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Fears Of 'Monopolistic Environment' If One Company Collects Student Loan Payments

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There's growing apprehension over Secretary of Education Betsy DeVos' decision to drop plans put forward by the Obama administration that would have imposed tougher, performance-based customer service standards on companies that collect payments on student loans.

Instead, the Trump administration is preparing to award a contract to a single company that will be responsible for collecting payments on $880 million in federal student loan debt.

The move "threatens to increase rates of delinquency and default, degrade the quality of customer service, and make it harder for borrowers to manage their federal loans," more than 150 House and Senate Democrats told DeVos in a letter last month.

Nine companies currently collect payments on federal student loans under contracts with the U.S. Department of Education. Each operates its own website and employs different procedures for interacting with customers who need help managing their payments.

That's created problems for borrowers that some loan servicers have responded to better than others, the Obama administration said in putting forward a "Student Aid Bill of Rights" in 2015.

A public inquiry into student loan servicing practices followed, along with a report recommending that loan servicers:

- Meet consistent minimum customer service requirements
- Provide "accurate and actionable information" to borrowers

- Be held accountable for failing to meet performance standards
- Provide transparency into the provision of borrower benefits and protections

The government and consumer advocates have been particularly concerned about the fact that so many borrowers end up falling behind on or defaulting on their payments, despite the availability of income-driven repayment programs that make monthly payments more manageable.

New Student Loan Web Portal

To help remedy that and other issues, last year the Department of Education issued a request for proposals to build new "state-of-the-art" federal student loan servicing Web portal.

Although the contract was to be awarded to a single company, the Obama administration planned to require that the winning bidder hire subcontractors to provide customer service, with borrower accounts distributed to each "based on performance measured against specified outcome measures," the department said in October. "Upon full implementation of our vision, no single vendor will be responsible for performing every aspect of student loan servicing for all loans."

So companies hoping to win that business were caught by surprise in May when the Department of Education, now run by Trump appointee DeVos, announced that it was rescinding that and other contract requirements.

The company that wins the contract to build the federal student loan servicing portal will still have the option of hiring subcontractors. But if it decides it needs help providing services to borrowers, it will be able to parcel work out to subcontractors as it sees fit, rather than according to how well they do meeting the government's performance goals.

In outlining its reasons for the move, the Department of Education said it would eliminate "burdensome Washington mandates to allow for a more nimble approach to execute and engage other qualified partners," saving taxpayers more than $130 million over five years. In the end, the Department of Education said it will have better oversight over the collection of student loan payments than it does today, because it will "monitor one servicer instead of all nine servicers."

A trade association representing state student loan authorities and nonprofit loan servicers, the Education Finance Council, asked DeVos to reconsider the decision.

“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,” EFC President Debra Chromy wrote to DeVos.

On July 7, one of EFC’s members, the Missouri Higher Education Loan Authority (MOHELA), filed a formal protest over the changes with the Government Accountability Office.

While big changes may be in store for student loan borrowers, they’re not imminent.

Once the Department of Education awards the initial five-year contract to build the student loan Web portal, the winner is expected to launch it within 18 months. The government’s current contracts with loan servicers expire in 2019.

Although the Trump administration has also proposed significant changes in income-driven repayment and loan forgiveness for future federal student loan borrowers, it remains to be seen if Congress will go along with the proposals.

Federal Student Loan Web Portal Timeline

March, 2015: Obama administration announces “Student Aid Bill of Rights,” calling for new procedures to ensure that student loan borrowers have access to an “efficient and responsive complaint and feedback system that holds loan servicers accountable and promotes transparency, the information and flexibility they need to repay their loan responsibly and avoid default, and protections to ensure that they will be treated fairly even if they struggle to repay their loans.”

May, 2015: Consumer Financial Protection Bureau, Department of Education, and Treasury Department launch public inquiry into student loan servicing practices. CFPB seeks public comment on ways to improve borrower service, reduce defaults, develop best practices, assess consumer protections, and spur innovation.

September, 2015: CFPB issues report detailing the findings of its inquiry. The CFPB, Department of Education, and the Department of the Treasury issue a of Principles on Student Loan Servicing, calling for consistent minimum customer service requirements, access to "accurate and actionable information," accountability for servicers who fail to meet performance standards, and transparency including performance data at the individual servicer level.

April 2016: Department of Education's office of Federal Student Aid issues request for proposals to build new "state of the art" federal student loan servicing Web portal it says will allow all borrowers to find "the latest information about their loans, make payments and apply for benefits — eliminating the need to know the name of their servicer."

June, 2016: Three finalists to build the student loan servicing Web portal selected:

Navient, the nation's largest servicer of student loans

GreatNet Solutions, a joint venture formed by Nelnet and Great Lakes Educational Loan Services

FedLoan Servicing, the "doing business as" name employed by the Pennsylvania Higher Education Assistance Agency (PHEAA) when collecting payments on federal loans.

October, 2016: In its first amendment to the proposed contract to build the student loan servicing Web portal, the Obama administration adds requirements it says will increase oversight of vendors, improve communications with borrowers, and provide for the collection and release of data to the public to increase transparency and accountability. The Department anticipates the servicing system contract will be awarded by February 2017.

Nov. 8, 2016 — Donald Trump elected 45th president of the United States.

February, 2017 — Senate confirms Betsy DeVos as Secretary of Education after Vice President Mike Pence casts tie-breaking vote.

April 2017 — In a memo to James Runcie, the head of the office of Federal Student Aid, DeVos orders him to rescind the additional vendor requirements imposed by the Obama administration in October.

May 19, 2017 — Request for proposals to build the Web portal amended by the Department of Education, deleting a requirement that it be "utilized by multiple customer service providers."

May 23, 2017 — Runcie resigns on the eve of a Congressional hearing where his office's accountability and oversight procedures are expected to be called into question.

June 8, 2012 — The Education Finance Council, a trade association representing state student loan authorities and nonprofit loan servicers warns DeVos that moving to a single loan servicer would create a "monopolistic environment." The group notes that the Department if Education had relied on a single loan servicer in the past, but moved to a system employing multiple loan servicers "to ensure a higher level of service through competition."

June 12, 2017 — House and Senate Democrats write DeVos to express "serious concerns" that changes to the contract and policies "will actively harm borrowers and ultimately put taxpayers at risk." The changes, they said, "remove key requirements that would make the loan servicer adhere to standards jointly developed by the Department of Education, Treasury, and the Consumer Financial Protection Bureau (CFPB) in order to reduce rates of delinquency and default."

June 20, 2017 – DeVos announces that A. Wayne Johnson, the former CEO of a private student loan company, will run the office of Federal Student Aid, which will award the contract to build the Web portal.

July 7, 2017 — Missouri Higher Education Loan Authority (MOHELA) files protest with Government Accountability Office over amendments to the request for proposal to build the federal student loan servicing Web portal.