following the rules and requirements set forth by both Congress and the U.S. Department of Education, and an administrator of Pennsylvania student aid programs, which helps students and families as they pursue an affordable postsecondary education.

About PHEAA and Its Public Service Mission

PHEAA was created 57 years ago by the Pennsylvania General Assembly with the primary mission of creating affordable access to higher education for Pennsylvania students and their families.

Since then, we have helped generations of Pennsylvanians to afford higher education while minimizing their reliance on student loan debt.

PHEAA - as a State agency governed by a bi-partisan board of directors comprised mostly of state legislators - exists solely to fulfill our public service mission.

The values that we use to guide our workforce in support of our mission are to be customer centric, respectful, and inclusive; to be devoted to good citizenship; and to have the courage to evolve by taking ownership and viewing challenges as opportunities.

With a union workforce, many of our employees are proud members of the America Federation of State, County and Municipal Employees.

Unlike other loan servicers, PHEAA is engaged in student loan servicing because it aligns with and supports our public service mission - most importantly the funding of grant awards to students who have the most financial need.

For the 2020-21 award year, the need-based PA State Grant Program provided grant awards to approximately 120,000 students, with a maximum award of $4,525.

PHEAA has contributed more than $1 billion from its business earnings to supplement the PA State Grant and other student aid programs, while covering all administrative costs, which saves Pennsylvania taxpayers nearly $15 million annually.

This also makes Pennsylvania's student aid programs among the most efficient in the nation, since every dollar appropriated to those programs goes directly to benefit the students who need it most.

PHEAA is working on a Statistical Brief that highlights how the PA State Grant Program plays a crucial role in decreasing student loan debt - and how increased gift aid funding can help relieve Pennsylvania undergraduates from having the second highest debt levels in the nation.

Our research shows that PA State Grant recipients who are Pell-eligible as of initial enrollment borrow almost $9,000 less, on average, over 4 years.

I will be happy to share this Statistical Brief in its entirety with you when it is finalized.

PHEAA also uses its earnings to support a variety of critical outreach and student aid awareness initiatives focused on helping students make wise choices early in the career and college planning process so they can avoid unnecessary student loan debt.

This type of outreach is vital when you consider that a 2018 NerdWallet study (www.nerdwallet.com/blog/2018-fafsa-study/) showed that nationally, students missed out on $2.6 billion in free money in the form of Federal Pell Grants due to more than 660,000 high school graduates not filling out the FAFSA.

In Pennsylvania alone, 22,399 high school graduates would have been Federal Pell Grant eligible if they had just completed the FAFSA. This resulted in $87.9 million in gift aid being left on the table.

To help combat this situation, PHEAA's education and outreach efforts are spearheaded by 13 Higher Education Access Partners who live and work in communities throughout the Commonwealth. These professionals provide a variety of hands-on student-aid related services to students, families, educators, schools, and community partners.

As a group, our Access Partners participate in more than 5,000 financial aid events over the last 2 years, helping to increase awareness of various student aid opportunities, application processes and deadlines, including FAFSA completions, and how to borrow responsibly.

In response to the COVID-19 pandemic, this group continued its outreach by offering what were once highly attended in-person events as highly attended online events, including working with members of our Pennsylvania Congressional delegation to offer specialized constituent-based programs.

PHEAA's pivot to virtual outreach also included financial aid webinars, virtual one-on-one sessions, and #FinAidFridays, where PHEAA experts join with other industry partners on Facebook and Twitter to discuss and answer questions about financial aid, scholarships, financial aid offers, the FAFSA, and more.

Student Debt

Effective outreach is more important now than ever, as student loan debt continues to be a serious concern. Nationally, 44.7 million student borrowers owe more than $1.71 trillion in student loans (Sources: federalreserve.gov/releases/g19/current/default.htm and newyorkfed.org/medialibrary/interactives/householdcredit/data/xls/sl_update_2018.xlsx).

In Pennsylvania, 65% of college graduates carry some student loan debt, with an average debt load of more than $39,000 – the 2nd highest in the nation (Source: ticas.org/wp-content/uploads/2020/10/classof2019.pdf).

Unfortunately, student debt levels are alarmingly higher for black graduates than they are for white graduates. According to a 2016 Brookings study (Source: brookings.edu/research/black-white-disparity-in-student-loan-debt-more-than-triples-after-graduation), black students with bachelor's degrees owe $7,400 more in student debt on average upon graduation than their white counterparts.

The National Center for Education Statistics found that black students borrow federal student loans at higher rates than other groups of students. An estimated 77.7% of black students borrow federal student loans to pay for a higher education. This figure is significantly higher than the national average for all students (60%) and for white students (57.5%).

PHEAA has consistently advocated for all students and families to avoid unnecessary loan debt and has been leading efforts in the Commonwealth with extensive community outreach, planning guides, online tools, and other resources.

The priority for any successful higher education funding plan is to become knowledgeable about the options and obligations a student will have before, during, and after postsecondary school.

This means working to minimize the total cost of attendance and exhausting eligibility for gift aid, such as grants and scholarships, thereby minimizing the need to borrow.

While it would be desirable for students not to have to borrow, it is not the reality for most students and families today. It is no secret that the cost of a postsecondary education continues to rise. Often, grants, scholarships, and family savings are not sufficient, and it becomes necessary to take out student loans. In these cases, PHEAA encourages students to first exhaust their eligibility for low-cost federal student loans, which offer a variety of benefits during repayment that can make a borrower's loan debt more manageable.

To further assist students and families in being well informed prior to borrowing, PHEAA created MySmartBorrowing.org, which is available nationally.

This free resource engages high school students and potential borrowers early in the planning process - before any decisions are made to borrow money - helping them weigh the benefits and expenses of various decisions to make better choices as they develop their higher education success plan.

MySmartBorrowing.org provides unique estimators that help determine a student's possible higher education costs at different schools, future salary expectations for a particular degree, availability of employment opportunities, and their potential ability to repay loans comfortably while also affording an independent lifestyle after graduation.

Special Programs

PHEAA administers several Pennsylvania student aid programs that specifically target assistance toward minority students and those from economically and educationally underserved backgrounds.

This includes the **Higher Education of the Disadvantaged Program** - often referred to as the Act 101 Program - that was part of the Commonwealth's Higher Education Equal Opportunity Act of 1971.

Act 101 was created with the vision of enhancing postsecondary education opportunities and achievements of undergraduate students from economically and educationally underserved backgrounds.

The primary author and sponsor of this legislation was Pennsylvania State Representative K. Leroy Irvis, the first African American to serve as Speaker of the House in the Pennsylvania House of Representatives and the first to serve in that capacity in any state legislature in the United States since Reconstruction.

The Act 101 Program assisted 3,673 students at 33 participating institutions of higher education throughout the Commonwealth during the 2019-20 school year and has served more than 20,000 students over the last decade.

PHEAA also co-administers the **Cheyney Keystone Academy Program** with the Pennsylvania State System of Higher Education (PASSHE). With $3.5 million in funding from the Commonwealth, combined with a $500,000 supplement provided by PHEAA, this program makes $4 million in funding available in the current year to provide full scholarships to academically gifted students enrolled at America's oldest historically black college - Cheyney University of Pennsylvania.

This program served 322 Cheyney University students during the 2019-20 academic year.

Additionally, PHEAA co-administers **the Horace Mann Bond - Leslie Pinckney Hill Scholarship (Bond-Hill)** Program with the Pennsylvania Department of Education.

This program provides financial assistance to qualified students from Cheyney University and Lincoln University – another of Pennsylvania's Historically Black Colleges and Universities - who pursue pre-professional programs in law, medicine, podiatry, or dentistry at Penn State, the University of Pittsburgh, Temple University or at one of the PASSHE universities.

The **Bond-Hill Program** provided scholarships to 33 students during the 2019-20 academic year with **$800,000** in Commonwealth funding.

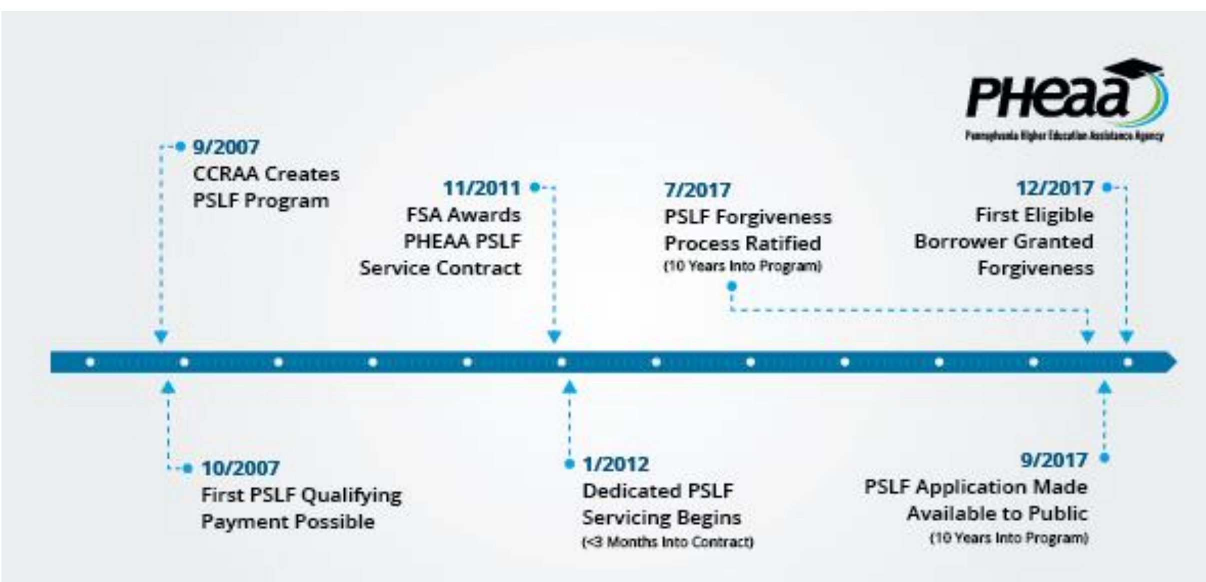
Student Loan Servicing

While PHEAA is best known in Pennsylvania as a higher education planning and funding resource, we are most known to members of this Committee as a federal student loan servicer.

PHEAA, took on the role of a federal student loan servicer in 2009 and, has been on the front lines since then, witnessing many program changes, expansions, and complex revisions. As a federal student loan servicer, PHEAA is required to adhere to the laws as written by Congress and the rules and regulations set forth by the U.S. Department of Education (Department). This includes Department guidance, such as Dear Colleague Letters, contract change requests, and administrative guidance.

It is not, nor has it ever been, within the purview of PHEAA to unilaterally change or override program rules and requirements. However, PHEAA regularly advocates on behalf of borrowers with the Department and continues to put forward proposed policy changes and collaborative suggestions that can improve both experiences and outcomes for students and borrowers.

Public Service Loan Forgiveness (PSLF) Program



The Public Service Loan Forgiveness (PSLF) Program was established under the College Cost Reduction and Access Act of 2007 and provides an opportunity for a borrower's remaining balance on their federal Direct Loans – after 10 years of qualifying payments - to be forgiven, provided that the borrower meets specific eligibility requirements, including having been employed by a qualifying public service employer.

While the premise sounds simple – work for 10 years in public service and have your loan forgiven; the reality of the program's complexities has made the process challenging and often frustrating for all involved.

While the Program was created in 2007, the first servicing contract for PSLF was not awarded until 2011, at which time PHEAA became the primary servicer. Prior to PHEAA being selected as the servicer for PSLF, public information on the program was largely limited to what was expressly written in the law; there was no Department of Education published guidance to ensure that all the program rules were being met by borrowers - including having the right loan, being in the right repayment plan, and being employed by the right employer.

It is important to note, that in 2007, when the Program was created, approximately 75%of borrowers had ineligible Federal Family Education Loan Program (FFELP) loans, as only federal Direct Loans are eligible for PSLF. It was not until the 2010-11 academic year that all new federal loan borrowers became federal Direct Loan Borrowers.

It was PHEAA's partnership and collaboration with the Department that resulted in the first Employer Certification Form, or ECF, 5 years after establishment of the program. This form is critical to beginning the process for a borrower interested in PSLF. There was, and still is, no Department requirement for this form to be submitted on a regular basis; however, PHEAA continues to encourage borrowers to recertify annually to provide for regular review of their eligibility status.

In 2018, Congress passed the Consolidated Appropriations Act, which provided additional conditions under which borrowers may become eligible for loan forgiveness through the Temporary Expansion of Public Service Loan Forgiveness (TEPSLF) Program.

TEPSLF alleviated some of the confusion created by the lack of program support early on by addressing which repayment plans may or may not be eligible for PSLF. However, while again, the premise was simple, complexities remain around TEPSLF.

While the office of Federal Student Aid (FSA) designated PHEAA as the only servicer of the PSLF and TEPSLF Programs, borrowers are not required to transfer their loans to PHEAA from their current servicer until they express interest in or apply for forgiveness. PSLF is, by its nature, a retroactive program looking at the employment and payment histories of individuals – in some cases long before PHEAA becomes their servicer.

When measuring the success of PSLF, it is important to remember that most borrowers who request forgiveness are not yet mathematically eligible to be approved. This is because the Program requires 120 qualifying payments to be eligible for forgiveness and the overwhelming majority have simply not yet been in repayment for 10 years.

Much like “Public Service Loan Forgiveness” sounds like a simple concept, so does the idea that you “make 120 payments and you are finished.” This gives rise to such questions as, “How difficult can it be to count 120 payments?” or “Why does it take so long to count those payments” and “I made the payment, why doesn’t it count?”

We fully understand the frustration of borrowers and of Congress seeking answers to those questions. Unfortunately, the rules of the Program as established by the Department, have various, mandated conditions with defined terms, including:

- Was the payment made on time?
- Was the payment early?
- Were there forbearance or other status changes on the account?
- Was the repayment plan a qualifying plan?
- Does the employment qualify?

PHEAA has worked diligently with the Department to address these pain points and the confusion they cause for borrowers and has had some success in simplifying and streamlining the process.

Complexities of a Backward-Looking Program

As previously mentioned, PSLF requires 10 years of qualifying payments to be eligible for forgiveness. Therefore, the first time a borrower could actually apply and qualify for PSLF forgiveness was in September 2017.

Some of the news headlines around PSLF have been that 99%of borrowers, as of November 2020, had been denied forgiveness and therefore the program and PHEAA’s administration of the program are broken.

While in fact, only about 5%, or 65,000, of the 1.3 million borrowers who have expressed interest in PSLF have achieved both 10 years of qualifying repayment **AND** 10 years of qualifying employment on at least one loan. Borrowers who would have qualified also had to navigate the complexities of the program without any published guidance or other assistance from the Department before PHEAA began servicing PSLF in 2012.

The forgiveness trend, as PHEAA predicted, has begun to improve since the Department last published figures in November 2020, as more borrowers have had sufficient time to meet their 10-year employment obligation and PHEAA worked with the Department to improve communications and processes to help borrowers successfully navigate the rules to achieve forgiveness. For example, PHEAA has overhauled its online portal to provide significant detail into every payment a borrower has made, helping to clarify the distinction between why a payment may be qualifying, eligible, or not qualified.

Adding strength to this trend is the fact that PSLF specifically targets federal Direct Loan debt for forgiveness, which began to increase rapidly about 10 years ago – which matches the required 10 years of qualifying payments – as FFELP loans were legislatively phased out by Congress in 2010-11.

In December 2019, at PHEAA's insistence, the Department agreed to establish a joint task force with PHEAA to meet at least bi-weekly to review and implement further improvements to the Programs.

Since the Task Force's first meeting in January 2020, PHEAA has delivered on several crucial enhancements that have increased speed, accuracy, and flexibility for borrowers, including:

- A change in the lump sum requirements thereby allowing borrowers to make a single payment to cover and satisfy several monthly payments (which is especially beneficial for military members)
- Supporting interaction with FSA's first tool allowing borrowers to determine eligibility of most qualifying employers
- The development of a single combined form for Employment Certification TEPSLF and PSLF

Since September 2017, when the first borrowers became eligible, we have seen a steady increase in borrowers successfully achieving forgiveness and we expect to see them to attain more than $1 billion in loan forgiveness within the next 12 months. As more borrowers qualify for forgiveness in the coming months and years, we expect this upward trend continue.

One borrower who recently achieved forgiveness reached out to PHEAA to share her experiences with the PSLF program and spoke of the "life-changing effect" it had on her and on her career as a special need's teacher.

I have attached her letter to this testimony, as she not only expresses appreciation for PHEAA's work in helping her achieve loan forgiveness, but also attests to the profound benefits that can be realized through PSLF. My organization and its employees regularly celebrate with borrowers when they attain the life changing event of earning this forgiveness and we applaud their public service.

<u>Legal Matters</u>

As a federal servicer, PHEAA works with borrowers throughout the nation, helping them manage their debt according to the Program rules set forth by the Department of Education and federal law.

However, there are instances when federal rules that PHEAA is contractually required to follow conflict with the rules and oversight regulations of individual states.

PHEAA continues to engage with our state and federal regulators to comply with all requirements but when lawsuits are filed against us, PHEAA, as an agency of the Commonwealth of Pennsylvania, is obligated to take certain legal steps.

Recently, PHEAA was mentioned in the news in relation to a settlement agreement that it entered into with the Massachusetts Attorney General's Office regarding a civil lawsuit connected to PHEAA's servicing of federally owned student loans.

The agreement, which was reached after 5 years of cooperation between PHEAA, the Department and the Massachusetts Attorney General's Office, had no findings of wrongdoing, and no fees or penalties were assessed against PHEAA.

The Massachusetts Attorney General's Office's 5+ year investigation identified errors on 25 out of 250,000 Massachusetts student borrower accounts and PHEAA has already remedied those accounts. PHEAA also implemented a notice and claims process to allow eligible MA borrowers to request to have their account more closely reviewed.

While PHEAA strives to service loans without any errors or exceptions, and never purposefully or intentionally causes harm to a borrower, mistakes do occur and when they do, PHEAA immediately takes steps to correct such errors. We work diligently to meet all Service Level Agreements under the terms of our servicing contracts and to treat all borrowers with respect and empathy.

The Massachusetts Attorney General's lawsuit also included allegations related to the federal TEACH Program, which PHEAA services in accordance with federal law and Program rules.

Under PHEAA's settlement agreement with the Massachusetts' Attorney General, if any cases are identified where a TEACH Grant had been improperly converted to a loan and a reconsideration request was denied by the Department of Education, PHEAA agreed to pay off that loan. However, as of this date, neither PHEAA nor the Massachusetts Attorney General's office has identified a single instance where this scenario occurred.

Nationally, PHEAA currently assists 79,713 TEACH recipients and has worked with the Department to implement many improvements to this program. These include:

- Identified a significant number of suspected conversions by the prior servicer and is working with the Department on implementing solutions.
- Developed insightful outcomes reporting for the Department to better shape policy
- Identified a need to provide relief to recipients who are impacted by natural disasters\

PHEAA continues to look for TEACH Program improvements and is excited about the opportunity to digitize the teaching service certification with the Department, which will improve outcomes and experiences for participants.

Additionally, PHEAA is currently operating pursuant to the Department's guidance to provide relief to teachers who may have been disrupted during the 2019-20 school year due to COVID-19 and did not believe they could receive credit towards teaching full time or a full year. This includes direct outreach to more than 30,000 individual recipients who did not receive any 19-20 credit to make them aware of this available relief.

Conclusion

As I conclude my remarks, I want to express PHEAA's genuine desire – not just as a federal servicer with first-hand knowledge and experience, but as a public servant – to be part of the solution to the student loan debt crisis that is impacting millions of Americans.

PHEAA's mission, values, and goals closely align with the stated purpose of this Committee hearing. As always, PHEAA stands ready to work with members of Congress and the Administration to develop inclusive new initiatives that can help all students and families afford a higher education while avoiding burdensome or crippling student loan debt.

On behalf PHEAA's dedicated employees and the nearly 10 million students and borrowers that we serve, thank you for the opportunity to appear here today.

I welcome the opportunity to answer your questions.