Written Testimony for the Record Submitted by
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Prepared for the Senate Appropriations Subcommittee on Labor, Health and Human Services, Education, and Related Agencies

U.S. Department of Education

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Dear Chairman Blunt and Ranking Member Murray:

The National Council of Higher Education Resources (NCHER) urges the subcommittee to include statutory language extending the authority for the U.S. Department of Education to pay Account Maintenance Fees (AMF) and language encouraging the Department to leverage the expertise of state and nonprofit organizations to assist student and parent borrowers repay their student loans in the Fiscal Year 2019 Labor, Health and Human Services, Education, and Related Agencies Appropriations Act. NCHER is a national, nonprofit trade association that represents state and nonprofit higher education agencies that work with students and families to develop, pay for, and attain their educational goals so they can pursue meaningful and rewarding work and become contributing members of society.

First, NCHER's state and nonprofit guarantors appreciate the subcommittee's recognition of the vital role that guaranty agencies play in the federal student loan program, and commend you for including language extending AMF authority for an additional year in the Bipartisan Budget Act of 2018 (Public Law 115-123). Guaranty agencies are authorized under the Higher Education Act of 1965 to provide important services to students, borrowers, families, and the federal government by helping to manage the Federal Family Education Loan Program (FFELP) at the local level, and increasing access to and success in postsecondary education. Many guaranty agencies operate and provide student support services in more than one state. These agencies receive AMF payments from the Department to pay for their general operating expenses. The fees are crucial to ensuring that the agencies are able to perform critical functions that assist borrowers in avoiding default and protect federal taxpayers as the FFELP continues to wind-down its operations. The fees are used to carry out the agencies' mandate to:

- Support college access and success activities, such as financial aid awareness, consumer education, FAFSA (Federal Application for Federal Student Aid) completion services and events, borrower assistance, and ombudsman support. These services are provided to students and families in states around the country, regardless of the type of loan they received to finance their postsecondary education. Today, the services are provided to Direct Loan applicants and borrowers.

- Assist struggling borrowers in avoiding default on their federal student loans, and help defaulted borrowers rehabilitate their loans and repair their credit history.

- Provide schools with basic administrative support such as information on student loan defaults and loan transfers and training and technical assistance to lenders and schools.

- Maintain loan records for student and parent borrowers; monitor school enrollment and repayment status; conduct comprehensive compliance reviews of lenders and servicers; and conduct claim reviews and issue loan holder payments.

The fees are paid quarterly and based on the original principal balance of an agency's outstanding non-defaulted FFELP portfolio. According to the Congressional Budget Office, the annual extension of AMF authority is budget neutral. If AMF is eliminated, guaranty agencies will be unable to perform their basic FFELP administrative functions and could turn over their portfolios to the Department – driving up the agency's administrative costs. The agencies will also be forced to end their outreach programs to students and families that are not otherwise provided by the Department.

The President's budget request for fiscal year 2019 included the elimination of AMF. The budget office mistakenly believes that, because there are no new originations under FFELP, the fees are no longer necessary. However, there is still roughly $203.4 billion in outstanding FFELP loans held by private lenders and guaranty agencies. The agencies provide – and must continue to provide – services and accountability for this sizeable federal asset and the functions need to continue throughout the wind-down period. The FY2016, FY2017, and FY2018 appropriations bills included a one-year extension of AMF because it is essential for guaranty agencies to provide important services on behalf of the federal government, and we urge the subcommittee to provide an additional one-year extension in the FY 2019 appropriations bill.

Second, according to recent statistics, federal student loan debt totals nearly $1.37 trillion, an amount that policymakers and some economists have cited is negatively impacting the ability of student borrowers to achieve postsecondary success, own a car, buy a house, or start a family. According to the Department, over 11 percent of borrowers who took out a federal student loan defaulted on that loan within three years, a percentage that continues to be unnecessarily high. Clearly, student and parent borrowers need access to more specialized support services throughout their postsecondary education to help them understand their financial decisions.

State and nonprofit higher education agencies, including loan holders, loan authorities, servicers, and guaranty agencies, have been highly successful in providing important services to struggling borrowers for decades because they provide a holistic approach to student success. These agencies counsel students and families on early awareness of the variety of educational choices available beyond high school and creating a college-going culture, the appropriate courses to take in high school to facilitate entering the college major or career program of their choosing, how to apply for college and navigate the financial aid process, how to avoid overborrowing, and the importance of managing student loan debt, as well as budgeting and personal finance management skills. These agencies also act as borrower advocates to help struggling borrowers understand the student loan repayment process and options that may be available to them to help mitigate delinquencies and defaults. However, these important services are largely going away, and some have already been eliminated, because of a lack of resources resulting from declining Federal Family Education Loan Program portfolios.

NCHER believes the best solution to addressing the current challenge of borrowers struggling to repay their student loan debt is to encourage the Department of Education's nine national for-profit and not-for-profit student loan servicers to work with smaller state and nonprofit organizations - most of whom are small businesses and employ less than 500 employees - as subcontractors to provide personalized financial education and debt management services to struggling borrowers. The Consolidated Appropriations Act, 2017 included language directing the Department to put together a plan under which it will give credit to its federal student loan servicers to subcontract with small businesses, including state and nonprofit organizations with expertise in assisting borrowers in the repayment of their student loan. In the budget justifications for fiscal year 2018, the Department stated that there must be a slight change to the small business designation as well to make clear that the definition of 'small business' in the student loan servicing context includes state and not-for-profit entities, and not just one that is organized for-profit. We urge the subcommittee to include the suggested language in the FY 2019 appropriations bill. State and nonprofit organizations with more than 50 years of experience can help struggling borrowers address the current challenges in the federal student loan program, but their work must qualify for small business credit.

NCHER appreciates the opportunity to provide feedback on its appropriations priorities. We look forward to working with the subcommittee as it begins drafting the fiscal year 2019 appropriations bill to maintain and improve those services provided to struggling borrowers.

Thank you.