

GAO Highlights

Highlights of [GAO-14-256](#), a report to congressional requesters

Why GAO Did This Study

As of fiscal year 2013 about \$94 billion—over 11 percent of federal student loan volume in repayment—was in default, which generally occurs when a borrower fails to make a payment for more than 270 days. Loan rehabilitation was established as an option to help Education collect defaulted student loans, and borrowers address the adverse consequences of default, such as repairing damaged credit. GAO was asked to review Education's loan rehabilitation process. This report examines how: (1) Education assists borrowers in rehabilitating defaulted student loans; (2) the upgrade of its defaulted loan information system affected loan rehabilitation; and (3) Education oversees private collection agencies in implementing loan rehabilitation.

GAO reviewed Education's policies, procedures and guidance; contracts and monitoring records for the defaulted loan information system contractor and 22 collection agencies; collections and rehabilitation data; and relevant federal laws and regulations. GAO interviewed Education officials, representatives of borrower advocacy groups, and visited 6 selected collection agencies, based on their loan volume and geographic location.

What GAO Recommends

GAO recommends that Education take steps to track loan rehabilitation performance data and improve oversight of its system contractor and collection agencies. Education agreed with GAO's recommendations.

View [GAO-14-256](#). For more information, contact Melissa Emrey-Arras at (617) 788-0534 or emrearrasm@gao.gov.

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FEDERAL STUDENT LOANS

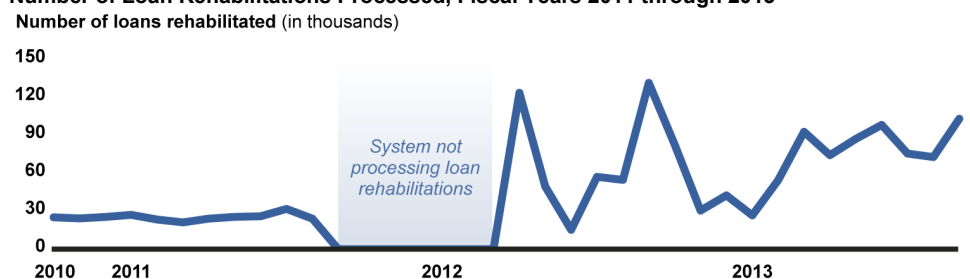
Better Oversight Could Improve Defaulted Loan Rehabilitation

What GAO Found

The Department of Education (Education) relies on collection agencies to assist borrowers in rehabilitating defaulted student loans, which allows borrowers who make nine on-time monthly payments within 10 months to have the default removed from their credit reports. Education works with 22 collection agencies to locate borrowers and explain repayment options, including rehabilitation. From fiscal years 2011 to 2013, Education collected about \$9 billion on over 1.5 million loans through rehabilitation, most of which was recovered by collection agencies.

For more than a year after the October 2011 upgrade of its defaulted loan information system, Education was unable to provide most borrowers who completed rehabilitation with timely benefits, such as removing defaults from their credit reports. GAO found the delays largely attributable to gaps in Education's oversight of its system contractor. For example, despite concerns about the contractor's unreliable performance on previous system development efforts, Education conducted limited oversight until the contractor began missing deadlines. In addition, system testing was not sufficient for Education to detect key problems prior to the upgrade. As a result, no rehabilitations were processed until April 2012, and officials said they needed until January 2013 to clear the resulting backlog. During this time period, Education reported rehabilitating loans for about 200,000 borrowers, but it has not developed performance data to assess the number or extent of individual borrower delays. Further, Education has acknowledged that the system still requires workarounds and a substantial amount of development work will need to be completed under a new contract, which was awarded in September 2013, to address remaining system issues.

Number of Loan Rehabilitations Processed, Fiscal Years 2011 through 2013



Source: GAO summary of Education data.

Education has developed tools for overseeing collection agencies, but key weaknesses reduce its ability to effectively monitor their performance. Specifically, to ensure collection agencies provide borrowers with accurate information, Education monitors their interactions with borrowers through quarterly reviews of loan rehabilitation phone calls. However, GAO found that Education has not consistently completed such call reviews. While Education provides the results of its reviews to each collection agency, it does not ensure corrective actions are taken and does not systematically analyze results over time or across collection agencies to inform its oversight activities. As a result, it may be difficult for Education to ensure that borrowers receive accurate information regarding loan rehabilitation.