The Nation's Student Loan Servicers Provide Important Services to Student and Parent Borrowers

Since 2009, the U.S. Department of Education has used not-for-profit (NFP) and for-profit servicers to provide important services to student and parent borrowers with loans made under the William D. Ford Federal Direct Loan Program. Many nonprofit and for-profit servicers also service loans made under the federal guaranteed student loan program and through private education loan programs.

The Department has contracts with 10 for-profit and NFP providers who service the Direct Loan portfolio of over 31 million borrowers. Four of the servicers, the Title IV Additional Servicers or TIVAS, signed their original contracts in 2009 and signed renewal contracts in 2014. The six NFP servicers signed their contracts in 2011 and 2012. The Department is currently in the process of re-competing all of its student loan servicing contracts and has stated publicly that it anticipates major changes to its system, which will impact millions of borrowers across the country. In addition, the Consolidated Appropriations Act, 2014, required the Department to establish common performance metrics across all student loan servicers. The Consolidated Appropriations Act, 2016, requires the Department to allocate new Direct Loan accounts among the student loan servicers on the basis of their performance and capacity. The Act also directs the Department to ensure the participation of a sufficient number of servicers to promote high-quality customer service in the servicing of consolidation loans.

The current competitive structure – using a mix of state-based and national, and nonprofit and for-profit, organizations - promotes high levels of customer service; establishes a benchmark for quality servicing; protects the interests of the federal government while providing important localized services to borrowers; encourages innovation; and saves taxpayers money.

The student loan servicing system is <u>not</u> broken. The nation's student loan servicers provide an array of important, high-quality services to student and parent borrowers, at minimal costs to the federal government. Besides handling general billing and payment processes, student loan servicers:

- Are the primary contact point for borrowers regarding their Direct Loans. For students that are in-school or in their 6-month grace period before beginning repayment, the servicer may be their first contact with anyone who helps them with their loan. Student loan servicers spend millions of dollars locating and educating students on their financial obligations and how to balance their student loan payments with other bills.

- Assist students and parents that are in repayment on their student loans, including working with these borrowers to identify and enroll in the most appropriate repayment and loan consolidation plans to meet their unique and individual financial situations. Student loan servicers have helped more than 4.5 million Direct Loan borrowers successfully enroll in the program's income-driven repayment plans.

- Assist servicemen and women in understanding and signing-up for the benefits under the Servicemembers Civil Relief Act (SCRA). Each servicer has a dedicated person with expertise who has been specially trained to respond to inquiries on all aspects of the military entitlements, forms, regulations, and military repayment options as they relate to federal student loans. All student loan servicers review the borrowers in their portfolio against the U.S. Department of Defense (DOD) database monthly and apply the benefit based on that match.

- Help borrowers who are delinquent in repaying their Direct Loans, including ensuring they are aware of the various options under the law to get their loans back in good standing.

Federal Contract and Regulatory Requirements

Student loan servicers are highly-supervised and regulated, both by the U.S. Department of Education and the Consumer Financial Protection Bureau (CFPB). They must comply with all statutory, regulatory, and contractual requirements, including compliance with the Federal Information Security Management Act (FISMA), and have highly-specialized systems for handling the unique requirements for servicing federal student loans.

The Department evaluates each servicer quarterly based on a common set of performance metrics: (1) the percentage of borrowers in current repayment status (defined as making their loan payment within 5 days of the established due date) – 30 percent weighting; (2) the percentage of borrowers more than 90 but less than 271 days delinquent – 15 percent weighting; (3) the percentage of defaulted borrowers (over 270 days and less than 361 days delinquent) – 15 percent weighting; (4) borrower survey results – 35 percent weighting; and (5) Federal Student Aid (FSA) employee survey results – 5 percent weighting.

The resulting competitive structure is designed to incentivize servicers to help all borrowers select the best repayment option for them and provide enhanced customer service for student and parent borrowers at all stages of the student loan life cycle.

List of Student Loan Servicers

The 10 student loan servicers under contract with the U.S. Department of Education to service the federal student loan program include the following:

- CornerStone/Utah Higher Education Assistance Authority
- FedLoan Servicing/Pennsylvania Higher Education Assistance Authority (PHEAA)
- Granite State Management and Resources
- Great Lakes Educational Loan Services, Inc.
- Missouri Higher Education Loan Authority (MOHELA)
- Navient
- Nelnet
- North Texas Higher Education Authority/Edfinancial
- Oklahoma State Loan Authority Servicing (OSLA)
- Vermont Student Assistance Commission (VSAC) Federal Loans

If you have any questions or need more information, contact Sean Deverey, Vice President for Government Relations at the National Council of Higher Education Resources (NCHER), at sdeverey@ncher.us or (202) 822-2106.