Testimony for the Record - House Labor, Health and Human Services, Education, and Related Agencies Appropriations Subcommittee

Submitted via email to LH.Approp@mail.house.gov by:

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Dear Chairman Cole and Ranking Member DeLauro:

The National Council of Higher Education Resources (NCHER) is a trade association that represents state, nonprofit, and for-profit higher education service agencies that assist students and families access, manage, and pay for the costs of postsecondary education. We appreciate the Subcommittee's past support of the important and successful work of the nation's student loan servicers and its recognition of the vital role that guaranty agencies play in the federal student loan program. We urge the Subcommittee to continue its work to promote the use of state and nonprofit organizations with expertise in helping student and parent borrowers, improve the servicing of the Federal Direct Loan Program, and extend the authority for Account Maintenance Fee payments as it begins consideration of the Labor, Health and Human Services, Education, and Related Agencies Appropriations Act for Fiscal Year (FY) 2018.

First, college affordability and student loan debt burden are important issues on the minds of our nation's students and families. According to the U.S. Department of Education, more than 42 million Americans collectively owe nearly $1.3 trillion in federal student loan debt. Of that amount, nearly $133 billion, owed by 7.7 million borrowers, is in default. While a relatively small number of borrowers (less than 1 percent) have student loans over $100,000, the average debt for those receiving a bachelor's degree is approximately $30,000, an amount that has risen at more than twice the rate of inflation over the last decade. With college costs and student loan debt on the rise, more borrowers are struggling to get a good job and repay their federal student loans on time. It is clear that these students and their families need access to more specialized support services to help them understand their postsecondary education options.

For more than 50 years, state-based, nonprofit higher education service agencies have been highly successful in providing important services to student and parent borrowers across the country. These agencies counsel students and families on early awareness of the variety of educational choices available beyond high school, 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, and budgeting and personal finance management skills. However, many of these important services are going away because of a lack of sustained resources.

NCHER believes the best solution to the current challenge of borrowers struggling to repay their student loans is to leverage the expertise of these state-based, nonprofit higher education service agencies, most of whom are small businesses and have less than 500 employees. The Subcommittee should direct the Department of Education to require its nine student loan servicers to work with these organizations as subcontractors to provide career, financial education, debt management, and delinquency and default prevention services to struggling borrowers. As part of this effort, the Subcommittee should make clear that the definition of 'small business' in the student loan servicing context includes state and nonprofit entities so loan servicers receive credit for subcontracting for services with these organizations.

The Subcommittee included report language in the Labor, Health and Human Services, Education, and Related Agencies Appropriations Act for FY 2017 to this effect, and NCHER urges the Subcommittee to continue and even strengthen the existing language in the FY 2018 appropriations bill.

Second, the current federal student loan servicing contracts restrict not-for-profit servicers from originating and servicing consolidation loans. The unfortunate result of this action is that borrowers interested in obtaining a consolidation loan are required to switch to a new servicer who they have had no contact with throughout their postsecondary education career, and denied consumer choice. The Subcommittee included report language in the Labor, Health and Human Services, Education, and Related Agencies Appropriations Act for FY 2017 directing the Department of Education to allow all federal student loan servicers to originate and service consolidation loans. NCHER urges the Subcommittee to continue and even strengthen the existing language in the FY 2018 appropriations bill.

Third, over the last two years, the House and Senate Appropriations Committees have directed the Department of Education to establish common performance metrics across all student loan servicers, which is critical to improving the quality of servicing for all borrowers. NCHER urges the Subcommittee to continue the current bill language in the Labor, Health and Human Services, Education, and Related Agencies Appropriations Act for FY 2018. As the Subcommittee is also aware, the Department issued a Request for Proposals (RFP) that includes major changes to student loan servicing. Unfortunately, the RFP lacks details on many basic servicing functions such as the pricing structure for subcontractors, how loans will be allocated to the multiple service providers, whether there will be a second procurement for determining the customer service providers, how loans will be transitioned to the new system, how borrowers will continue to receive high-quality services, and many other important questions. At the core, the Department has failed to answer how this new centralized system will provide better services to student and parent borrowers, including how the system will protect sensitive personal and financial information, mitigate risk since it will serve as a single point of contact and potential failure for all federal student loans, and ensure the timely and accurate transfer of borrower accounts. The prescriptive nature of the procurement may actually increase delinquencies and defaults. The Subcommittee should review the current RFP on student loan servicing, consider delaying the upcoming award, and determine what policies and approaches need change or modification to make meaningful, sustainable improvements to federal student loan servicing.

Finally, guaranty agencies receive account maintenance fees (AMF) to offset a portion of their general operating expenses and perform statutory functions such as providing college access activities, including conducting educational programs and making available materials in financial literacy, maintaining loan records, defending bankruptcy proceedings, providing schools with information on defaults and loan transfers, and conducting claim reviews and issuing lender payments. The fees are paid quarterly, based on an agency's original outstanding principal balance of its non-defaulted Federal Family Education Loan Program (FFELP) portfolio. For FY 2016, the Department of Education paid an estimated $159 million in AMF to guaranty agencies for the multiple administrative functions. For FY 2017, payments will fall to approximately $139 million as the FFELP portfolio continues to slowly decline. According to the Congressional Budget Office, the annual extension of AMF authority is budget neutral. The Consolidated Appropriations Act for FY 2016 and the Further Continuing and Security Assistance Appropriations Act for FY 2017 recognized that the payment of AMF 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 2018 appropriations bill. This important issue was included in the Department's report on the wind-down of FFELP operations as mandated by the Consolidated Appropriations Act for FY 2016.

The report also included two additional items that NCHER submits to the Subcommittee for consideration. First, the report urged Congress to provide just-in-time reinsurance payments to facilitate cash flow into the Federal Fund. Currently, guaranty agencies do not receive reinsurance for claim repayments for three weeks or more following the time they pay a claim. This puts unnecessary stress on an agency's Federal Fund, which is the property of the federal government, and can curtail an agency's ability to provide critical services to assist struggling borrowers. The Subcommittee should mandate that the Department reimburse guaranty agencies within 72 hours of claim payment to mitigate the unnecessary cash-flow concerns. Second, the Department recommended that Congress remove the 45 percent cap on Federal Direct Consolidation Loans. The Higher Education Act caps the percentage of recoveries that a guaranty agency can make through Direct Consolidation Loans. Recent changes to regulations governing loan rehabilitation that reduce recoveries through administrative wage garnishment, and an expected decline in FFELP loan rehabilitations, may increase the percentage of guaranty agency collections represented by Federal Direct Consolidation Loans. The Subcommittee should eliminate this provision.

NCHER appreciates the opportunity to provide feedback on its priorities. We look forward to working with the Subcommittee as it drafts the Labor, Health and Human Services, Education, and Related Agencies Appropriations Act to ensure that students and families continue to receive high-quality services throughout their postsecondary education career.

Thank you.