Statement before the House Committee on Financial Services
On A $1.5 Trillion Crisis: Protecting Student Borrowers and Holding Student Loan Servicers Accountable

Borrower Terms and Benefits are Easily Mistaken for Loan Servicing Errors in Federal Student Loan Program

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September 10, 2019

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Introduction

Chairwoman Waters, Ranking Member McHenry, and members of the committee, thank you for the opportunity to testify about servicing in the federal student loan program.

Americans are anxious about rapidly rising levels of student debt. They wonder whether payments are affordable and if financing college with debt will pay off in the end. But recent news headlines suggest another issue is increasingly on borrowers' minds: bad customer service and shoddy advice during loan repayment. This can leave borrowers feeling confused or cheated, and it can even lead them to incur additional costs.

The view that this is a widespread problem has prompted several states to enact laws aimed at loan servicing.[1] Similarly, several lawsuits that allege borrowers were cheated by bad loan servicing are working their way through the courts.[2] Some in Congress have even called for a national "student loan bill of rights" to guard against bad loan servicing.[3] Of course, today's hearing also demonstrates interest in the topic among lawmakers.

Nearly all student debt is issued through the federal government's student loan program, though the government does not actually service the loans itself. Instead, it contracts with private companies ("servicers") to handle virtually all interactions with borrowers. In fact, borrowers with federal student loans are unlikely to interact with the U.S. Department of Education (the Department) at any point when repaying their loans. Loan servicing companies collect payments, staff call centers, maintain websites, send account statements, and inform borrowers of repayment options. Concerns over the quality and reliability of loan servicing are thus generally directed at the private companies that collect the loans on the government's behalf, rather than Congress or the Department, who set the repayment terms for borrowers through law and regulation.

There is, however, a risk in automatically blaming loan servicing companies over concerns that borrowers are being treated unfairly. The perceived mistreatment may actually be the result of the design of the loan program itself, not in how loans are serviced. In such cases, Congress and the Department are responsible for the problem—and the solution.

My testimony will focus on this important distinction. To that end, I'll outline a number of ways in which features of the federal student loan program—all of which are set in statute and regulation—can confuse and frustrate borrowers and even leave them feeling cheated. To the borrower, it often appears that loan servicers designed these problematic policies and practices when in fact lawmakers are often to blame. The matter is further complicated by the fact that these loan policies and mandated servicing practices are meant to benefit borrowers—which they often do. That makes fixing the program challenging, since almost any reform aimed at improving the system could reduce benefits for borrowers.

The examples I will describe serve to illustrate three overarching points:

1. Servicers can easily be blamed for the unintended consequences of policies set by lawmakers, even when servicers administer the program as lawmakers intended;

2. The numerous features and benefits in the loan program increase the possibility that borrowers become confused and frustrated, even when provided timely and accurate information;

3. Reforming the loan program in a way that prevents borrower confusion and resentment will require policymakers to either reduce the number of features and options in the program or significantly increase the current level of spending to eliminate features that currently limit eligibility and target benefits.

Of course, there are instances where servicers make errors or provide low-quality assistance to borrowers. My testimony should not be taken as an argument to the contrary. That said, the available data do not allow observers to accurately gauge how widespread loan servicing problems are or whether those

problems are the result of the program's design or something under servicers' control. Meanwhile, the common narrative about problems in loan servicing seems to assume that the issue is entirely due to factors under servicers' control. As the examples below will illustrate, those problems could easily be the result of factors outside of the servicers' control and thus will require policy solutions.

Background on Federal Student Loans and Servicing

Before proceeding to a discussion of these examples, I'll briefly describe some key facts about the federal loan program and the role of private servicers.

The federal student loan program dates back to the 1960s. In recent years this program has grown rapidly, with nearly $1.5 trillion in debt held by almost 43 million Americans.[4] That is nearly the same number of people currently receiving retirement benefits through the Social Security program.[5] For much of the program's history, private lenders made Federal Family Education Loans (FFEL) loans to borrowers, while the government set interest rates, determined repayment options, and then insured lenders against losses. Since 2010, however, all federal loans have been made and held by the federal government through the Direct Loan (DL) program, which has existed since the 1990s. Direct Loans now make up over 80% of outstanding federal student loan debt.[6]

While private lenders no longer issue federal student loans, private companies still play a major role in the program. The Department currently contracts with nine loan servicing companies to carry out nearly all administrative functions short of disbursing the loan to the student and adjudicating some loan discharge programs.[7] This is not a new phenomenon: private companies have serviced student loans since the inception of the Direct Loan program. Policymakers generally believe that approach is more efficient and expedient than the Department servicing the loans itself.

Servicers do not own the loans and are required to honor the terms of the program that are set by lawmakers and further clarified by the Department through regulations, guidance, and contractual requirements for servicers. The Department compensates servicers with a fixed payment per borrower with slight variations depending on the status of the loan (in-school, default, delinquent, etc.), as set forth in their contracts with the Department.[8] The Department spends $826 million a year administering the student loan program, most of which is spent on servicing contracts.[9]

The Department assigns loans to individual servicers when they are first disbursed to borrowers, and aims to assign more loan volume to the servicers it deems are performing relatively better than others. While borrowers generally cannot select their servicer, there are some instances in which the Department reassigns loans to a different servicer.[10] Servicers maintain a degree of flexibility in the particulars of administering loans and retain their own distinct branding and websites, and they have limited discretion in how they administer the program. For the most part, however, servicers are bound by their contracts, statutes and regulations governing the loan program, and additional guidance issued by the Department.

Program Features Often Misidentified as Servicing Problems

Now I will explain several examples of how the design of the federal loan program can make it appear to borrowers as if their loan servicer is treating them unfairly, when in fact the servicer is simply following the rules of the program. The examples are by no means an exhaustive list, but they are likely the most common or easiest to understand.

Growing Balances or Little Repayment Progress Despite On-Time Payments

The loan program includes a number of repayment options that allow borrowers to make lower monthly payments than what would be required under the default 10-year fixed payment schedule. One of these plans lets borrowers make payments based on their incomes (Income-Based Repayment, or IBR) instead of payments that relate to their balances and interest rates—which is how a traditional loan functions.[11] Another option, graduated repayment, lets borrowers make interest-only payments for several years in exchange for making higher payments later. This benefit can be combined with additional options, the consolidation and extended repayment plans, which let borrowers stretch their repayment terms up to 30 years, reducing the amount owed each month but increasing the interest they will owe.

All of these plans have another feature in common. By reducing monthly payments, they reduce the pace at which borrowers make progress paying down their debts. In the case of IBR, borrowers' income-based payments can be less than the accruing interest, which causes their balance to increase even though they make on-time payments. To many observers this can seem like a reasonable trade-off. Borrowers can make lower payments but they will have to pay for longer to pay off their debts. In the case of IBR, borrowers' incomes might go up later, at which point they would have to pay the interest that accrued when their incomes were low.

To some borrowers, however, it can look like the loan servicer has done something wrong when they make payments but no progress on their debts. A borrower may rightly wonder why, after making payments for years, his balance never seems to go down or even increases. A borrower might think that the servicer did not credit his payments correctly or miscalculated the amount owed. But the loan program in these cases is working as Congress intended and servicers are administering it correctly.

Borrowers interpreting the benefits of the loan program in this way are not hypothetical. In a lawsuit filed against the loan servicer Navient, court documents show that one borrower in the case alleging he was cheated out of benefits was caught on tape cursing at a customer service representative because his loan balance had grown by $3,000 while using IBR. He claimed that he had been "screwed" by the rising balance.[12] (The application that the borrower must sign to enroll in IBR explains that he is responsible for any unpaid interest.) Focus group research that I conducted with colleagues at New America documents borrower frustration over slow repayment progress. As one participant put it, "My thing would be that if I actually saw the balance go down, I'd be way more motivated to pay it on time, but… the balance keeps going up. It's like, "What the heck?"[13]

The Consumer Financial Protection Bureau's (CFPB) complaint database includes numerous examples of servicers taking the blame when borrowers see little progress in paying down their debts, even though their servicer appears to be correctly administering the program.[14] One borrower who filed a complaint with the CFPB against the servicer Nelnet regarding a rising balance under IBR said the following:

> *I currently have a loan with Nelnet. I have the income base payment [IBR] plan, but the monthly interest is higher than the payment I can made* [sic]. *So my balance is increasing instead of being lower with my monthly payments because I am not paying enough to cover the interest. I write* [sic] *an email to Nelnet to see if they can apply my payment to the principal, but they respond* [sic] *that my payment go* [sic] *first to interest and last to principal. And that I need to make additional payments in order to lower the principal. I can not pay a bigger amount right now and I feel that I am wasting my money because [it] is not making any difference in my final balance.*[15]

While we do not know the factual circumstances around this borrower's specific situation, it is clear that he is frustrated that his loan balance is growing. Given the terms of the program, however, it is certainly possible that the servicer has done nothing wrong in this case.

Income-Based Repayment (IBR) and Public Service Loan Forgiveness (PSLF)

The IBR and PSLF programs create numerous additional opportunities for borrowers to feel as if their loan servicer let them down. But here again, the design of the program is often doing the heavy lifting in sowing confusion and resentment.[16] I have already illustrated how one feature of IBR—rising balances when minimum monthly payments do not cover accruing interest—can cause borrowers to feel like they were mistreated. Other parts of these programs cause similar distress even when servicers execute them exactly as required by Congress and the Department.

The main culprit is complexity. These repayment options involve numerous eligibility rules and special terms and require the borrower to complete paperwork at least annually by nonstandard deadlines. To use IBR, borrowers submit annual income documentation and then make payments equal to 10% of their discretionary income, defined as any income above 150% of the federal poverty guidelines. The government forgives remaining balances after 20 years of payments. Under PSLF, borrowers using IBR have debt forgiven after 10 years of payments (120 monthly payments) while working in nonprofit or government jobs.

Borrowers using IBR and PSLF can easily be caught off guard when one of the many features of the programs come into play. They may then blame servicers for failing to adequately inform them ahead of time. One example is the set of rules regarding interest capitalization on loans in IBR. Under current policy, whenever a borrower switches from one plan to another, fails to re-enroll, or is no longer eligible for IBR, the statute requires that the servicer add any unpaid interest to his principal balance ("capitalization").[17] As a result, the borrower ends up with a larger principal balance and will be charged interest on the capitalized interest going forward. This feature is disclosed on the 10-page IBR application, but it is easy to see how a borrower might be caught off guard when it happens.[18] He is likely to feel as if his servicer failed to adequately inform him of this feature even though it was fully disclosed to him. There is simply too much information for a borrower to track to remain completely informed.

The myriad of eligibility requirements for PSLF regarding loan types, repayment plans, and employment are another area where flawless servicing can still leave borrowers feeling as if they were not treated fairly. Borrowers working toward PSLF complain that they did not know about one of the many eligibility terms and mistakenly believed that they were making progress toward the 120 qualifying payments, only later to find out they were not. This is because lawmakers intentionally designed the program so that borrowers can file paperwork to claim PSLF *after they have fulfilled the terms*.

While borrowers are inclined to blame servicers when they learn after the fact that they were not making progress toward PSLF, under the existing program design, a servicer does not know that a borrower was under the impression that he was working toward PSLF unless he indicated this to the servicer. Only then can the servicer be expected to take some action in response. If borrowers do not indicate interest in PSLF before working toward it, or inquire about eligibility with a servicer before attempting to make qualifying payments, servicers cannot assist those borrowers in obtaining forgiveness. A recent lawsuit against Navient (which a judge dismissed last month) offers evidence that borrowers are indeed failing to inquire with their servicers about their interest in PSLF, and even when they do express interest, they fail to follow all of the servicer's instructions to qualify.[19]

"Paid Ahead Status" Vexes Borrowers

Another feature of the loan program that tends to frustrate borrowers is the "paid ahead status" rule. This unusual and largely beneficial policy requires loan servicers to advance a borrower's due date when he pays more than the minimum monthly payment.[20] As is the case with most loans, excess payments on a federal student loan are applied first to any outstanding fees, accrued interest, and then to the principal balance. But Department regulations require servicers to take an additional step when a borrower pays more than is due. The servicer must advance the borrower's due date according to the size of the prepayment.[21] Borrowers can request that a servicer not advance the due date, but it is the default setting required by Department regulations since 1992.[22]

Despite the fact that the Department added this feature to the loan program as a benefit for borrowers—those who pay ahead have the option to skip their next monthly payment(s) and stay current on their original repayment schedule—borrowers complain about it.[23] They believe erroneously that the servicer is advancing the due date *instead* of paying down the loan, or that that the servicer chose to adopt this practice to increase the amount the borrower will pay overall. Contrary to these misperceptions, when a borrower makes prepayments, he is in fact paying down his loan early, reducing the interest he will owe if he continues to make on this original schedule, and entering paid ahead status simultaneously. While this is a complicated feature of the loan program, by itself it generally cannot harm borrowers.[24] Some borrowers, however, misunderstand the policy, see it as harmful, and then blame the servicer for carrying out the policy as Department regulations require, such as the borrower who filed the complaint below with the CFPB:

> *I have repeatedly requested that all over payments get applied directly to principle* [sic]*, but my loan servicer, Nelnet, continually advances the due date. Then they tell me I don't know how payments work. I then have to educate a willfully ignorant rep on how compound interest works, and advancing my due date is not in my best interest.*[25]

Loan Rehabilitation Program Can Appear Like a Bait-and-Switch

Most observers would agree that if a servicer provides borrowers with information about their loans that later turns out to be inaccurate, the servicer has committed an error and adversely affected the borrower. There is, however, a feature of the loan program that creates exactly this type of scenario, but it was designed with good intentions by the Obama administration at the urging of the advocacy community.

Borrowers who default on their federal student loans can return their debts to good standing, have nearly all collection fees waived, and clear their credit records of the default if they complete a "rehabilitation" plan defined in statute.[26] They must make nine on-time affordable payments to rehabilitate the loan, which the Obama administration defined in the current regulations as a payment based on the borrower's income.

To help borrowers start making those nine payments quickly, the regulation explicitly allows the collection agencies that act as servicers when loans are in default to calculate a borrower's affordable payment over the phone by asking the borrower about his income.[27] The borrower can then immediately make a qualifying payment, or so it would seem.

After the phone call, the borrower must send in documentation of his income, and that can create a problem. If his income turns out to be different from what he stated over the phone, his affordable payment under the rehabilitation agreement will change accordingly.[28] More importantly, if the payment increases, his prior payments do not count toward the nine required payments for rehabilitation and he must start over in the schedule.

It is not hard to imagine that this frequently occurs. To borrowers it looks as if the collection agency acting on behalf of the government misled them or incorrectly calculated their payments. In fact, the company simply followed the rules of the program outlined by the Department, which were meant to help borrowers. Here is how one borrower put it in a complaint to the CFPB (redactions were made by the CFPB).

> *I received a letter noting garnishment would begin on my defaulted loan, so I reached out to "Coast Professionals'' and tried to deal with it.... They have been abusive via phone and* ***have provided inaccurate information each time I contact them** - **quite literally the rules of the game change*** [emphasis added].
>
> *I'm now stuck having my wages garnished, and my son was paying them {$20.00} a month to get the loan out of default - they updated their " records '' today and decided my husband 's income combined with mine (XXXX the income previously on record with them as we had been trying to scan his paystubs in but they said they were too dark and offered no other solutions - I mailed them a copy, scanned and emailed, faxed, and texted) means my son needs to pay {$200.00} a month, XXXX the amount he's already paying them...*[29]

In this complaint, it appears that the borrower's rehabilitation payment was estimated over the phone to be $20, but when the income documents were submitted as required under regulation, the borrower actually had a much higher income, requiring $200 monthly payments. It seems like that the collection agency did nothing wrong here and was simply carrying out the rehabilitation program as policymakers designed it. To the borrower, it appears as if the servicer is giving them the runaround.

Forbearance Can be an Optimal Benefit

Some in the policy community believe that when borrowers use forbearance it is evidence that a servicer cheated them out of superior benefits, such as IBR, which include the potential for loan forgiveness.[30] Critics allege that servicers "steer" borrowers to a forbearance as an administrative shortcut to save themselves money but leave borrowers worse off. That is certainly possible in theory, but it could also be another instance of servicers taking blame for correctly administering the benefits that lawmakers intended borrowers receive.

A forbearance allows borrowers to postpone payments for a limited period of time, but their loan remains current and in good standing.[31] To ensure that borrowers can quickly and easily obtain a forbearance, policymakers have established minimal eligibility criteria, allowing borrowers to obtain them over the phone with a servicer or even online. Interest accrues on a borrower's loan during a forbearance and it is capitalized when the forbearance ends. Critics of loan servicers allege that because of the administrative ease with which a servicer can enroll a delinquent or struggling borrower in a forbearance, servicers "steer" borrowers to this benefit instead of IBR, the former of which is administratively cumbersome since it requires that the borrower complete paperwork and submit income documentation. Because IBR offers the potential for loan forgiveness after 20 years of payments, these critics argue that borrowers are always better off in IBR. A forbearance is, in their view, a suboptimal benefit. A servicer with a large number of borrowers using forbearances they say is evidence of a servicer cheating borrowers out of this potential loan forgiveness in an effort to reduce their own administrative overhead. This reasoning encompasses nearly the entire rationale for the CFPB's lawsuit against Navient that is still being litigated.[32] The reasoning is misguided.

Servicers and other observers who fully understand the loan program know that a forbearance can be a better option for borrowers than IBR. This should be obvious once these critics consider that lawmakers intended for borrowers to have access to both benefits *simultaneously*. Moreover, borrowers are free to opt for a forbearance instead of IBR if they wish, and a servicer must honor that request even if the borrower would be better off in IBR. It does not require much imagination to understand how a borrower looking to postpone payments would prefer a five-minute phone call to obtain that result over a lengthy IBR enrollment process that can require him to retrieve his most recently filed IRS form 1040 using government websites.

There are other explanations for why forbearance can be an optimal benefit over IBR that require considerable familiarity with not only the loan program but also with a borrower's individual circumstances. Navient's official response to a 2017 Department program review of phone calls with borrowers who enrolled in a forbearance is instructive.[33] In one call, a borrower specifically says that her regular payment is affordable but due to a death in the family she needs short-term relief. In another call, a borrower expects to return to school in the next few months and wants to suspend payments in the meantime to preserve cash for his enrollment period. A servicer who recommends that these borrowers read a 10-page form, submit documentation of their income, and then enroll in IBR to obtain a *short-term* reprieve from payments is wasting everyone's time. And these borrowers are hardly candidates for IBR's loan forgiveness benefit that is triggered after 20 years of enrollment. Furthermore, IBR might not even reduce the borrower's payment if their debt-to-household-income ratio is sufficiently low; the borrower would not learn of this until after they completed the cumbersome administrative process.

Forbearance is optimal in cases where IBR does not reduce a borrower's payment to an affordable amount. That can happen under normal circumstances. Consider a borrower with an $8,000 loan with a $104 monthly payment. He and his spouse earn a combined $65,000 a year in income. He needs to take several months off from work to help an elderly parent and will return to his same job afterwards. During this time he expects his annual income to drop to $55,000 while he is taking unpaid leave. His budget is going to be tight and he may not be able to stay on top of his loan payment. Is IBR better than forbearance for this borrower seeking payment relief? The question is actually moot. He does not qualify for IBR. His low loan balance combined with his $55,000 household income make him ineligible for the most generous version of IBR. His best option—in fact his only option—to suspend payments for a short period of time is a forbearance. A servicer would be able to figure this out and inform the borrower accordingly.

In each of these examples, servicers are carrying out the program as lawmakers intended and responding to each borrower's unique circumstances with the available options. To critics of loan servicers, however, borrowers' enrollment in forbearance is seen as evidence of service malfeasance.

Conclusion

As the federal student loan program has grown in size and scope, observers have increasingly turned their attention to the private companies that service these loans. They argue that servicers play an integral role in delivering the benefits of this large entitlement program that helps millions of students pursue a higher education. Some in the policy community have alleged that loan servicers are failing in this role and

undermining the benefits and protections the loan program is supposed to provide. In their view, borrowers are missing out on important repayment options or incurring additional interest costs because of servicer negligence and malfeasance.

My testimony today suggests an additional explanation for why borrowers feel that they have not been treated fairly. Complaints about loan servicing can often be traced to the loan program's design, and in particular, its complexity. The risk that a servicer provides a borrower with inaccurate information, mishandles an application, or fails to follow a borrower's instructions increases with the complexity of the loan program. Similarly, the risk that a borrower misinterprets *accurate* information that a servicer provides him and as a result believes he was not correctly informed also increases with complexity. And complexity, like "paid ahead status" and PSLF, require a servicer to stretch finite budget resources ever thinner to proactively educate borrowers about it and help them work around it. In short, a complicated student loan program like the one we have invites *perceived* servicing failures and *actual* servicing failures.

This suggests that one solution to frustration and dissatisfaction with student loan servicing is to be found in a more straightforward student loan program, which will require Congress to act. The challenge in this effort is that simplifying the program will either reduce the number of benefits the program provides, or require a large increase in the taxpayer cost of the program.

For example, borrowers would no longer complain about rising loan balances while using IBR if the program did not charge interest in excess of what borrowers were required to pay each month. But the cost to taxpayers of such a change would be substantial, and the benefits would flow to high-income and low-income borrowers alike. Similarly, policymakers could prevent borrowers from complaining that their payments increased while using the graduate payment plan by simply discontinuing that option. Of course, many borrowers might find that option convenient and beneficial. The same tradeoff applies in the case of borrowers enrolling in forbearance over IBR. Policymakers could simply eliminate forbearance to prevent borrowers from making what critics say is a suboptimal choice, but that will surely leave some borrowers worse off.

While such tradeoffs are difficult to make, my testimony suggests that if policymakers are not willing to make them, they are unlikely to address a major cause of the concerns about student loan servicing. In the meantime, those who argue that servicing in the federal student loan program is the singular problem are taking the easy way out. They want a loan program with layers of features and options, interacting benefits, and relief targeted to just the right borrowers in just the right circumstances—and they want someone else to make it all work.

That concludes my testimony today. I look forward to answering any questions that the members of the committee may have.

Citations

[1] For more detail on state legislation from California, Colorado, Connecticut, the District of Columbia, Illinois, Maryland, New York, and Washington see Cal. Code Regs. tit. 10, §2032-44.; 2019 Colo. Sess. Laws, 1855.; 2015, Conn. Acts, 15-162. (Reg. Sess.).; D.C. Mun. Regs. tit. 26, § C30 (2018).; 110 Ill. Comp. Stat. 992/ (2018).; Maryland House Bill 594 (Chapter 546); New York N.Y. Banking Law § 14-A (2019).; 2018, Wash. Sess. Laws, 461.
[2] For more detail on lawsuits against servicers see *Commonwealth of Pennsylvania v. Navient Corporation*, 354 F.3d 529 (3rd Cir. 2018), *Consumer Financial Protection Bureau v. Navient Corporation*, 3:17-CV-101 (M.D. Pa. 2018), *Lawson-Ross v. Great Lakes Higher Education Corporation*,18-14490 (11th Cir. 2018), *Nelson v. Great Lakes Educational Loan Services, Inc.*, No. 18-1531 (7th Cir. 2019), and *Student Loan Servicing Alliance v. District of Columbia* 351 F.3d 26 (D.D.C. 2018).
[3] Student Loan Borrower Bill of Rights of 2019, S. 1354, 116th Cong., 1st Sess., § 3.
[4] US Department of Education, Federal Student Aid, "Federal Student Loan Portfolio," https://studentaid.ed.gov/sa/about/data-center/student/portfolio.
[5] US Social Security Administration, "Social Security Beneficiary Statistics," https://www.ssa.gov/oact/STATS/OASDIbenies.html.
[6] Authors' calculation based on US Department of Education, Federal Student Aid, "Federal Student Loan Portfolio,"https://studentaid.ed.gov/sa/about/data-center/student/portfolio.
[7] CornerStone Education Loan Services (Utah Higher Education Assistance Authority), FedLoan Servicing/ Pennsylvania Higher Education Assistance Agency (PHEAA), Granite State Management & Resources (GSMR), Great Lakes Educational Loan Services, Inc., New York State Higher Education Services Corporation (HESC)/Edfinancial, MOHELA, Navient, Nelnet, Oklahoma Student Loan Authority (OSLA). See US Department of Education, Federal Student Aid, "Servicer Performance Metrics and Allocations," https://studentaid.ed.gov/sa/about/data-center/business-info/contracts/loan-servicing/servicer-performance.
[8] US Department of Education, "Loan Servicing Contracts," https://studentaid.ed.gov/sa/about/data-center/business-info/contracts/loan-servicing.
[9] Budget documents show two different figures for the government's total cost of administering the loan program, which includes contract payments to loan servicers. The Department's budget documents show servicing costs to be about $826 million. See U.S. Department of Education, "Congressional President's FY 2020 Budget Request for the U.S. Department of Education, Student Aid Administration," https://www2.ed.gov/about/overview/budget/budget20/justifications/y-saa.pdf; The other figure, which is reported in Department of Education budget documents, shows total administrative costs, which includes servicing costs, in present value terms, per dollar lent in the loan program. The Department expects to incur administrative costs on federal student loans equal to 1.70 percent of each dollar lent over the life of the loan, in today's dollars. The CBO expects the government to make $98 billion in loans each year, which would translate into $1.7 billion in administrative costs per cohort of loans. See Office of Management and Budget, "Budget of the US Government, Fiscal Year 2020," https://www.whitehouse.gov/wp-content/uploads/2019/03/appendix-fy2020.pdf.
[10] When borrowers consolidates one or more of their loans under the consolidation option, they may choose a new servicer. Until recently, if borrowers expressed interest in the Public Service Loan Forgiveness program, their loan was automatically transferred to FedLoan Servicing, the private servicer which has had sole servicing authority over the program.
[11] This testimony refers to the collection of plans that allow borrowers to make payments based on their incomes as IBR. The IBR plan is generally the most generous plan for new federal student loan borrowers as of 2014. While borrowers with loans from before that date may access other plans that set payments based on income, such as Pay As You Earn (PAYE) and the Revised Pay As You Earn (REPAYE) plan, the vast majority of new borrowers who use such plans will enroll in IBR.
[12] *Consumer Financial Protection Bureau v. Navient Corporation*, 3:17-CV-101 (M.D. Pa. 2018).
[13] Jason Delisle and Alexander Holt, "Why Student Loans Are Different," New America, March 2015, https://static.newamerica.org/attachments/2358-why-student-loans-are-different/StudentLoansAreDifferent_March11_Updated.e7bf17f703ad4da299fad650f47ac343.pdf.
[14] According to statute, the Consumer Financial Protection Bureau (CFPB) is required to receive, review, and attempt to resolve complaints about financial products. In 2012, the CFPB launched a public complaint database, where all submitted complaints are viewable, and began publishing federal loan servicing complaints in 2016. For more detail on the database, see Consumer Financial Protection Bureau, Consumer Complaint Database, https://www.consumerfinance.gov/data-research/consumer-complaints/.
[15] Consumer Financial Protection Bureau, "Consumer Complaint Database," Complaint #2794720, https://www.consumerfinance.gov/data-research/consumer-complaints/.
[16] Direct Loan borrowers who work for ten years in either a government or nonprofit job and are enrolled in an IBR plan are eligible for forgiveness of their loans. Borrowers may choose to certify each qualifying employer as they change jobs, or certify them individually upon applying for forgiveness after making 120 qualifying payments. For more detail on PSLF, see US Department of Education, "Public Service Loan Forgiveness,"

https://studentaid.ed.gov/sa/repay-loans/forgiveness-cancellation/public-service.

[17] 34 CFR § 682.215.

[18] The Department's IBR application includes among its 10 pages a matrix with cells that run 12-by-5 which compare the different terms of the four IBR and related payment plans. The risk that a borrower fails to understand the information in one of the 60 cells in the matrix is so high that it is unreasonable to expect a loan servicer to prevent any confusion the borrower may have about these features.
US Department of Education, "Income-Driven Plan Request," https://static.studentloans.gov/images/idrPreview.pdf.

[19] *Daniel v. Navient Solutions, LLC*, 328 F.Supp.3d 1319 (11th Cir. 2018).

[20] 34 CFR § 685.211 (2013).

[21] The borrower may continue making payments as usual, reducing the total time they repay and the amount interest that they accrue.

[22] 34 CFR § 682.209 (1992).

[23] While advancing the payment due date has no direct consequence for most borrowers, those participating in the PSLF program are only given credit towards forgiveness for payments made on the regular monthly due date in the scheduled amount due. When these borrowers make prepayments and therefore automatically advance their due dates, they are more likely to erroneously make future payments that will not count towards forgiveness.

[24] Borrowers working toward loan forgiveness in PSLF can be affected negatively by the paid ahead status. In PSLF, forgiveness occurs after borrowers make 120 on-time payments. Advancing a borrower's due date when he overpays, which is required under the law, delays when he can make his next on-time payment to his now-advanced due date. Both of these policies were made by Congress, not servicers. Both were intended to help borrowers. But together they can actually cause a borrower to pay *more* than he otherwise would be required. To the borrower, it can look like he has been cheated out of a benefit, and he is likely to blame his loan servicer.

[25] Consumer Financial Protection Bureau, "Consumer Complaint Database," Complaint #2317538, https://www.consumerfinance.gov/data-research/consumer-complaints/.

[26] 20 USC § 1078–6. Also see: US Department of Education, "Loan Servicing and Collection—Frequently Asked Questions." https://ifap.ed.gov/LoanServicingandCollectionInfo/LSCFAQ.html.

[27] 34 CFR § 685.211. The Obama administration stated in regulatory documents that: "We have revised § 682.405(b)(1)(iv) and § 685.211(f)(1)(ii) to specify that a guaranty agency or the Department may calculate a payment amount based on information provided orally by the borrower, and may provide the borrower with a rehabilitation agreement using that amount. We have also specified in revised §§ 682.405(b)(1)(iv) and 685.211(f)(1)(ii) that if the borrower does not provide the guaranty agency or the Department with the documentation required to calculate the payment amount using the 15 percent formula or to confirm the information provided orally on which the Secretary or the guaranty agency calculated the payment amount, the rehabilitation agreement entered into for that amount is null and void.
https://www.federalregister.gov/documents/2013/11/01/2013-25331/student-assistance-general-provisions-federal-perkins-loan-program-federal-family-education-loan.

[28] US Department of Education, Federal Student Aid, "Loan Servicing and Collection - Frequently Asked Questions,"https://ifap.ed.gov/LoanServicingandCollectionInfo/LSCFAQ.html#LR-Q2.

[29] Consumer Financial Protection Bureau, "Consumer Complaint Database," Complaint #2230521, https://www.consumerfinance.gov/data-research/consumer-complaints/.

[30] *Consumer Financial Protection Bureau v. Navient Corporation*, 3:17-CV-101 (M.D. Pa. 2018). Senator Elizabeth Warren to Mr. Jack Remondi, November 13, 2018, https://www.warren.senate.gov/imo/media/doc/18-11-13%20Sen.%20Warren%20letter%20to%20Navient%20CEO%20Jack%20Remondi.pdf.

[31] Servicers often extend a different kind of forbearance, called administrative forbearance, while they process deferment or long-term forbearance applications, repayment plan changes, and while borrowers are evaluated for loan discharge eligibility. An administrative forbearance allows borrowers to suspend payments while servicers process paperwork, and can be especially beneficial for borrowers who would otherwise be required to make full standard payments while they wait. For more detail on administrative forbearance, see 34 CFR § 685.205.

[32] *Consumer Financial Protection Bureau v. Navient Corporation*, 3:17-CV-101 (M.D. Pa. 2018).

[33] US Department of Education, Federal Student Aid, "Navient Use of Forbearance Site Visit Review," https://www.warren.senate.gov/imo/media/doc/Ed.%20Dept.%20May%202017%20FSA%20Audit%20Report.pdf.