INSIDE HIGHER ED

Spending Bill Gives Flexibility to Borrowers Seeking Loan Consolidation

By Andrew Kreighbaum May 3, 2017

Language in the omnibus spending bill Congress agreed to over the weekend directs the Department of Education to allow student loan borrowers to select any servicer when consolidating their federal student loans.

It's a change that was long sought by state-based and not-for-profit servicers. Previously, borrowers were required to move their loans to one of several large servicers after consolidating.

Debra Chromy, president of the Education Finance Council, said if a borrower is happy with their servicer, it makes little sense to require that their account be transferred to another company because they decided to consolidate a loan. The group represents many smaller servicers. Chromy said member companies in New Hampshire and Missouri worked with Democratic Senator Jeanne Shaheen and Republican Senator Roy Blunt, respectively, to advocate for the change.

Justin Draeger, the president and CEO of the National Association of Student Financial Aid Administrators, said the group has recommended for server-specific branding to be removed from communication with borrowers to create a seamless experience of paying back student loans.

"But, as long as we're going to have some competition with loan consolidation, I don't see why any specific qualified federal loan servicer should be excluded from competing," he said.

Clare McCann, a senior policy analyst with New America's education policy program, said the change was policy making via earmark.

"We really need a wholesale rethinking of how to do student loan servicing in an effective way," she said.

The direction of the federal government will be shaped by the decisions of Education Secretary Betsy DeVos, McCann said. After DeVos withdrew Obama administration guidelines for the next round of servicer contracting, advocates and policy researchers are waiting to see what alternative course she will stake out.