NASFAA TASK FORCE REPORT

SERVICING ISSUES

FEBRUARY 2015

NASFAA Servicing Issues Task Force

Introduction

Over the last several years the financial aid community has voiced concern about disruptions, inconsistencies, and lack of quality servicing on federal student loans. It has been difficult to fully grasp the extent to which servicing issues exist and to understand the disparate servicing practices between various servicers. The joint Servicing Issues Task Force, consisting of financial aid administrators from the National Direct Student Loan Coalition (the Coalition) and the National Association of Student Financial Aid Administrators (NASFAA) was convened to provide a formal structure for addressing servicing issues. The goal of the Servicing Issues Task Force was to:

- Understand current servicing practices;
- Identify current issues or areas of deficiency in servicing processes;
- Determine the pervasiveness of those issues; and
- Make recommendations for improving servicing to the U.S. Department of Education's (ED) Office of Federal Student Aid (FSA) and servicing contractors.

The guiding principles of the Servicing Issues Task Force included a review of the current servicing landscape with special attention given to:

- Promoting fairness and equity for students across all sectors of postsecondary education;
- Promoting accountability;
- Encouraging simplicity;
- Promoting the use of technology wherever possible; and
- Supporting recommendations with research and data analysis wherever possible.

The task force comprised a geographically diverse group of ten financial aid administrators from the Coalition and NASFAA. They conducted their work between September 2014 and December 2014 and their discussions involved external constituents in the higher education community, including representatives from the servicing industry, and consumer and student advocates. The Coalition Executive Board and NASFAA Board of Directors voted to approve the recommendations in January of 2015.

The ultimate goal of the task force is to improve federal student loan servicing for all borrowers. No process should ever stand in the way of helping borrowers meet their repayment obligations. These recommendations provide a constructive pathway forward in the quest to ensure that we are doing all we can to help borrowers avoid the terrible consequences of student loan delinquency and default.

Executive Summary

The National Direct Student Loan Coalition (the Coalition) and National Association of Student Financial Aid Administrators (NASFAA) Servicing Issues Task Force was convened by the NASFAA Board of Directors and the Executive Board of the Coalition to deliver a report to the Department of Education and other relevant agencies, containing recommendations for improving federal student loan servicing, clearly indicating (1) areas of deficiency in loan servicing, (2) the extent (how widespread) of those deficiencies, and (3) proposed solutions. The task force comprised a geographically diverse group of NASFAA and Coalition members from all types of postsecondary institutions, including members representing graduate and professional institutions.

Based on the research and discussions, the task force developed six recommendations, divided into two broad areas of focus:

Focus Area: Information and Communication

1. Develop a central loan portal where students can manage all of their loans. Borrowers need an accessible "one-stop shop" where they can manage all of their student loans. This should be developed and managed by the Department of Education (ED) and would allow students to easily access all their Direct Loan, Federal Family Education Loan Program (FFELP), and Perkins Loan portfolios in one central place. This would allow borrowers to gain access to information about all of their loans, total indebtedness, and repayment status.

2. Remove servicer branding from communication with borrowers. In order to provide the most clear, unambiguous information to borrowers, the only branding on communication to the borrower should be from ED. Currently, loan servicers co-brand their own logo with ED's logo on all correspondence with students. This leads to considerable confusion among borrowers about who is the actual holder and servicer of their loan.

3. The Department of Education should provide standard consumer protections for student borrowers that are in line with other consumer financial products. Most consumer credit products are governed by federal consumer laws that dictate servicing standards and processes. While federal student loans contain some borrower protections, there are fewer than almost every other consumer financial product. Federal student loans and their servicing should contain an enumerated, standardized set of consumer protections.

4. The Department of Education should permit the use of innovative technologies in order to allow servicers to more efficiently and effectively communicate with borrowers. The task force recommends that ED permit the use of new technologies and applicable supporting data to allow federal servicers to experiment with developing innovative and effective performance based delinquency and default prevention activities in lieu of certain current prescribed requirements.

5. The regulatory requirements of entrance and exit counseling should be incorporated into ED's Financial Awareness Counseling Tool (FACT). The task force recommends that the regulatory requirements of entrance and exit counseling should be embedded into ED's Financial Awareness Counseling Tool (FACT) in order to educate and empower borrowers in a comprehensive way about borrowing and repayment.

Focus Area: Standardization

6. The Department of Education should develop a policies and procedures manual for servicing. The task force recommends that the ED provide an overview of standardized loan servicing practices through an online

© 2015 National Association of Student Financial Aid Administrators

federal servicing policies and procedures (P & P) manual. While the task force understands the competitive nature of the servicer contracts, a P & P manual would offer standardization in areas where there is a financial impact, or risk, for the borrower.

The Servicing Issues Task Force

Task Force Members:

Tami Sato (co-chair for NASFAA), Marshall B. Ketchum University

Peg Julius (co-chair for the Coalition), Kirkwood Community College

Jodi Gerber, University of California, Merced

Anna Griswold, The Pennsylvania State University

Roberta Johnson, Iowa State University

Elena Olivier, San Jacinto College

Margaret Rodriquez, The University of Michigan

Tom Sakos, DeVry Education Group

Linda Shewack, Columbia University

Brent Shock, Miami University

NASFAA Staff Liaisons:

Justin Draeger, NASFAA President

Karen McCarthy, Senior Policy Analyst

Megan McClean, Managing Director of Policy and Federal Relations

Jesse O'Connell, Assistant Director for Federal Relations

Charlotte Pollack, Research Analyst

© 2015 National Association of Student Financial Aid Administrators

About NASFAA

The National Association of Student Financial Aid Administrators (NASFAA) is a nonprofit membership organization that represents more than 20,000 financial aid professionals at nearly 3,000 colleges, universities, and career schools across the country. NASFAA member institutions serve nine out of every ten undergraduates in the United States. Based in Washington, D.C., NASFAA is the only national association with a primary focus on student aid legislation, regulatory analysis, and training for financial aid administrators. For more information, visit www.nasfaa.org.

About the National Direct Student Loan Coalition (the Coalition)

The National Direct Student Loan Coalition (the Coalition) is an alliance of schools dedicated to the continuous improvement and strengthening of the federal Direct Loan program. Coalition members are practicing financial aid professionals. The Coalition's goals are to:

- Advocate high standards in the delivery of student loans by all participants in the process;
- Facilitate efficient delivery of loans by providing a liaison to the U.S. Department of Education on behalf of schools;
- Provide an effective communication network among participating schools to improve program administration;
- Educate public officials, the financial aid community, professional associations, the media and the general public on student lending; and
- Promote policies to minimize the use of student borrowing and improve loan terms for those who borrow.

Recommendations

The Servicing Issues Task Force developed six recommendations, divided into the following two areas of focus:

- Information and Communication
- Standardization

In an effort to better inform the discussions of the Servicing Issues Task Force, NASFAA conducted a membership survey on the pervasiveness of problems related to loan servicing in the following areas: application of payments and prepayments, options and processes related to deferment, forbearance, consolidation, and income-driven repayment plans. More than 2,200 financial aid administrators responded from over 1,500 unique institutions. The high response rate to this survey is a clear indication that this issue is critical to many in the financial aid profession. Participants were also given the option to share additional areas of concern related to loan servicing in an open-ended portion of the survey. NASFAA received more than 200 comments in this section. See *Appendix* A for more information on the survey.

Focus #1: Information and Communication

After examining the survey data and discussing commonly identified issues with student loan servicing, the task force determined that recommended solutions must include a focus on information and the way it is communicated with borrowers. Generally, the task force found that there is a large amount of misinformation and miscommunication between servicers and borrowers, which can lead to confusion, misunderstanding, and ultimately, missed payments and default. The task force puts forward the following recommendations to improve information sharing and communication.

Recommendation #1

Develop a central loan portal where students can manage all of their loans.

Borrowers need an accessible "one-stop shop" where they can manage all of their student loans. This should be developed and managed by The Department of Education (ED) and would allow students to easily access all their Direct Loan, FFELP Loan, and Perkins Loan portfolios in one central place. The task force also encourages ED to develop a method to secure partnerships with private lenders so that these loans could be included in this database as well. This would allow borrowers to gain access to information about all of their loans, total indebtedness, and repayment status.

Rationale

A comprehensive "one-stop shop" website will help to holistically educate and empower borrowers, reduce confusion, and streamline servicing. This is particularly important, as many borrowers have multiple loans, with different terms, conditions, and servicers. Several survey participants reported instances where students having multiple loans experience confusion when making payments, considering consolidation, applying for income-driven payments, and applying for forbearance and deferment. An effective portal would incorporate innovative communication and technology methods, such as a dashboard to view amount borrowed, loan status, estimated monthly payment for different payment options, and all other components of their loan including an amortization schedule. If developed and executed properly, the streamlined, effective information provided by a single loan portal could potentially yield a decrease in delinquencies and defaults.

© 2015 National Association of Student Financial Aid Administrators

To achieve this, ED should consider expanding their existing studentloans.gov website. Students are currently accessing www.studentloans.gov to complete entrance and exit counseling, view repayment options and cancellations, sign the Master Promissory Note and complete consolidation requests. By enhancing the current website of studentloans.gov into the single portal, ED could make use of existing infrastructure while enhancing and streamlining the borrower experience.

Recommendation #2

Remove servicer branding from communication with borrowers.

In order to provide the most clear, unambiguous information to borrowers, the only branding on communication to the borrower should be from ED. Currently, loan servicers co-brand their own logo with ED's logo, on all correspondence with students. This leads to considerable confusion among borrowers about who is the actual holder and servicer of their loan. Perhaps most troubling, it can also lead to students being unsure about the legitimacy of the communication.

From a broader perspective, a paradigm shift is essential to support borrower repayment success. ED must take ownership of the entire servicing process and be accountable for the outcomes. There needs to be an understanding that the ultimate responsibility for the servicing of federal loans is with ED, and not with the servicers.

Rationale

The survey results indicated that many student borrowers do not know who is servicing their federal or commercially held student loans. Through the survey, financial aid administrators reported that when students see multiple brands they often become confused about who is servicing their loans, and sometimes even think the communication is junk mail or spam. In addition, students are more likely to open communication from ED. Student loan borrowers should have no doubt that first and foremost, ED is the lender and holder of these loans and that the responsibility for servicing of these loans falls to the same federal department.

If all borrower communication were branded solely by ED, borrowers could then be directed to the student loan servicer to whom the loans are assigned—still without branding—with a single phone number advertised by ED and the schools. ED already utilizes many other contracted organizations to service items like the Free Application for Federal Student Aid (FAFSA), Common Origination and Disbursement (COD) website, and the Fiscal Operations and Report and Application to Participate (FISAP). In these instances schools and students are not aware of the contractors' information, they simply see ED's branding. ED should follow suit for loan servicing.

Recommendation #3

The Department of Education should provide standard consumer protections for student borrowers that are in line with other consumer financial products.

Most consumer credit products (mortgages, credit cards, car loans, etc.) are governed by federal consumer laws that dictate servicing standards and processes. While federal student loans contain some borrower protections, there are fewer than almost every other consumer financial product. For example, borrowers do not and cannot select their loan servicer and have few avenues of recourse for dispute resolution. Federal student loans and their servicing should contain an enumerated, standardized set of consumer protections.

RATIONALE

Typical consumer credit protections include standardized processes for statements and payment handling, servicer transfers, error resolution, delinquency servicing, and military service, just to name a few. There is no such set of enumerated protections for federal student loan borrowers. Borrower protections should also include the right to escalate an issue to higher authorities within ED and the right of the borrower to question certain policies and procedures, or request assistance or accommodation if necessary. The loan servicer should be responsible for communicating this right, and the process to invoke this right, on written communications with the borrower.

As with other consumer financial products, ED should, in collaboration with the Consumer Financial Protection Bureau (CFPB), require basic consumer protections for student borrowers and ensure that their contractors comply with those protections.

Recently, the task force was encouraged to learn that ED plans to develop a centralized complaint system in the near future. This is an important first step in providing borrowers the consumer protections they deserve.

RECOMMENDATION #4

The Department of Education should permit the use of innovative technologies in order to allow servicers to more efficiently and effectively communicate with borrowers.

The task force recommends that ED permit the use of new technologies and applicable supporting data to allow federal servicers to experiment with developing innovative and effective performance-based delinquency and default prevention activities in lieu of certain current prescribed requirements. Currently, servicers are subject to prescriptive due diligence and restrictions requirements that can stifle innovation and experimentation with the most effective ways in which to reach borrowers, and at what point in time.

For example, servicers are required to send borrowers delinquency notice between days 1-15 of delinquency status. However, servicers can identify borrower repayment habits through their data analytics, and in some cases can determine that a borrower is a “slow payer” and will always pay on a certain day later in the month. In such instances, it would be more useful for the servicer to put time, resources, and efforts into borrowers identified as truly being at-risk of default. In addition, allowing flexibility from the current prescriptive student disclosure requirements would allow servicers to provide borrowers with the right information at the right time, and in the right amount. This would include allowing servicers to disseminate certain disclosures together and make their own determination of the best point in time for the information to be distributed.

This is not to be intended as an exemption of due diligence on the part of servicers, but rather to encourage more flexible, targeted framework that takes into account improvements that can be made due to technology and innovation.

RATIONALE

Student loan servicing activities should be tested, developed, and executed because they have been proven successful in supporting repayment. Just as schools can apply and receive permission to become an “experimental site” with the express goal of finding creative, innovative approaches to improve the process and delivery of financial aid, federal servicers should be permitted reasonable authority to utilize technology to experiment with more targeted processes and approaches to prevent delinquency and default. Borrowers

© 2015 National Association of Student Financial Aid Administrators

have individual and unique needs and the "one-size-fits-all" model does not work when it comes to counseling and servicing borrowers.

Recommendation #5

The regulatory requirements of entrance and exit counseling should be incorporated into the Department of Education's Financial Awareness Counseling Tool (FACT).

The task force recommends that the regulatory requirements of entrance and exit counseling should be embedded into ED's Financial Awareness Counseling Tool (FACT) in order to educate and empower borrowers in comprehensive way about borrowing and repayment. This represents a multifaceted approach that could have a measured and significant impact on both loan indebtedness and default rates.

Rationale

ED's entrance and exit counseling modules are required debt management tools, while the FACT is recommended but not required. The task force finds FACT to be innovative, interactive and comprehensive. The tool provides borrowers a better understanding of their loan portfolio by providing a link to NSLDS data; budget management exercises, including an in-school budgeting tool; and tips and options to avoid default by postponing repayment or reducing monthly payment amounts. Perhaps most valuable is the ability for the borrower to formulate a plan to repay and a demonstration of the effects of reducing overall debt by paying more than the required monthly amount toward their student loan. In addition, the borrower can leave the session with a printable summary page of all the data used or entered during the online session. Incorporating the regulatory requirement of the current entrance and exit counseling modules into FACT would result in a better-prepared and knowledgeable student ready for repayment success.

Focus #2: Standardization

The Direct Loan program was designed to have students borrow directly from the federal government, as the sole lender and servicer. However, even though this is the case, there are instances where students have multiple servicers and they are often confused and misinformed because not all servicers are handling servicing procedures in the same manner. Nearly half of the survey participants who reported handling issues related to repayment plans and more than half of survey participants who reported handling issues related to loan consolidation and income-driven repayment plans felt those plans were not being consistently explained to borrowers, across all servicers. Not only is this lack of standardization problematic for students, but it also hinders financial aid administrators' efforts to accurately counsel borrowers on expectations upon entering repayment.

Schools can and want to be partners with the loan servicers, but only if transparency is provided about the scope of their practices and processes. Standardization and the need for transparency are even more imperative as institutions are being held more accountable for the repayment success of their borrowers vis-à-vis cohort default rates. Specifically, during the transition to repayment, schools need to be able to assist with debt management and default prevention by being able to inform students how their payments, pre-payments and refunds will be applied, the common terminology utilized, and what correspondence they should expect during in-school, grace and repayment. Due to the current lack of standardization among servicers, this is a daunting, if not impossible, task for schools.

Through greater standardization of processes, servicers can help schools better understand their policies and procedures so that they, in turn, can be informed and beneficial partners in guiding student loan borrowers into successful repayment.

Recommendation #6

The Department of Education should develop a policies and procedures manual for servicing.

The task force recommends that ED provide an overview of standardized loan servicing practices through an online federal servicing policies and procedures (P & P) manual. While the task force understands the competitive nature of the servicer contracts, a P & P manual would offer standardization in areas where there is a financial impact, or risk, for the borrower. This would also assist servicers and schools with counseling their students and graduates in debt management and default prevention and would result in consistent training, communication, and processes regardless of the servicer. This valuable resource would benefit students, schools, and servicers, and provide consistency while still encouraging competition.

Rationale

There are currently several specific issues and procedures, outlined below, for which students, institutions, and even servicers, could benefit from the standardization that a P & P could provide.

- **Forbearance.** Forbearance is an option for students who cannot afford their monthly repayments but do not necessarily qualify for a deferment. While it is a tool to avoid default, when a loan goes into forbearance interest continues to be charged. Standardized communication to borrowers from servicers regarding repayment options that may eliminate the necessity for forbearance, including information on income-driven repayment plans, should be provided and explained to borrowers even where they indicate they have $0 income.

  More specifically, servicers need to thoroughly explain the ramifications of using forbearance as a last resort, and borrowers need to understand the availability of income-based repayment programs and that it is in their best interest to always continue to pay on their loans. However, nearly half of survey participants who reported handling issues related to deferment and forbearance felt options, including advantages and disadvantages of each, were not being clearly explained to borrowers in the same way across servicers, and some respondents indicated that many students are being placed into forbearance either automatically, or without an explanation of the associated ramifications. Similar to the required topics of information found in entrance and exit counseling, servicers should have a standardized set of information they must share with students regarding forbearance.

  In situations where mandatory or administrative forbearance is applied to a borrower's account, standards need to be established for when it should occur, and those standards should be applied uniformly across all borrowers and all servicers. Further, it is important that the servicer notify the student that their account has been placed on an administrative forbearance so the student can decide whether they wish to have the forbearance removed and make a payment.

- **Information sharing between servicers.** There needs to be a standard procedure for information sharing between servicers. For example, the survey results revealed situations where borrowers had to complete

© 2015 National Association of Student Financial Aid Administrators

multiple sets of paperwork to apply for income-driven repayment plans because different loan servicers had different processes. In some instances students received confirmation from one servicer without realizing their repayment plan had not changed with another. This type of misinformation can lead to unnecessary late payments or default for some students and can be easily solved by standardization and coordinated information sharing.

To provide another example, deferment documentation, alternative documentation of income for income-based repayment plans, and auto-debit should be available to the new servicer when a servicer change has been made. Where this is not possible, borrowers need to be notified via multiple methods as soon as possible so that the borrower is able to keep their account current. Stated more simply, duplication of effort needs to be eliminated wherever possible.

- **Skip tracing.** A loan servicer is required to provide due diligence toward servicing a student's loan. To ensure this, loan servicers will request from institutions an update on the borrower's contact information, including address, name, telephone number, and employment information. Loan servicers often contact all schools that a student has attended requesting this updated contact information. Indeed, this is an important step as it assists in the prevention of defaults, which, of course, ultimately impacts cohort default rates. Schools are required, and it is in their best interest, to respond to these requests if they have valid contact information that differs from the address/phone number that is listed on the communication from the servicer.

  Currently, skip tracing requests and processes are different between various servicers. For example, some of the servicer requests to schools are submitted electronically on a weekly basis and others are sent via regular mail sporadically. The lack of standardization in how requests are made makes the process both duplicative and inefficient for schools. The task force recommends that all servicers strengthen their skip tracing efforts and utilize the same format and processing with all schools.

- **Credit reporting.** Requirements for credit reporting, both adverse credit and rehabilitated credit, need to be standardized among servicers and within specified timelines. For example, it appears that some servicers are reporting multiple lines of credit (tradelines) for a borrower's account; some reporting for each loan, including subsidized and unsubsidized portions of loans made for an academic year. However, when a borrower defaults, the default status applies to the total of all the loans, not separately for each loan; thus it seems that a single report to the credit bureaus would follow. As adverse reporting on multiple lines of credit can have a significant effect on a borrower's credit score, further research should be done on how to standardize this process.

- **Public Service Loan Forgiveness.** Due to the complexity of this program, there are merits to keeping these loans with one designated servicer who is well trained in its administration. Though one servicer will ultimately have responsibility for these accounts, transfer of the loans only happens when a student fills out an employment verification form. Once the designated servicer receives this form, they request the loans from the prior servicer. This process has not been standardized or transparent and has led to borrower confusion, as reported by several survey participants. Some of these inconsistencies include: servicers' inability to consistently explain public service loan forgiveness and borrowers receiving different answers to their questions from different employees at the same servicer. It is important that this process be standardized in order to improve the borrower experience.

- **Income-Based Repayment (IBR) Processing.** Improved data exchange with the Internal Revenue Service (IRS), standardized forms for documentation of income, and sharing of said information between servicers is greatly needed and would significantly improve the borrower experience with IBR processing. Correspondence with the borrower about the status of their IBR application and the need for re-certification should be standardized across servicers, and prominently communicated to borrowers. Survey respondents indicated that some servicers were automated while others required manual processing; inconsistencies that have caused borrowers to lose their IBR status with no warning. Further research from the Consumer Financial Protection Bureau's (CFPB) 2014 *Annual Report of the CFPB Ombudsman*[1] indicated a concern over the lack of transparent loan modification options and complicated enrollment procedures. In addition, all servicers should calculate payments based on alternative documentation of income the same way.

- **Application of payments.** To promote and increase early repayment, servicers should be utilizing standardized processes for students who wish to make additional payments to particular loans. Based on survey responses, the task force's understanding is that some servicers allow such payments to be made easily online while others require a series of steps, including phone calls, in order to apply payments as directed by students. The CFPB's 2014 *Annual Report of the CFPB Ombudsman* also indicates many consumer complaints were filed surrounding student loan servicers allocating payments in ways that might maximize the amount of total interest and late fees the borrower would pay, a practice that could slow down the path to repayment. For the ease of the borrower and to encourage faster repayment, this process should be streamlined and standardized across servicers.

- **Training for servicers.** Customer service staff for ED's loan contractors need to receive standardized training in order to best counsel students. The survey responses showed instances of different guidance being given depending on the servicer and even amongst staff from the same servicer. Other survey responses indicated that some servicer staff are not well informed or responsive. Standardized training will help bring more consistency in counseling and also improve the quality.

- **Metrics that define quality customer service.** While ED has previously measured customer satisfaction among three groups (borrowers, schools and Federal Student Aid personnel) no explanation about what ED believes constitutes excellent service has been publicly disseminated, and perhaps not even internally developed. To better align ED's customer service metrics with traditional customer service practices, ED should survey customers to determine appropriate service levels and then set expectations for internal measurement.

  Borrower experience and comments received from financial aid administrators on the NASFAA survey indicate that some servicers employ different service standards given the affiliation of the caller. According to survey results, some servicers talk over students, do not offer additional information regarding alternative repayment options, and struggle to answer questions related to a student's specific circumstances. However, when financial aid administrators call they felt they receive better service. Other examples provided by some respondents indicated that servicer agents had a time limit on the call with the student borrower, with some agents even citing a seven-minute limit before it started to negatively impact

[1] Consumer Financial Protection Bureau (CFPB), 2014. *Annual Report of the CFPB Student Loan Ombudsman*. http://www.consumerfinance.gov/reports/annual-report-of-the-cfpb-student-loan-ombudsman-2014/

© 2015 National Association of Student Financial Aid Administrators

their performance evaluation. Customer service agents should not be rewarded based on the time of their calls, as it hampers quality service and provides a perverse incentive.

Finally, establishing metrics is particularly important given the elimination of the school survey feedback component. Schools no longer have an opportunity to provide feedback on servicers, making it even more imperative to have a standardized metric for servicer success.

Conclusion

Members of the task force, as representing the National Direct Student Loan Coalition and the National Association of Student Financial Aid Administrators, submit these recommendations with the goal of improving and strengthening the servicer-borrower relationship for both students and servicers. The task force recognizes and affirms that improved servicing will aid in the overall amelioration of the broader issues of student indebtedness and default. As such, the recommendations offer clear directive to the Department of Education (ED) for ways in which to improve, streamline, and better take ownership of the federal student loan servicing processes.

The task force acknowledges, and appreciates, that ED has begun taking steps to introduce standardization into the process, including processing of forms for deferment and forbearance and documentation for income-driven plans, and offers recommendations to underscore the work that is already being done, and to encourage further improvements in ownership and oversight. In addition, the task force hopes that these recommendations will serve to inform future contracts between the federal government and servicers. While modifications were made to the contract in August of 2014 (see *Appendix B* for a summary of major changes), the task force urges that the recommendations offered in this report, particularly around standardization and borrower rights, be heavily considered in future contract negotiations and modifications.

© 2015 National Association of Student Financial Aid Administrators

Appendix A

Servicing Issues Task Force Survey

In an effort to better inform the discussions of the Servicing Issues Task Force, NASFAA conducted a membership survey on the pervasiveness of problems related to loan servicing in the following areas: application of payments and prepayments, options and processes related to deferment, forbearance, consolidation, and income-driven repayment plans. More than 2,200 financial aid administrators responded from over 1,500 unique institutions. The high response rate to this survey is a clear indication that this issue is critical to many in the financial aid profession. Participants were also given the option to share additional areas of concern related to loan servicing in an open-ended portion of the survey. NASFAA received more than 200 comments in this section.

These results include responses from the NDSLC ListServ and completed and incomplete surveys. These results do not include exact duplicates from the same school, participants who did not answered at least one question beyond the demographics section, or rankings on pervasiveness from individuals who answered “Yes” and “I do not handle this type of issue” to the corresponding question.

- Reminder: an answer of “Yes” indicated the respondent felt this issue was not a problem and an answer of “I do not handle this type of issue” indicated they were unaware of whether or not the issue was a problem, and so we did not include their ranking of pervasiveness.
- Only the rankings of pervasiveness from individuals who answered “No” were included, since an answer or no indicated the respondent felt the issue was a problem.

Answers to Questions
2014 Servicing Issues Task Force Survey

Page: Demographics

Question: Please rank how much contact you have with borrowers from your institution who are currently in repayment on a scale of 1 to 5 (with 5 being a high amount of contact): (Low Amount of Contact to High Amount of Contact)

Number Who Answered: 2272

1	2	3	4	5
1008	561	383	179	141
44.37 %	24.69 %	16.86 %	7.88 %	6.21 %

Page: Repayment Plans

Question: 1) Are repayment plans clearly explained to borrowers, with advantages and disadvantages to each identified, consistently across servicers?

Number Who Answered: 2267

Yes	651	28.72 %
No	648	28.58 %
I do not handle this type of issue in my position.	968	42.70 %

Question: 1a) If you answered no, please rank how pervasive you feel this issue is on a scale of 1 to 5 (with 5 being the most pervasive): (Low to High)

Number Who Answered: 645

1	2	3	4	5

19	59	191	251	125
2.95 %	9.15 %	29.61 %	38.91 %	19.38 %

Page: Payments

Question: 1) Are payments applied to borrower accounts in a timely and accurate manner across servicers?

Number Who Answered: 1944

Yes	513	26.39 %
No	205	10.55 %
I do not handle this type of issue in my position.	1226	63.04 %

Question: 1a) If you answered no, please rank how pervasive you feel this issue is on a scale of 1 to 5 (with 5 being the most pervasive): (Low to High)

Number Who Answered: 203

1	2	3	4	5
10	29	67	60	37
4.93 %	14.29 %	33.00 %	29.56 %	18.23 %

Question: 2) Can borrowers prepay and make payments on individual loans easily?

Number Who Answered: 2079

Yes	660	31.75 %
No	321	15.44 %
I do not handle this type of issue in my position.	1098	52.81 %

Question: 2a) If you answered no, please rank how pervasive you feel this issue is on a scale of 1 to 5 (with 5 being the most pervasive): (Low to High)

Number Who Answered: 316

1	2	3	4	5
9	38	90	108	81
2.85 %	12.03 %	28.48 %	34.18 %	22.47 %

Page: Deferment and Forbearance

Question: 1) Are options for deferment and forbearance clearly explained to borrowers, along with the advantages and disadvantages to each, consistently across servicers?

Number Who Answered: 2044

Yes	635	31.07 %
No	579	28.33 %
I do not handle this type of issue in my position.	831	40.61%

Question: 1a) If you answered no, please rank how pervasive you feel this issue is on a scale of 1 to 5 (with 5 being the most pervasive): (Low to High)

Number Who Answered: 568

1	2	3	4	5
15	54	187	193	128
2.64%	9.51%	31.34%	33.98%	22.54%

Page: Consolidation

Question: 1) Is information provided on loan consolidation and completion of loan consolidation easy to understand, accurate, and timely, across servicers?

Number Who Answered: 1995

Yes	463	23.21 %
No	636	31.88 %
I do not handle this type of issue in my position.	896	44.91 %

© 2015 National Association of Student Financial Aid Administrators

Question: 1a) If you answered no, please rank how pervasive you feel this issue is on a scale of 1 to 5 (with 5 being the most pervasive): (Low to High)

Number Who Answered: 617

1	2	3	4	5
19	62	166	212	158
3.08 %	10.05 %	26.90 %	34.36 %	25.61 %

Page: Income Driven Plans

Question: 1) Are income-driven repayment plans, the differences between them, and advantages and disadvantages to each, clearly explained to borrowers, across servicers?

Number Who Answered: 1958

Yes	409	20.89 %
No	636	32.48 %
I do not handle this type of issue in my position.	913	46.63 %

Question: 1a) If you answered no, please rank how pervasive you feel this issue is on a scale of 1 to 5 (with 5 being the most pervasive): (Low to High)

Number Who Answered: 625

1	2	3	4	5
18	46	158	230	173
2.88 %	7.36 %	25.28 %	36.80 %	27.68 %

Question: 2) Are the recertification processes for income-based repayment plans processed consistently, across servicers?

Number Who Answered: 1951

Yes	283	14.51 %
No	455	23.32 %
I do not handle this type of issue in my position.	1213	62.17 %

Question: 2a) If you answered no, please rank how pervasive you feel this issue is on a scale of 1 to 5 (with 5 being the most pervasive): (Low to High)

Number Who Answered: 440

1	2	3	4	5
17	43	108	147	125
3.86 %	9.77 %	24.55 %	33.41 %	28.41 %

Page: Demographics

Question: Please indicate your institution or organization type.		
Number Who Answered: 1899		
Public less-than-2-year	34	1.79%
Private less-than-2-year	20	1.05%
Private-Profit less-than-2-year	37	1.95%
Public 2-year	426	22.43%
Private 2-year	23	1.21%
Private-Profit 2-year	50	2.63%
Public 4-year only	140	7.37%
Private 4-year only	187	9.85%
Private-Profit 4-year only	20	1.05%
Public 4-year & above	381	20.06%
Private 4-year & above	349	18.38%
Private-Profit 4-year & above	66	3.48%
Graduate/Professional	136	7.16%
Constituent Member	2	0.11%
Other Answers	28	1.47%

Question: Region		
Number Who Answered: 2067		
EASFAA	447	21.63 %
MASFAA	550	26.61 %
RMASFAA	162	7.84 %
SASFAA	365	17.66 %
SWASFAA	206	9.97 %
WASFAA	337	16.30 %

© 2015 National Association of Student Financial Aid Administrators

Appendix B

Summary of Servicer Contracts with the Department of Education

To the extent that the recommendations from the Servicing Issues Task Force are intended serve as point of reference during future Department of Education (ED)/Servicer contracts, the task force thought it would be beneficial to highlight initial contracts with the Servicers and the recent modifications to the contracts that occurred in 2014. The task force reviewed the contracts and retained assistance in interpretation from Cooley LLP.

2009 and 2011/12 Contracts

In the summer of 2009, the Department of Education (ED) established contracts with four Title IV Additional Servicers (TIVAS): Great Lakes Educational Loan Services, Nelnet Servicing, Pennsylvania Higher Education Assistance Agency (PHEAA), and SLM Corporation (Sallie Mae). According to contract analysis by Cooley LLP the contract stated the following about performance and pricing:

"The TIVAS servicers compete for loan volume based on performance, which is measured quarterly based on customer satisfaction and the success of default prevention efforts as reflected by the percentage of dollars in each servicer's portfolio that go into default. Annually, the scores are aggregated and used to determine the percentage of new borrower accounts each servicer will receive for the following year."

"The 2009 contracts between the TIVAS servicers and ED stated that each of the TIVAS servicers would provide any potential services to manage all types of Title IV student loan obligation, including, but not limited to, servicing and consolidation of outstanding debt. The contracts also established a common pricing structure that laid out how the TIVAS servicers would be paid for each student borrower. The amount paid per borrower ranged from $0.50 (for borrowers 270+ days delinquent) to $2.11 (for each borrower in grace or current repayment status). The pricing structure was such that as a borrower became more delinquent, the servicer was paid less to manage the borrower's outstanding debt."

Per mandate in law, ED entered into contracts with eligible and qualified Not-For-Profit Student Loan Servicers (NFP) in 2011. The NFPs include: Higher Education Loan Authority of Missouri (MOHELA); Education Services of America (EdSouth), Utah Higher Education Assistance Authority (Cornerstone), Aspire, New Hampshire Higher Education Loan Corporation (NHHELC), Oklahoma Student Loan Authority, and Vermont Student Assistance Corporation. According to Cooley LLP, the 2011 NFP contracts stated the following about performance and pricing:

"The 2011/2012 contracts between the NFP servicers and ED stated that each of the NFP servicers would manage all types of Title IV student loan obligations, including, but not limited to, servicing of outstanding debt. Similar to the TIVAS 2009 contracts, the NFP contracts also established a pricing/incentive structure explaining how the NFP servicers would be paid for each student borrower. The amount paid per borrower ranged from $0.55 (for borrowers 270+ delinquent) to $2.32 (for each borrower in grace or current repayment status). Again, the structure clearly paid servicers less to manage the most delinquent borrowers."

Between the TIVAS and NFPs, Cooley LLP noted *"…the NFPs generally received 10% more for each type of borrower*."

2014 Contract Modifications

ED made modifications to the Servicer contracts—both the TIVAS and NFPs—in September of 2014. The modification aligned the pricing structure so that the TIVAS and NFPs would receive the same fee for each type of borrower. According to Cooley LLP:

"These modifications were made to bring the TIVAS and NFP servicers together under one umbrella as the 'Federal Loan Servicing Team'. The 2014 contracts also maintain the same performance metrics established in the 2009 and 2011/12 contracts meant to prevent default and used to determine which Servicers are awarded the most borrower accounts. Though all Servicers fall under the same umbrella, they are still divided into the two groups. For the TIVAS servicers, default prevention is measured by the percentage of borrowers and the percentage of dollars in each servicer's portfolio that go into default. For the NFP members of the Federal Loan Servicing Team, default prevention is measured by the percentage of borrowers that are 30 or fewer days delinquent, percentage of borrowers that are more than 90 days delinquent and the percentage of borrowers for whom a delinquency of more than 180 days was resolved."

"Under the contract modifications, the amount paid per borrower to all Servicers ranges from $0.45 (for borrowers 270+ days delinquent) to $2.85 (for borrowers in current repayment and service members). These fees are generally lower than the fees offered in the 2009 and 2011/12 contracts. The modifications also add two new categories of borrowers, those that are 6-30 days delinquent (these borrowers used to be included with students who are currently in repayment)."

"While all fees generally went down, the biggest changes are found for borrowers in forbearance (approximately a 50% decrease in the fee awarded for each student), as well as borrowers in grace and borrowers in deferment (each went down 20-30%). Additionally, one category actually went up: borrowers in current repayment went up over 20% for NFPs and over 35% for TIVAS servicers."

While the task force did not focus specifically on incentive structure, there is concern that new contracts do not provide incentive for Servicers to work with the most delinquent students. In future contract negotiations, the ED should consider the perverse incentives that exist in the contacts, combined with the task force recommendations to improve the borrower experience for students.

© 2015 National Association of Student Financial Aid Administrators

The National Association of Student Financial Aid Administrators (NASFAA) provides professional development for financial aid administrators; advocates for public policies that increase student access and success; serves as a forum on student financial aid issues, and is committed to diversity throughout all activities.

© 2015 National Association of Student Financial Aid Administrators

1101 CONNECTICUT AVENUE NW, SUITE 1100
WASHINGTON, DC 20036-4303
202.785.0453 FAX. 202.785.1487 WWW.NASFAA.ORG