STUDENT LOAN SERVICING ALLIANCE

Written Testimony of
C. Tapscott "Scott" Buchanan
Executive Director
Student Loan Servicing Alliance

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before the United States Senate
Committee on Banking, Housing, and Urban Affairs;
Subcommittee on Economic Policy

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Chair Warren, Ranking Member Kennedy, and distinguished members of the subcommittee:

Thank you for the opportunity to testify today. The organization I lead, the Student Loan Servicing Alliance, is a non-profit trade association that works to improve the servicing environment, practices, and educate elected officials and the media on the real issues and serious solutions. Servicers are committed to borrowers – they are our priority. Policy that puts them first is our goal. There are no simple answers to college costs and loan repayment – nothing is black or white, but it requires sophisticated dialogue which I look forward to contributing to today.

Who We Are

The Student Loan Servicing Alliance (SLSA) is the nonprofit trade association that focuses exclusively on student loan servicing issues. Our membership is responsible for servicing over 95% of all federal student loans and the vast majority of private loans, and our membership is a mix of companies, state agencies, non-profits, and their service partners – including all federally contracted servicers and BPOs. Our servicer members and affiliate members provide the full range of student loan servicing operations, repayment support, customer service, payment processing, and claims processing for tens of millions of federal and private loan borrowers across the country.

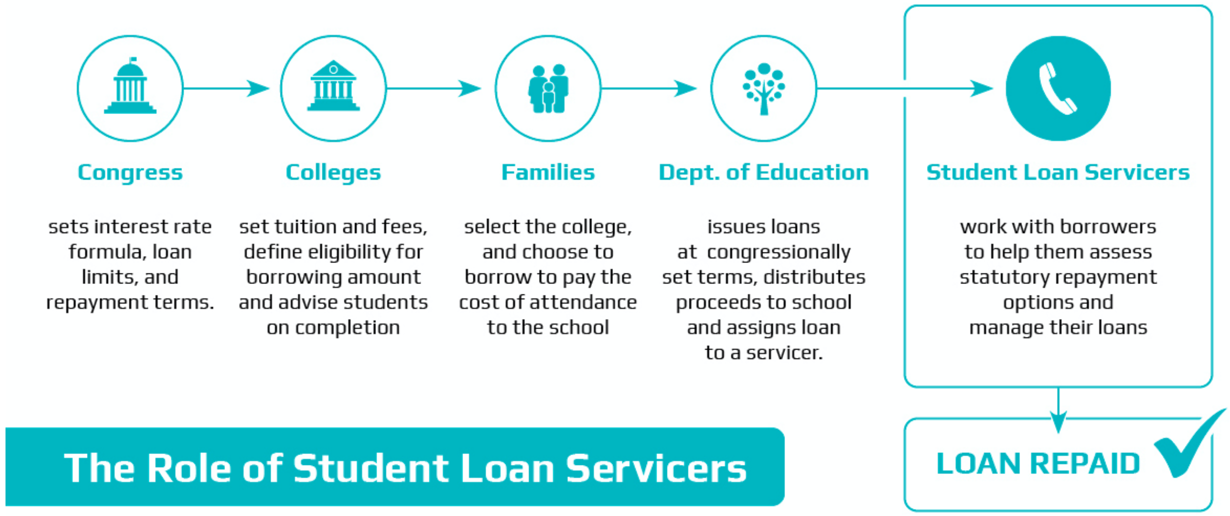
SLSA's work focuses on advocating for federal and state policy that improves loan servicing for all borrowers. We also serve as a forum for developing operational and technical best practices that enhance customer service and loan program administration. Further, we identify obstacles and opportunities within federal and private loan programs that can benefit from our expertise and leadership, and we formulate and support solutions that can achieve simplification and standardization. We also work with other advocacy organizations to support the continuing enhancement and streamlining of student loan servicing laws, regulations, and practices to benefit our customers, borrowers, and improve the value of higher education. In short, SLSA is the leading voice on how student loan servicing can work best to deliver improved success for borrowers and families.

The Role of Servicers

While there has been much discussion about the critical issues facing the 43 million federal student loan borrowers, there has been less discussion about the facts surrounding how the loan program works and what the responsibilities are of servicers in the lifecycle of a student loan. It is first critical to understand what a servicer does and what a servicer does not do. Servicers do not determine the amount a student borrows. Servicers do not set the interest rate on a student loan, do not determine what repayment options are available to a borrower, do not earn the interest or return off a student loan, do not fees or penalties, do not set payment application rules, and do not own the loans. Those are matters set by the lender, for whom the vast majority is the federal government – and therefore determined by federal law and regulation – we do have an important role to play. Servicers communicate with borrowers to make available their repayment options. Servicers take and apply payments according to the terms of the loan. Servicers call and take calls from borrowers to explain the benefits to which a borrower is entitled. Servicers are highly regulated. And servicers take very seriously, as demonstrated by the actual metrics and facts of our performance, our role to help borrowers be as successful as possible in repaying their loans so the federal student loan program can continue to serve future generations of students – the millions of future college students who the Higher Education Act was enacted to assist.

While what we do is often misunderstood, so is the timing of when we step in to help borrowers. Our role begins after Congress has set interest rates and repayment plans, after a student has chosen a school, after the college has set the price and determined what other aid it will offer, after the borrower has decided how much they wish to borrow, after the loan has been originated and disbursed, and usually meaningfully begins after a student has graduated - or sometimes when they have left school for other reasons. That is when we begin regular communication with the borrower to help them access the options that are available so they can make the best choice amongst the repayment plans that Congress has provided. That communication is not a one-time event, and no single interaction in isolation characterizes the work that we do or the scope of what we share. Our efforts are a continuum of activity set by FSA, ranging from letters, emails, phone calls, websites, and sometimes chat or text, to meet borrowers where they are and most prefer to interact – and over time and multiple interactions – to make available the tools for they to effectively manage their student loan obligations. As a borrower's life situation changes, we also change our efforts with them to try and identify from what information they choose to share what options are available now, that may not have been available before. Has their job situation changed? Has their family expanded? Has their income level risen? And then, what do they want to accomplish? Every borrower has a different view of what steps will be in their best interest. Some want to pay down their student loans slower because they have other debt at higher interest rates. Some want to pay them down faster because they want to become debt free as soon as possible. Some want just a little time to get beyond a financial hurdle this month. Some want a long-term solution that aligns with the career path they think they will have, where maybe their income will rise meaningfully over time or maybe where they are taking a public service job where their income may be less than another. It is a fact that no single repayment plan or strategy is best – both financially and in desirability – for all borrowers. In this way, every borrower is different, and servicers are on the front lines of trying to help a borrower understand and navigate among those choices they must make.

Below is the flow on responsibilities among parties involved in federal student loans today:



Federal Loan Servicing Contractors

Today there are four (4) primary student loan servicers that work for the Office of Federal Student Aid (FSA) and have borrower accounts: Aidvantage, Edfinancial, MOHELA, and Nelnet. The four companies today are directly contracted by FSA to perform the operational servicing and customer service functions for federal student loans held by the government. These contractors are paid a servicing fee that is based upon the number of borrowers, status of those accounts, and often per transaction fees for some specialty servicing functions. All loan revenue, including principal and interest payments, goes directly to the government and drives the profitability or loss that the government directly bears - and consequently flows to or from the taxpayer.

In the future as FSA transitions over the coming months to a next generation servicing architecture (previously known as NextGen and now known as USDS) and an additional loan servicer, CRI, will be added into the group of current servicers with borrower accounts. This change will also mean that some functions (PSLF and TEACH Grant processing and tracking) will be moved to FSA and its BPO contractors. Further, IT infrastructure will be further embedded into the studentaid.gov environment with enhanced co-branding and an effort to create a single sign-on system in the future, especially important as borrowers will need to access their both their servicer's web portal and studentaid.gov - especially those making progress towards PSLF forgiveness.

Statute, regulations, and FSA dictate the terms, conditions, and contractual requirements of servicers. The government alone decides the way loans will be serviced, sets the standards, and then decides what level of service it wishes to pay for and how.

Resumption of Repayment Challenges

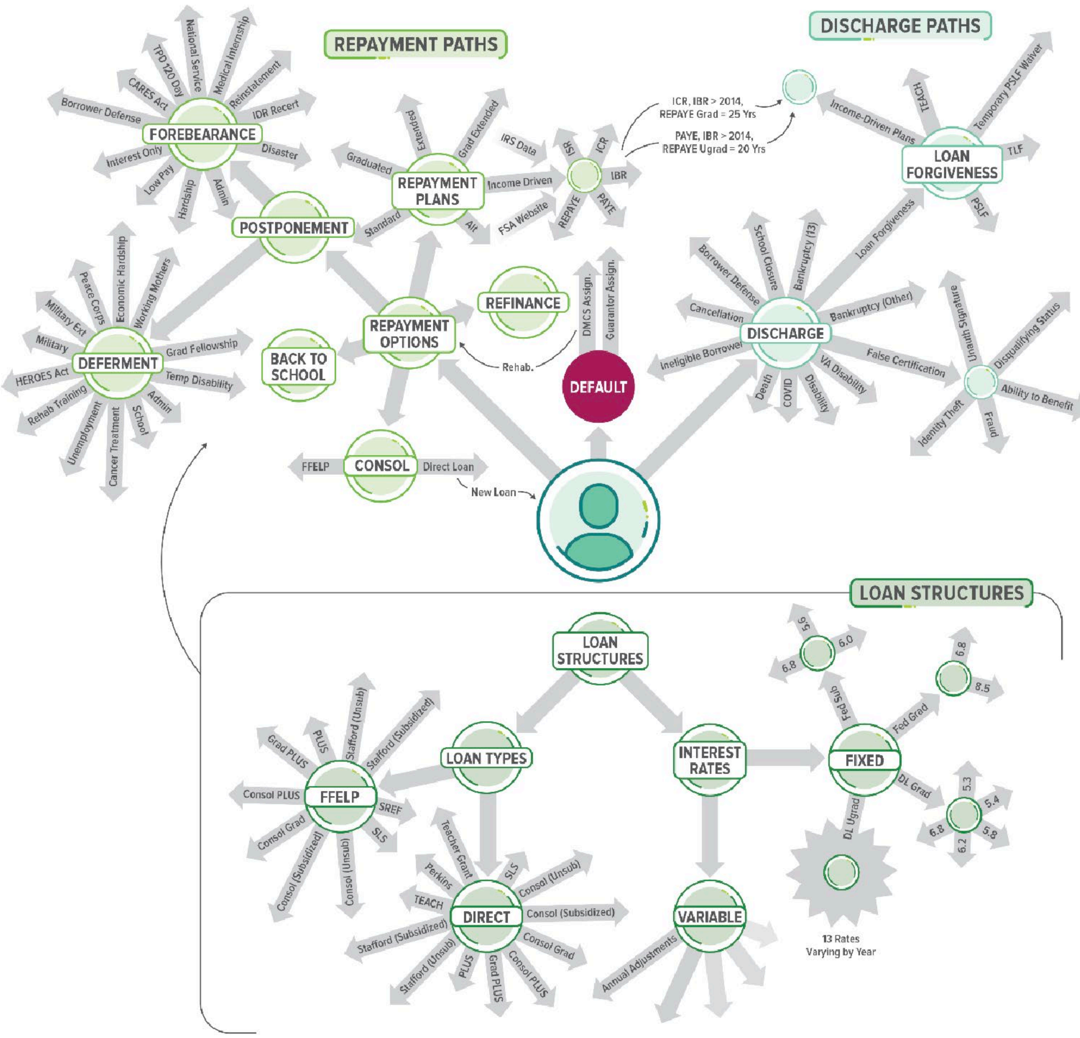
We have long warned that the return to repayment would be challenging for the student loan ecosystem, including FSA, servicers, and borrowers. Planning was not optimal for the resumption, with guidance either not being forthcoming or changing almost daily for the months leading up the final resumption date. In fact, prior to a previous potential resumption date - when we were merely days away with no clarity – I warned Secretary Cardona in a letter dated August 22, 2022 of the issues that would occur because of the lack of proper planning and insufficient time to make staffing and operational changes required. Those issues were never addressed as meaningfully as hoped.

FSA's own resumption playbook for servicers has been revised and edited more than 25 times, and was still being revised after resumption began. In the August 2023, the playbook was revised 10 times in that month alone – right when we are in the midst of trying to do the incredibly difficult IT system work, staffing preparation, and communications that should have been part of strategic planning that was not taking place. This constant shifting of expectations makes it virtually impossible to ensure that there are no errors, and often those errors still were due to lack of clarity or incorrect data or files provided by FSA. But we proactively identified errors and brought them to FSA and fixed them quickly – just exactly the way you would want any partner or contractor to do managing a massive project.

Besides the actual return to repayment, servicers have been asked to implement or do development work on the following programs with zero to little advance notice, a complete lack of programmatic planning by FSA, and without being provided the financial resources to do so effectively or on a timeline that is reasonable:

- IDR one-time account adjustments
- PSLF waivers
- Fresh Start program
- SAVE plan rushed implementation
- Mass loan forgiveness proposals
- Loan transfers due to servicers exiting due to unworkable economics

These massive changes and programmatic seismic shifts are on top of the previously existing web of complicating servicing requirements and workflows that Congress and the Department have iterated over the years. This layering and the vast array of options a servicer must manage intrinsically create an operational world where there are many potential operational fail points which must be carefully managed. Below you will see the complicated workflows that servicers must deliver every day for nearly 35 million borrowers who all have unique and specific situations:



SBPC and AFT Allegations

The Student Borrower Protection Center and AFT have recently released a so-called "report" making accusations about MOHELA's servicing practices. MOHELA has provided a response to those accusations.

But since we're likely holding this hearing partially because of this document produced by political organizations with false and misleading statements and phrases like "dark history," "company schemes," and "uncovered documents," I will address it as well. This kind of imagery is straight out of a John Grisham novel – but it is equally as fictional.

Let's meet this with facts:

Call Deflection – Some suggest that a servicer developed and implemented a strategy called "call deflection" and suggest that they did so to harm borrowers. That is false. In fact, FSA mandated all servicers utilize this strategy and included it in their own playbook This approach encourages borrowers - who can - to self-service online rather than waiting to speak with a customer service representative. This was government guidance.

PSLF Backlog – Recent accusations suggesting servicers are responsible for a large backlog of Public Service Loan Forgiveness (PSLF) applications and that the backlog is intentional are also false. Today FSA makes all decisions about whether to approve or deny forgiveness, and so the vast majority of the backlog resides at a resource constrained FSA, which is also now struggling with their FAFSA breakdown. The assertion that a servicer wants to engage in delays or rejections for its financial benefit is grossly unjust to the thousands of employees who work every day trying to help borrowers.

The Actual Issues and Solutions

So, what are the real and true issues we can work on together?

First, fund quality service. For several years the government has flat-funded servicing and customer support when borrowers most need it. Congress makes these choices through appropriations. The government gets what it pays for, and when you don't make that choice - then borrowers pay the price.

Second, change the law to fix what's broken. Most of the complaints about the functioning of the loan program are matters of statute. Most of the complaints about the functioning of the loan program are matters of statute. There is this false trope that 99% of borrowers have been denied for PSLF forgiveness because of some mistake or operational failure. That is false. Congress designed the program and intentionally drafted it to be narrowly focused and harder to obtain forgiveness. Servicers were tasked with implementing that law and did so. If Congress now wants to change that policy, it must change the law. Even the Administration recognized that fact, asserting it needed to use temporary emergency authority to bypass the law to provide accelerated and expanded forgiveness. But that will end, and Congress must act.

Finally, we must all be accountable for our specific roles. Servicers must take accountability for issues that arise when we are given sufficient resources, direction, and time to make these programs work. But Congress and the government must be accountable for providing those tools for success as the owner of the loans and manager of the loan program's terms and conditions.

Since my time is limited, I will close by saying that I'm pleased to be here to have this conversation but hope it results in us working together to fix the problems that exist as opposed to blaming servicers for simply doing what the Department asked and pays them to do and what the law requires. Servicers care deeply about borrowers' experience - as I know you do – so let's focus on the root causes to do them justice. I look forward to your questions.