

Public Hearing on the Department of Education's Negotiated Rulemaking

ON BEHALF OF THE
National Direct Student Coalition (NDSLCL)

WRITTEN STATEMENT OF

Check Knepfle

Office of the Department of Education
Washington, D.C.
October 23, 2014

*Oral comments delivered by Chuck Knepfle
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Director of Financial Aid
Clemson University*

WRITTEN STATEMENT OF

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Anaheim, California
November 2, 2014

*Oral comments delivered by S. Kay Lewis
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I speak to you today on behalf of the National Direct Student Loan Coalition (NDSLCL), a grass roots organization comprised of schools dedicated to the continuous improvement and strengthening of the Direct Loan program. Its members are practicing financial aid professionals working at participating institutions.

I would like to thank the Secretary for the opportunity to provide the Department of Education with comments on federal student loan programs that may be addressed in the negotiated rulemaking process early next year.

First and foremost, the Coalition wants to extend its thanks and congratulations to the staff at the Department of Education, and especially at Federal Student Aid, for recently renegotiating the contracts with the larger federal loan servicers to provide greater incentives for keeping borrowers in repayment. We feel that the contract changes are a step in the right direction and urge Federal Student Aid to consider additional changes that assist borrowers in repayment.

To ensure that the Federal Direct Student Loan program continues to be a strong and viable source of loan funding for students, I wish to address regulatory issues in following areas:

- Expanding Participation in the Pay As You Earn Repayment Plan
- Offering Incentives to Consolidate Existing Loans to Take Advantage of PAYE
- Simplifying the Federally Held Loan Servicing Environment
- Requiring All Federal Loan Servicers to Use 'White Label' Branding
- Eliminate Interest Capitalization
- Support Financial Aid Officers' Efforts to Limit Borrowing

Expand Participation in the Pay As You Earn Repayment Plan

We support President Obama's proposal to expand the number of borrowers eligible to participate in the Pay As You Earn repayment plan. The Coalition has recommended that income driven repayment plans be the default repayment plan for all borrowers in the federal direct loan program with options to select other plans if their circumstances allow.

The current menu of repayment options, though well intentioned to address borrower choice, adds a layer of complexity to the program that many borrowers find confusing. The same is true of the income driven plans. To the extent possible, we urge the Secretary to consider regulations that would establish one income driven repayment plan open to the largest number of borrowers possible.

Income driven plans offer borrowers the option to stay current with loan repayment while allowing them to make other consumer purchases that support a growing economy or pursue public service professions with more modest salaries. Expanding the pool of borrowers that can participate in this plan is good for borrowers, good for the economy and good for taxpayers.

Offer Incentives to Consolidate Existing Loans to Take Advantage of the New Pay As You Earn Repayment Plan

Currently, eligibility for participation in the Pay As You Earn repayment plan is limited to new borrowers as of 10/01/2007. To increase the pool of borrowers who could be eligible for the Pay As You Earn repayment plan we encourage the Secretary to offer loan consolidation to borrowers who may not be able to take advantage of this plan as a result of borrowing in the FFEL program or obtaining a federal direct loan prior to the established date. Expanding loan consolidation options could have the added benefit of reducing the outstanding FFEL portfolio and reducing costs.

Simplify the Federally Held Loan Servicing Environment

The current Direct Loan servicing environment is fraught with confusion and frustration for student borrowers. There is an inherent flaw with the current multiple contractor environment — borrowers do not understand who holds their loan.

Contractors are inconsistent in their business processes and communication to borrowers. The multiple contractor system, in the current number and present form, is costly to administer and inefficient. It's time to fix the multiple contractor system to simplify loan repayment for borrowers and reduce default rates.

Until another means of repaying student loans is available (such as IRS payroll deduction) the following changes are needed to restore clarity and simplification for students:

- Borrowers must have a single point of contact for all loan repayment activities
- Borrowers should be given one web portal and phone number for loan servicing, with behind the scene technology routing the borrower to their contractor
- Service levels, loan terms and borrower benefits must be equal and uniform
- Consistent processes and forms for common requests like deferment and forbearance should be the same for all contractors and available through electronic means
- Calculations of interest, fees, interest capitalization, and application of payments to principal and interest should all be standard and consistent among the contractors
- Performance measures should be relevant and uniformly applied to all contractors

We support healthy competition among a limited number of contractors-too many contractors increase the complexity of the system and taxpayer cost. Healthy competition can be managed in a way that is invisible to the borrower.

Require That All Federal Loan Servicers Use 'White Label' Branding

Initially, the Direct Loan Program had one contractor identified as the US Department of Education to borrowers. Though a private contractor managed the portfolio the contractor's name never appeared on correspondence to the borrower and borrowers understood they were receiving information about their Federal Direct Loan. They never questioned who actually managed their account. It didn't matter.

We believe that environment can be replicated in the current multiple servicer environment. We also believe that it will reduce borrower confusion and defaults. Current technology will support this approach. If borrowers could obtain information and manage their federal loan accounts through a single portal there would be no need for separate identification of the loan servicer by the borrower.

To simplify the repayment process for borrowers we urge the Secretary to require that:

- The identity of contractors be invisible to the borrower
- The contractors should be mandated to use only the Department of Education's logo and name on any communication to the borrowers
- Contractor 'branding' and other marketing of the contractor to the borrower should be prohibited

Eliminate Interest Capitalization to Reduce Debt

Regulations allow for, but do not require, interest capitalization each time the borrower changes status beginning with the end of the grace period and under certain circumstances in income driven repayment plans. Interest capitalization increases the principal amount of the loan and the total cost of borrowing since future interest accrues on capitalized interest. Elimination of capitalization will help borrowers reduce their cumulative debt which could affect the amount of their monthly payment and their ability to participate in other economic activities such as home purchases or retirement investments.

Capitalization is not required in federal law. It is a holdover from the previous Federal Family Education Loan program. It is not necessary to charge borrowers additional interest and we urge the Secretary to consider elimination of this practice in the federal student loan programs.

Support Efforts to Limit Borrowing

Current statute allows aid professionals to limit the amount a student may borrow on a case-by-case basis. However, the Department has strongly cautioned against restricting borrowing since the Federal Direct Loan Program is an entitlement program. Some schools no longer participate in the federal loan programs because they fear their students will over borrow and they have no options to restrict borrowing. This forces students at these schools into more expensive private loan programs.

With the counseling tools now available to inform students about the consequences of borrowing, aid professionals should be given an opportunity to develop programs that would not unnecessarily restrict borrowing but educate borrowers and help students borrow responsibly. We are not advocating for more loan counseling. We are advocating for aid officer discretion to develop programs that inform borrowers with the authority to limit borrowing when it is not in the best interest of the student, the institution or the taxpayer.

In closing, I would like to thank you again for the opportunity to present this testimony on behalf of the National Direct Student Loan Coalition. Many of our members were the first schools to implement the Direct Loan program over 20 years ago and have years of expertise in operational and policy issues as well as compliance with the regulations for the program. The Coalition looks forward to participating in the negotiated rulemaking process that will occur early in 2015.