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July 27, 2018

The Honorable Robert C. “Bobby” Scott
Ranking Member
Committee on Education and the Workforce
House of Representatives

The Honorable Sanford D. Bishop, Jr.
House of Representatives

The Honorable Emanuel Cleaver, II
House of Representatives

Federal Student Loans: Further Actions Needed to Implement Recommendations on Oversight of Loan Servicers

Federal student loans play a key role in ensuring access to higher education for millions of students each year. Nearly 43 million borrowers held almost \$1.4 trillion in federal student loans as of December 2017, which were primarily provided through Education’s William D. Ford Federal Direct Loan (Direct Loan) program. Education relies on contracted loan servicers to help manage its Direct Loan portfolio. These servicers process payments, provide borrowers with information on repayment plans, and carry out other responsibilities. We issued a report and a testimony over the last 3 years examining weaknesses in Education’s management and oversight of these servicers.¹ We found deficiencies in Education’s guidance to servicers, oversight of servicer call centers, complaint tracking, and performance metrics. As a result, we made six recommendations to Education. You asked us to provide an update on Education’s oversight of student loan servicers.

This report examines the status of Education's efforts to implement our prior recommendations for improving oversight of federal student loan servicers. To address this issue, we reviewed Education documentation on the actions it has taken to implement our prior recommendations, reviewed its recent solicitation of proposals for a new student loan servicer system, and interviewed agency officials.

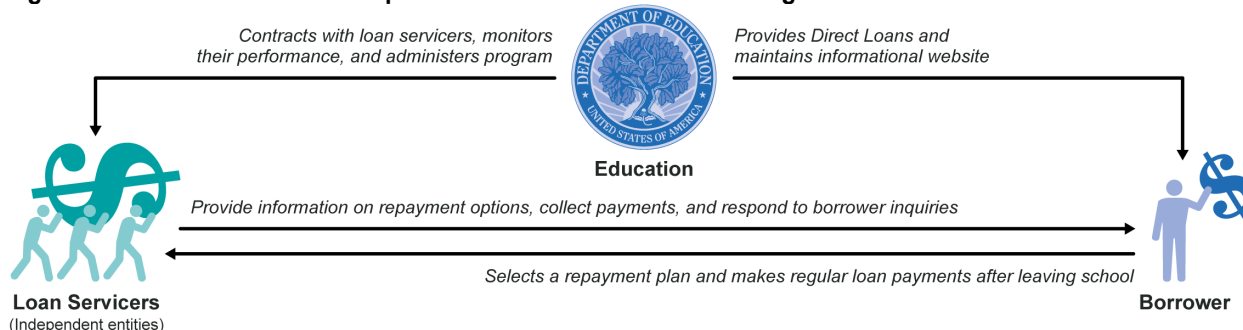
We conducted this performance audit from April 2018 to July 2018 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

¹GAO, *Federal Student Loans: Education Could Improve Direct Loan Program Customer Service and Oversight*, [GAO-16-523](#) (Washington, D.C.: May 16, 2016); and *Federal Student Loans: Key Weaknesses Limit Education’s Management of Contractors*, [GAO-16-196T](#) (Washington, D.C.: Nov. 18, 2015).

Background

Under the Direct Loan program, Education issues several types of postsecondary loans to students and their parents, including Subsidized, Unsubsidized, Consolidation, and PLUS Loans.² Education administers the Direct Loan program through its Office of Federal Student Aid (FSA), which oversees the performance of contracted loan servicers (see fig.1). While Education formerly used a single contractor to handle all loan servicing, it shifted into performance-based contracts with multiple loan servicers beginning in 2009. These contracts were awarded as part of Education’s strategy to increase servicing capacity and improve performance by fostering competition among vendors. Currently, Education has contracts with nine servicers.³ Loan servicing includes such activities as communicating with borrowers about the status of their loans, counseling borrowers on selecting repayment plans, processing payments, and maintaining loan records. These servicers receive monthly payments from Education for each borrower they serve, with the amount per borrower based on each borrower’s repayment status.

Figure 1: Selected Roles and Responsibilities in the Direct Loan Program



Source: GAO analysis of U.S. Department of Education information. | GAO-18-587R

In administering the Direct Loan program, Education uses numerous approaches to oversee the performance of its contractors, including issuing instructions and guidance to loan servicers. In addition to providing written communications, Education meets with servicers to discuss program operations and policy. Education also conducts various monitoring activities, including monitoring selected calls between servicers and Direct Loan borrowers to help ensure both acceptable customer service and servicer compliance with statutory, regulatory, and contractual requirements.

In February 2018, Education issued a solicitation for proposals to redesign its loan servicing system. According to Education, this new approach will modernize the technology and operational components that support federal student aid programs from application through repayment. Among other things, it will seek to improve efficiency, customer service, and program outcomes. In May 2018, Education reported that it plans to award contracts and implement this new system over the next 2 years.

²Subsidized loans are loans for which borrowers are generally not responsible for paying interest while in school or during certain grace and deferment periods; on unsubsidized loans, borrowers must ultimately pay all interest. Direct consolidation loans allow borrowers to combine multiple federal education loans into one loan. PLUS loans include Graduate PLUS and Parent PLUS loans, which are granted to graduate students or the parents of dependent undergraduate students, respectively.

³These current contracts expire in 2019, according to Education.

In March 2018, the Consolidated Appropriations Act of 2018 established a range of requirements related to Education’s oversight and management of student loan servicers.⁴ These included changes to how Education allocates new borrower accounts to servicers and the fee structure for servicing more vulnerable borrowers. The legislation also establishes certain criteria for Education to use when evaluating servicer proposals for participating in the redesigned servicing system. In May 2018, Education reported that these provisions will require certain adjustments to its procurement strategy, although Education is still working to determine what those adjustments will be.

Education Has Taken Steps to Implement GAO’s Recommendations, but Further Actions Are Needed

Education has implemented two of the six recommendations we made in our 2015 testimony and 2016 report addressing weaknesses in Education’s management and oversight of student loan servicers (see table 1).⁵ Education reported that the remaining four recommendations will be addressed over time through Education’s broader redesign of its student loan servicing system, although an Education official said the specifics of that system have not yet been determined. We will continue to monitor Education’s progress in implementing these open recommendations, which would help Education provide better service to borrowers and improve program integrity.

Table 1: Status of GAO Recommendations on Education’s Oversight of Student Loan Servicers

Closed/implemented recommendations	Report
Improve methodology for monitoring calls between servicers and borrowers	GAO-16-196T
Better document call monitoring results	GAO-16-196T
Open recommendations	Report
Ensure clear, sufficient, and consistent guidance to loan servicers	GAO-16-196T
Establish minimum call center hours for servicers	GAO-16-523
Improve tracking of borrower complaints	GAO-16-523
Evaluate and adjust performance metrics used for servicers	GAO-16-523

Source: GAO analysis of information from the Department of Education. | GAO-18-587R

Note: Recommendations from GAO, *Federal Student Loans: Key Weaknesses Limit Education’s Management of Contractors*, [GAO-16-196T](#) (Washington, D.C.: Nov. 18, 2015); and *Federal Student Loans: Education Could Improve Direct Loan Program Customer Service and Oversight*, [GAO-16-523](#) (Washington, D.C.: May 16, 2016). As part of GAO’s audit responsibilities under generally accepted government auditing standards, GAO follows up on recommendations we have made. Recommendations remain open until they are designated as Closed-implemented or Closed-not implemented. A recommendation is closed when actions that satisfy the intent of the recommendation have been taken, when it is no longer valid because circumstances have changed, or when implementation cannot reasonably be expected.

Call Monitoring and Documentation

We found weaknesses in the processes that Education used for selecting calls to monitor between servicers and borrowers and for documenting the results. As a result, Education had incomplete information on how well servicers met the needs of borrowers.

⁴See Consolidated Appropriations Act, 2018, Pub. L. No. 115-141, Title III, Student Aid Administration.

⁵We issued three recommendations in our 2015 testimony ([GAO-16-196T](#)) and three recommendations in our 2016 report ([GAO-16-523](#)). For the purposes of this report, we renumbered these recommendations.

Recommendation 1: FSA should implement a more rigorous methodology for selecting recorded calls between servicers and borrowers to review, including a clearer definition of the sample servicers should select, a sample that targets more critical and more frequent types of calls, and a verification process to ensure integrity of the call selection process. (GAO-16-196T)

- Status: Closed – Implemented
- Description: As of May 2016, Education implemented a more rigorous selection methodology for reviewing recorded calls, which significantly increases the number of incoming and outgoing calls that are sampled and reviewed each month. This new methodology also explicitly requires the inclusion of calls related to specific accounts or business activities, such as issues with loans to military service members, loan rehabilitation, Public Service Loan Forgiveness, and loan consolidation.⁶ Additionally, it includes a verification process to ensure that servicers meet the new requirements.

Recommendation 2: FSA should better document call monitoring results to allow analysis of trends over time and facilitate the sharing of complete and consistent information from these efforts with FSA management. (GAO-16-196T)

- Status: Closed – Implemented
- Description: In June 2016, Education implemented a new call monitoring plan, which includes enhancements to help assess and improve the performance of loan servicers. The plan includes formal scoring and reporting of call monitoring results, improved documentation by Education and servicers, and improved quality assurance tracking when issues are identified. Reports generated from this review process contain consistent information and sufficient detail to allow Education to identify trends over time and address any issues that arise.

Guidance to Loan Servicers

We found that Education’s guidance to loan servicers was sometimes lacking, leading to inconsistent and inefficient service to borrowers.

Recommendation 3: FSA should review its methods of providing instructions and guidance to servicers, identifying areas to improve clarity and sufficiency, and ensure consistent delivery of instructions and guidance to ensure program integrity and improve service to borrowers. For example, Education could consider implementing a detailed, common servicing manual for the Direct Loan program. (GAO-16-196T)

- Status: Open
- Description: Education agreed with this recommendation and reviewed its process for providing guidance to servicers. It has issued a few clarifications to servicers to help with consistency. In June 2018, Education reported that it would implement this recommendation through its broader redesign of the loan servicing system which would streamline the process for communicating guidance and instructions, although the details of how that will be done have not yet been decided. Education needs to demonstrate that its new loan servicing system provides clear, sufficient, and consistent guidance to servicers to ensure program integrity and improve service to borrowers.

⁶The Public Service Loan Forgiveness program allows eligible borrowers to have their loans forgiven after at least 10 years of qualifying payments. To receive loan forgiveness, borrowers must participate in a qualifying repayment plan and make 120 on-time monthly payments while employed full-time in a public service job.

Call Center Hours

We found that there was no minimum standard for servicers' call center hours and each servicer set its own, which resulted in limited access for some borrowers. For example, a borrower on the West Coast may have had an East Coast servicer whose call center hours ended at 1:30 p.m. Pacific time.

Recommendation 4: Education should develop a minimum standard that specifies core call center operating hours to provide borrowers, including those on the West Coast, with improved access to servicers. ([GAO-16-523](#))

- Status: Open
- Description: Education agreed with this recommendation and said it planned to establish core hours in the requirements for servicers to help borrowers access live customer service representatives. In May 2018, an Education official told us that one of the goals of the proposed redesigned loan servicing system is to ensure a consistent experience for all borrowers. The official said all borrowers will have access to the same call center number and other customer service functions, but the specifics have not yet been decided. As Education completes its loan servicing redesign, it should ensure that borrowers have improved access to customer service representatives to aid them in managing their loans.

Complaint Tracking

We found weaknesses in Education's methods for tracking borrower complaints, particularly for those complaints submitted directly to loan servicers. Education was developing a new, unified complaint tracking system, although we also identified weaknesses in the design of this new system.

Recommendation 5: Education should ensure the new unified borrower complaint tracking system includes comprehensive and comparable information on the nature and status of borrower complaints made to both Education and servicers, to allow Education to track trends and better manage the program to effectively meet borrower needs. ([GAO-16-523](#))

- Status: Open
- Description: In May 2018, Education reported that as part of its redesigned loan servicing system, it plans to develop a single platform that maintains a record of all customer service interactions, including any complaints that borrowers submit. While the details have yet to be determined, the goal is to create a unified process consistent with the intent of this recommendation, according to Education. Education must ensure that it collects comprehensive and comparable information on borrower complaints in order to ensure the program meets borrower needs.

Servicer Performance Metrics

We found that the performance metrics Education used to reward servicers did not fully align with its goals of superior service and program integrity. For example, because servicers are compensated based on the number of borrowers they serve, there may be a disincentive for them to counsel borrowers on debt relief programs that may benefit the borrower but require loan transfers to a different servicer. Similarly, because no performance metrics are related to

compliance with program requirements, servicers with more compliance errors experience no reduction in assigned loans, even as their borrowers may experience servicing problems.

Recommendation 6: Education should evaluate and make needed adjustments to Direct Loan servicer performance metrics and compensation to improve assessment, including using baseline data, and alignment with FSA's strategic goals aimed at superior customer service and program integrity, and to ensure that the assignment of new loans to servicers takes program compliance into account. ([GAO-16-523](#))

- Status: Open
- Description: Education agreed with this recommendation and stated that it would evaluate existing and alternative performance metrics and compensation strategies as part of its process for procuring a new loan servicing solution. In May 2018, an Education official told us that Education's new loan servicing system would eventually address this recommendation. However, the official said the metrics that will be used to evaluate loan servicers have not yet been determined. Unless Education better aligns its servicer performance metrics, borrowers will continue to be at risk of experiencing errors and poor customer service.

Agency Comments

We provided a draft of this report to Education for its review and comment. In its comments, reproduced in the attached enclosure, Education generally concurred with our assessment regarding the status of each recommendation. The agency reiterated its plans to address the remaining open recommendations through the broader redesign of Education's student loan servicing system.

As agreed with your offices, unless you publicly announce the contents of this report earlier, we plan no further distribution until 30 days from the report date. At that time, we will send copies to the appropriate congressional committees, the Secretary of Education, and other interested parties. In addition, the report will be available at no charge on the GAO website at <http://www.gao.gov>.

If you or your staff have any questions about this report, please contact me at (617) 788-0534 or emreyarrasm@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made key contributions to this report include Debra Prescott (Assistant Director), Liam O'Laughlin (Analyst-in-Charge), Susan Aschoff, Deborah Bland, William Colvin, Elizabeth Dretsch, Kristy Kennedy, Sheila McCoy, Mimi Nguyen, Steven Putansu, Vernetta Shaw, Benjamin Sinoff, and Rebecca Woiwode.

Melissa Emrey-Arras

Melissa Emrey-Arras, Director
Education, Workforce, and Income Security Issues

Enclosure

Enclosure: Comments from the Department of Education



July 18, 2018

Ms. Melissa Emrey-Arras
Director, Education, Workforce, and Income Security Issues
United States Government Accountability Office
Washington, D.C. 20548

Dear Ms. Emrey-Arras:

Thank you for providing the Department of Education (the Department) with a draft copy of the Government Accountability Office's (GAO) performance audit, "Federal Student Loans: Further Actions Needed to Implement Recommendations on Oversight of Loan Servicers." The purpose of this audit was to evaluate the Department's efforts to implement prior GAO recommendations for improving oversight of federal student loan servicers. We appreciate the opportunity to comment on the draft report.

In the report, GAO evaluated the Department's efforts to implement six specific recommendations made by GAO in testimony in 2015 and in a report issued in 2016. Below, we list each GAO recommendation and respond to GAO's comments on the Department's implementation of that recommendation.

Recommendation 1: FSA should implement a more rigorous methodology for selecting recorded calls between servicers and borrowers to review, including a clearer definition of the sample servicers should select, a sample that targets more critical and more frequent types of calls, and a verification process to ensure integrity of the call selection process. (GAO-16-196T)

Response: The Department welcomes GAO's acknowledgement that the Department's actions to address this recommendation have resulted in the implementation of a more rigorous selection methodology. This action significantly increases the number of incoming and outgoing calls that are sampled and reviewed each month. GAO also recognized that the new methodology explicitly requires the inclusion of calls related to specific accounts or business activities, such as issues with loans to military service members, loan rehabilitation, Public Service Loan Forgiveness, and loan consolidation. GAO noted that the Department has included a verification process to ensure that servicers meet the new requirements. We are grateful that with our efforts on this recommendation, GAO considers the recommendation closed.

Recommendation 2: FSA should better document call monitoring results to allow analysis of trends over time and facilitate the sharing of complete and consistent information from these efforts with FSA Management. (GAO-16-196T)

Federal Student Aid
An OFFICE of the U.S. DEPARTMENT of EDUCATION

830 First St. N.E., Washington, DC 20202

Response: The Department welcomes GAO's acknowledgement that the new call monitoring plan implemented by the Department includes enhancements to help assess and improve the performance of loan servicers. GAO also found that the plan includes formal scoring and reporting of call monitoring results, improved documentation by the Department and servicers, and improved quality assurance tracking when issues are identified. GAO concluded that the reports generated from this review process contain consistent information and sufficient detail to allow the Department to identify trends over time and address any issues that arise. We are pleased that the Department's efforts on this recommendation led GAO to consider the recommendation closed.

Recommendation 3: FSA should review its methods of providing instruction and guidance to servicers, identifying areas to improve clarity and sufficiency, and ensure consistent delivery of instructions and guidance to ensure program integrity and improve service to borrowers. For example, Education could consider implementing a detailed, common servicing manual for the Direct Loan program. (GAO-16-196T)

Response: As noted by GAO, the Department plans to implement this recommendation through our broad redesign on the loan servicing system. As the Department moves forward with that redesign, we will ensure that the new system provides clear, sufficient, and consistent guidance to ensure program integrity and improve service to borrowers.

Recommendation 4: Education should develop a minimum standard that specifies core call center operating hours to provide borrowers, including those on the West Coast, with improved access to servicers. (GAO-16-523)

Response: As noted by GAO, the Department agrees with the recommendation and plans to implement the recommendation as part of the redesign of the loan servicing system. One of the core goals of the redesign of the loan servicing system is to provide an improved borrower experience. An integral component of the solution is to ensure that borrowers have improved access to customer service representatives to aid them in managing their loans.

Recommendation 5: Education should ensure that the new unified borrower complaint tracking system includes comprehensive and comparable information on the nature and status of borrower complaints made to both Education and servicers, to allow Education to track trends and better manage the program to effectively meet borrower needs. (GAO-16-523)

Response: As noted by GAO, the Department plans to address this recommendation through the redesign of the loan servicing system. As part of that redesign, the Department plans to develop a single platform that maintains a record of all customer service interactions, including any complaints that borrowers submit. The goal is to create a unified process to collect comprehensive and comparable information on borrower complaints to ensure continuous improvement in meeting borrower needs.

Recommendation 6: Education should evaluate and make needed adjustments to Direct Loan servicer performance metrics and compensation to improve assessment, including using baseline

data, and alignment with FSA's strategic goals aimed at superior customer service and program integrity, and to ensure that the assignment of new loans to servicers takes program compliance into account. (GAO-16-523)

Response: As noted by GAO, the Department agrees with this recommendation and intends to evaluate existing and alternative performance metrics and compensation strategies as part of our initiative to redesign the loan servicing system. The Department plans to use performance metrics to accomplish the goal of improving the borrower experience to reduce the risk of borrowers experiencing errors and poor customer service. Our goal is to provide a world-class customer service experience.

I appreciate your examination of the Department's efforts to improve oversight of federal student loan servicers.

Sincerely,

A handwritten signature in blue ink that reads "James F. Manning". The signature is fluid and cursive, with a large initial "J" and "M".

James F. Manning
Acting Chief Operating Officer

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