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Student loan company protests DeVos's decision

By Danielle Douglas-Gabriel July 18

One of the nine companies that manages the federal government's $1.2 trillion portfolio of education loans is fighting to stop the Education Department from handing the job to a single contractor.

The Missouri Higher Education Loan Authority, commonly known as MOHELA, filed a protest this month with the Government Accountability Office over a contract solicitation the department amended in May. While the original contract sought to create a single online platform for use by multiple loan servicers, the Trump administration revised the terms to have one company build the portal and collect student debt on its behalf.

When Education Secretary Betsy DeVos announced the revision, the department had already narrowed the field of bidders to three finalists: Navient, the Pennsylvania Higher Education Assistance Agency and a joint venture of Nelnet and Great Lakes. Whichever company is selected from that pool will have the ultimate domain over the portfolio, placing loan servicers like MOHELA in jeopardy of being pushed out once the existing contracts expire in 2019.

Officials at MOHELA declined to discuss the protest because it is still under review, while the Education Department did not immediately respond to requests for comment about the matter.

Back in May, education officials said the company selected to manage the federal portfolio could hire subcontractors, which would give other loan servicers an opportunity to retain some of their business. At the time, DeVos said amending the solicitation was necessary because the previous one “was cumbersome and confusing — with shifting deadlines, changing requirements” that was “destined for a massive and unsustainable budget overrun.”

Under pressure from consumer groups, the Obama administration in 2016 added contract requirements through a series of memos to hold servicers accountable for poor communication, mismanaged paperwork and delays in processing payments. Those memos, among other things, called for the creation of financial incentives for targeted outreach to people at great risk of defaulting on their loans, a baseline level of service for all borrowers and a contract flexible enough to penalize servicers for poor service.

DeVos rescinded the policy memos in April, saying they lacked “consistent objectives.” Acting Undersecretary of Education James Manning told reporters a month later that the decision to withdraw the memos was also necessary to prevent cost overruns that the department would not have been able to afford. He said selecting one primary servicer will save more than $130 million in the first five years of the contract.

The revised servicing model is a return to the way student loans used to be collected. ACS Education Services was once the sole company charged with managing the government's education loan portfolio, a role that critics of the company said led to widespread failures in customer service and loan consolidations. ACS owned and operated the servicing platform back then, but the new contract would keep the platform in the hands of the federal government. That should make it easier for the government to replace the loan servicer, but some people remain wary of the setup.

"Moving to a single servicer — who would be given sole discretion over subcontracting — would create a monopolistic environment with little to no incentive to ensure the single servicer provides the highest quality of customer service to student loan borrowers," Debra Chromy, president of the Education Finance Council (EFC), a trade group representing nonprofit and state-based student loan servicers, wrote in a letter last month to DeVos. Multiple servicers, she said, "foster competition while preventing the formation of a too-big-to-fail monopoly."

EFC successfully lobbied Congress two years ago to give nonprofit student loan servicers like MOHELA a larger share of the federal portfolio, arguing that if the companies managed more loans there would be fewer consumer complaints. As a condition of a bump in funding for the Education Department in 2015, lawmakers required the agency to toss out a formula for divvying up its portfolio that gives preference to Navient, Nelnet, Great Lakes and American Education Services.