United States Government Accountability Office
Report to Congressional Requesters

May 2016

FEDERAL STUDENT LOANS

Education Could Improve Direct Loan Program Customer Service and Oversight

GAO-16-523

GAO
Highlights

Highlights of GAO-16-523, a report to congressional requesters

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Education Could Improve Direct Loan Program Customer Service and Oversight

Why GAO Did This Study

Education issued almost $96 billion in Direct Loans for higher education to 9.1 million borrowers during fiscal year 2015. Education contracts with and monitors the performance of servicers that handle billing and other services for borrowers. GAO was asked to examine Education's management of the program.

This report addresses (1) the type of Direct Loan information Education and servicers provide to borrowers, and how accessible it is; and (2) the extent to which Education oversees servicers to manage the Direct Loan program. GAO reviewed Education's contracts, policies, and procedures; analyzed its oversight reports and processes; and reviewed servicer websites and other information provided to borrowers. GAO also interviewed officials from Education, the Consumer Financial Protection Bureau, servicers that serve over 95 percent of Direct Loan borrowers, and a nongeneralizable sample of 24 borrowers selected randomly from Education data.

What GAO Recommends

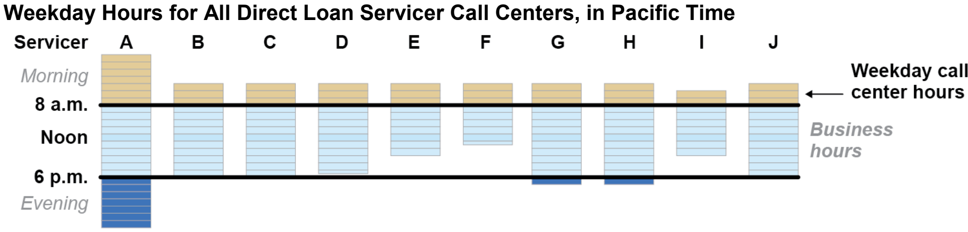
GAO recommends that Education (1) implement a minimum standard for servicer call center hours, (2) ensure its complaint tracking captures comprehensive and comparable information from servicers, and (3) evaluate and adjust its performance metrics and compensation. Education generally agreed with GAO's findings and recommendations, but expressed the view that its current performance metrics reflect compliance. GAO maintains the metrics do not reflect compliance, as discussed in the report.

View GAO-16-523. For more information, contact Melissa Emrey-Arras at (617) 788-0534 or emreyarrasm@gao.gov.

What GAO Found

The Department of Education (Education) and its contracted loan servicers provide a range of information to borrowers about their federal Direct Loans for higher education, such as repayment plans and procedures, but some borrowers GAO interviewed reported difficulties with contacting servicers through their call centers. Borrowers noted similar concerns in Education's 2014 and 2015 customer satisfaction surveys, and Education identified servicers' call center hours as a key item needing improvement. Education officials said they have no minimum standard for call center hours and each servicer sets its own. As a result, some borrowers have limited access to assistance. For example, a borrower on the West Coast may have an East Coast servicer whose call center hours end at 1:30 p.m. Pacific time (see figure below). A federal taskforce on student loan servicing recommends minimum requirements for effective customer service. Unless Education establishes a minimum standard for call center hours to improve access and align with its strategic goal of providing superior customer service, some borrowers will have difficulty obtaining information to manage their loans, and be more at risk for delinquency or default.

Weekday Hours for All Direct Loan Servicer Call Centers, in Pacific Time



Source: GAO analysis of servicer websites. | GAO-16-523

Education has multiple mechanisms to oversee servicers, but key weaknesses limit its ability to manage the Direct Loan program. First, while Education has made improvements in how it tracks borrower complaints, it uses different systems to capture this information and tracks limited information on complaints made to servicers, making it difficult for Education to determine if servicers meet its strategic goal of providing "superior service." Second, Education rewards servicers with additional loan assignment based on performance metrics and pays servicers for each loan they service, but these metrics and related compensation do not fully align with Education's goals for superior service and program integrity. Education acknowledged there may be a disincentive, in terms of lack of compensation, for servicers to counsel borrowers on debt relief programs that may benefit the borrower but necessitate loan transfer to a different servicer. Similarly, because no performance metrics relate to compliance with program requirements, servicers with more compliance errors experience no reduction in assigned loans, even as their borrowers may experience servicing problems. For example, past compliance reviews found issues with servicers not giving thousands of borrowers a full grace period before repayment began, but these findings had no effect on the amount of Direct Loan accounts the servicers were assigned the next year. Unless Education evaluates and better aligns its servicer performance metrics and compensation with strategic goals, borrowers will continue to be at risk for experiencing errors and poor customer service.

Contents

Abbreviations

Direct Loan program	William D. Ford Federal Direct Loan Program
Education	Department of Education
FFEL	Federal Family Education Loan
FSA	Office of Federal Student Aid
NFP servicers	not-for-profit servicers
PSLF	Public Service Loan Forgiveness
TIVAS	Title IV Additional Servicers

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May 16, 2016

The Honorable Lamar Alexander
Chairman
Committee on Health, Education, Labor, and Pensions
United States Senate

The Honorable John Cornyn
United States Senate

The Honorable Michael B. Enzi
United States Senate

The Honorable John Kline
Chairman
Committee on Education and the Workforce
House of Representatives

The Honorable Virginia Foxx
Chairwoman
Subcommittee on Higher Education and Workforce Training
Committee on Education and the Workforce
House of Representatives

Federal student loans play a crucial role in ensuring access to higher education for millions of students each year. In fiscal year 2015, the Department of Education (Education) issued almost $96 billion in student loans to 9.1 million borrowers under the William D. Ford Federal Direct Loan (Direct Loan) Program. Through the Office of Federal Student Aid (FSA), Education administers student financial aid programs—including the Direct Loan program—that are authorized under Title IV of the Higher Education Act of 1965, as amended,[1] and oversees the performance of contracted loan servicers that handle billing and other tasks, such as responding to inquiries from borrowers. Before 2010, many federal student loans were originated and serviced by private lenders and

[1]Pub. L. No. 89-329, 79 Stat. 1232-1254, codified at 20 U.S.C. §§ 1070- 1099d and 42 U.S.C. §§ 2751-2756b. These programs include the William D. Ford Federal Direct Loan Program, Pell Grants, and various campus-based programs.

servicers with whom they contracted, through the Federal Family Education Loan (FFEL) Program. Today, all new federal loans are Direct Loans obtained through Education, and the program has over six times as many outstanding loans as it had in 2007.[2] As the Direct Loan program has grown, news reports and borrower comments have highlighted potential administrative problems. You asked us to look at customer service and oversight issues within the Direct Loan program. This report examines the following questions: (1) What type of Direct Loan information do Education and its contracted servicers provide to borrowers, and how accessible is it? and (2) To what extent does Education oversee loan servicers to manage the Direct Loan program?

To understand borrower perspectives on the Direct Loan information they receive from Education and loan servicers, we interviewed a nongeneralizable sample of 24 borrowers. Using Education's data, we identified a random sample of borrowers who, as of January 2014, were in either (1) repayment, (2) delinquency (less than 270 days), or (3) deferment or forbearance.[3] Education sent emails informing these borrowers of our interest in talking with them, and we interviewed 24 of the borrowers who contacted us—8 borrowers in each of the 3 subgroups. We also reviewed servicer websites for information on federal student loans and customer service, as well as a sample of communications sent to borrowers at different points in the loan life cycle, such as when a borrower is in school or entering repayment. In addition, we reviewed summary results, issued in 2014 and 2015, from Education's customer satisfaction survey of borrowers, which we determined were sufficiently reliable for the purposes of this report by reviewing information about the data and interviewing knowledgeable agency officials. We compared information on Education and servicers' communication with borrowers to the goals and objectives in FSA's Fiscal Year 2012-2016

[2]The SAFRA Act, enacted as part of the Health Care and Education Reconciliation Act of 2010, terminated the authority to make or insure new FFEL loans after June 30, 2010. Pub. L. No. 111-152, § 2201, 124 Stat. 1029, 1074.

[3]We used Education's January 2014 Cost Estimation and Analysis Division's Statistical Abstract, a random sample of federal loans from Education's National Student Loan Data System, from which we selected a stratified random sample of borrowers, split evenly among those in three strata: borrowers in repayment, in delinquency, and in either deferment or forbearance. We determined these data were sufficiently reliable for the purposes of this report by reviewing information about the data and interviewing knowledgeable agency officials.

Strategic Plan and a federal framework for student loan servicing, developed by a task force including Education and other federal agencies. To develop our analysis of Education's oversight of Direct Loan servicers, we reviewed Education's policies, procedures, and guidance related to servicers; Education's contracts and monitoring plans for servicers; and relevant federal laws and regulations. We analyzed information from Education's quarterly and annual servicer performance reports from fiscal years 2010-2015; annual servicer reviews from the same period, and other compliance documentation. We interviewed officials from FSA, Education's Office of the Inspector General, and the Consumer Financial Protection Bureau.[4] We also interviewed representatives from all four Title IV Additional Servicers (TIVAS) and the largest three not-for-profit Direct Loan servicers—which together serve over 95 percent of Direct Loan borrowers—and reviewed supporting documentation, such as training procedures and information sent to borrowers, from each.[5] We reviewed borrower complaint information from the FSA Ombudsman, Education's Program Compliance Complaint Tracking System, and servicers we interviewed. In addition, we interviewed representatives from several higher education associations and other organizations that represent, or include as members, schools, borrowers, loan servicers, or financial aid professionals. The views of these representatives, as well as those of the servicers we interviewed, are not generalizable. We compared information on Education's servicer oversight with criteria outlined in the servicer's contracts, FSA's Strategic Plan, and actions directed by the President's Student Aid Bill of Rights.

The findings and recommendations in this report supplement those we issued in a written testimony on November 18, 2015, which included recommendations for Education to improve its guidance and instructions

[4]Though Education is responsible for overseeing federal student loan servicer compliance with the Direct Loan program, the Consumer Financial Protection Bureau monitors the compliance of certain depository institutions and other organizations—including student loan servicers with over 1 million accounts—with specific financial consumer protection laws and regulations. 12 U.S.C. §§ 5514 – 5516; 12 C.F.R. § 1090.106.

[5]One of the not-for-profit servicers we spoke with, Aspire, chose to leave the federal student loan market in September 2015.

to servicers, as well as its process and documentation for monitoring calls between servicers and borrowers.[6]

We conducted this audit from May 2014 to May 2016, 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.

Background

Education's Strategic Goals for Federal Student Aid

As the nation's largest provider of student financial aid, Education seeks to ensure that all eligible individuals can benefit from federal financial assistance for education beyond high school. FSA has developed strategic goals to help it carry out its mission of "funding America's future, one student at a time" through its programs, including the Direct Loan program.[7] FSA's strategic goals that relate to customer service and program oversight direct it to:

- Provide superior service and information to students and borrowers. This goal aims to actively inform all eligible individuals of their funding options, help customers make well-informed decisions, provide better services, and improve the customer experience.
- Work to ensure that all participants in the system of funding postsecondary education serve the interests of students, from policy to delivery. This goal aims to increase FSA's role in working with postsecondary institutions, contractors, and other major participants in the overall aid delivery system, to fulfill the organization's mission

[6]GAO, *Federal Student Loans: Key Weaknesses Limit Education's Management of Contractors*, GAO-16-196T (Washington, D.C.: Nov. 18, 2015).

[7]The strategic goals cited are part of FSA's 2012-2016 Strategic Plan, which covers the period in which we conducted our work. FSA recently updated its goals for the future in its newest Strategic Plan, released in November 2015.

more effectively, and consistently champion the promise of postsecondary education for all Americans.

- Develop efficient processes and effective capabilities that are among the best in the public and private sectors. This goal aims to pursue further efficiencies to free up additional resources in the operating budget by integrating systems, improving acquisition processes, improving risk management, and improving project management.
- Ensure program integrity and safeguard taxpayers' interests. This goal aims for continuous improvement of FSA's oversight functions to maintain program integrity and safeguard taxpayers' interests by using program dollars effectively and efficiently.

Direct Loan Program

Types of Direct Loans

Subsidized loans: available to undergraduate students. The government pays the interest that accrues while borrowers are in school, during a 6-month grace period after leaving school, and during periods of deferment.

Unsubsidized loans: available to undergraduate and graduate students. Interest is paid by the borrower.

PLUS loans: available to graduate or professional degree students and parents of dependent undergraduate students. Borrowers are responsible for paying the interest.

Direct Consolidation Loans: allow borrowers to combine multiple existing federal student loans into a single loan with one resulting monthly payment. These loans may allow borrowers to extend their repayment period to up to 30 years, thereby reducing monthly payments.

The federal government sets limits on the interest rate, loan origination fees and other charges, and annual and aggregate amounts that can be borrowed.

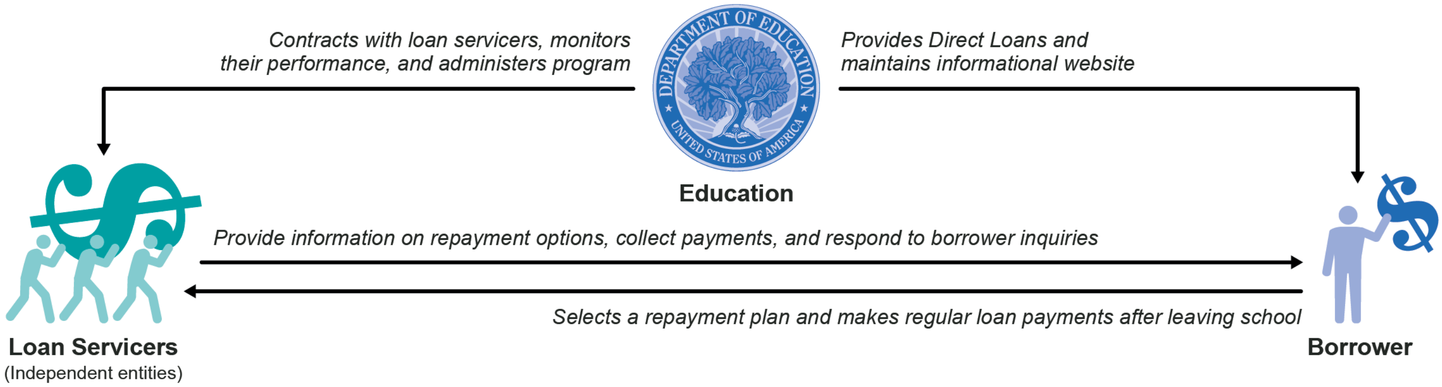
Source: U.S. Department of Education and GAO analysis of laws and regulations. | GAO-16-523

Under the Direct Loan program, Education issues several types of loans to students and their parents, including Subsidized, Unsubsidized, and PLUS Loans (see sidebar).

Education, servicers, and borrowers each have certain roles and bear chief responsibility for distinct aspects of the program (see fig. 1). After a prospective borrower applies for and is awarded a loan, Education originates the loan and disburses it through the borrower's school. Once the loan is disbursed, it is assigned to a servicer responsible for such activities as communicating with the borrower about the status of the loan, providing information on repayment plans, and processing payments. The borrower is responsible for repaying the loan, generally upon leaving school, and makes payments directly to the assigned servicer.[8]

[8]Borrowers are not required to make loan payments when they are enrolled in school at least half-time or during the grace period—usually 6 months—after a borrower leaves school or drops below half-time enrollment. These terms do not apply to PLUS loans made to parent borrowers.

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



Source: GAO analysis off U.S. Department of Education information. | GAO-16-523

Education offers a variety of repayment plans for Direct Loan borrowers. Under the Standard plan, borrowers have fixed monthly payments with a fixed term of 10 years or less.[9] Borrowers are automatically enrolled in 10-year Standard repayment if they do not choose another option. Education also offers a range of income-driven repayment plans that base monthly payments on income and family size for Direct Loan borrowers who meet certain eligibility requirements.[10]

In addition to being in repayment status, loans may be in (1) deferment, a period during which repayment of a loan is temporarily suspended—for example, while a student with undergraduate loans pursues additional

[9]Other repayment options include: (1) a Graduated plan, which starts with lower payments that increase every 2 years, for up to 10 years, and (2) an Extended plan, in which borrowers have a fixed term of 25 years or less. Monthly payments under this plan may be fixed or graduated, and borrowers must have more than $30,000 in loans. These terms for Graduated and Extended plans apply to borrowers who entered repayment on or after July 1, 2006; other terms may apply to borrowers entering repayment before that date.

[10]Income-driven repayment plans can help borrowers manage their debt by basing repayment amounts, in part, on borrowers' income. Key features of these plans range from lower monthly payments and repayment periods of up to 25 years to forgiveness of any remaining loan balances at the end of the repayment period.

higher education,[11] or (2) forbearance, a temporary postponement, extension, or reduction of loan payments for up to 12 months that is authorized when a borrower cannot make scheduled payments for certain reasons, such as financial hardship. Interest continues to accrue on loans in forbearance and unsubsidized loans in deferment, while the government pays the interest on subsidized loans in deferment. While loans are in repayment, deferment, or forbearance status, they are serviced by contracted servicers.

When a borrower misses a loan payment, the loan becomes delinquent, and the delinquency continues until all payments are made to bring the loan current. Loan servicers report all delinquencies of at least 90 days to the three major credit bureaus. If a borrower continues to fail to pay their loan according to the terms agreed to in the master promissory note,[12] the borrower will go into default,[13] and the loan will be transferred from the servicer to Education's debt collection system and may be assigned to a collection agency.

Performance-based Servicing Contracts and Oversight

While Education formerly used a single contractor to handle all loan servicing, it shifted into performance-based contracts with additional loan servicers beginning in 2009.[14] 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 four Title IV Additional Servicers (TIVAS),

[11]Other situations in which a borrower may be eligible for a deferment include during a period of unemployment, or economic hardship; or a period of active duty military service during a war, military operation, or national emergency.

[12]The master promissory note is the binding legal document that a borrower must sign when receiving a federal student loan. It lists the terms and conditions under which the borrower agrees to repay the loan and explains their rights and responsibilities as a borrower.

[13]Default generally occurs after a borrower fails to make a payment for more than 270 days; 20 U.S.C. § 1085(l); 34 C.F.R. § 685.102(b). However, Education generally identifies defaulted loans as those that are 360 days or more past due, because the department allows loan servicers 90 days to transfer Direct Loans to Education's Default Resolution Group.

[14]Under performance-based contracts, the contracting agency specifies the outcome or result it desires and leaves it to the contractor to decide how best to achieve the desired outcome.

and six not-for-profit (NFP) servicers.[15] These servicers receive monthly payments from Education for each borrower they service, with the amount per borrower based on the status each borrower is in. The monthly payments for all servicers for each borrower status are listed in table 1.

Table 1: Monthly Servicer Compensation for Each Borrower, by Status

Borrower status	Rate per borrower
In School	$1.05
In Grace Period	$1.68
In Repayment	$2.85
Service Member	$2.85
Deferment	$1.68
Forbearance	$1.05
Delinquent 6-30 Days	$2.11
Delinquent 31-90 Days	$1.46
Delinquent 91-150 Days	$1.35
Delinquent 151-270 Days	$1.23
Delinquent 271-360 Days	$0.45
Delinquent 361 or More Days	$0.45

Source: GAO analysis of servicer contracts. | GAO-16-523

Note: Servicers are paid a single amount for borrowers in multiple statuses. The single amount paid is the lowest applicable amount.

[15]Loan servicing for the Direct Loan program used to be handled by a single contractor. In 2009, four Title IV Additional Servicer (TIVAS) contracts were awarded. These four servicers handle the vast majority of Direct Loan servicing. In addition, the SAFRA Act required the Secretary of Education to contract with eligible Not-for-Profit (NFP) servicers and provided mandatory funding for the administrative costs of servicing such contracts. Pub. L. No. 111-152, § 2212, 124 Stat. 1029, 1078 (2010). These contracts were first awarded in 2011.The Bipartisan Budget Act of 2013 eliminated the NFP contracting requirement and the mandatory funding. Pub. L. No. 113-67, § 502, 127 Stat. 1165, 1187. However, Education chose to retain its NFP servicers. As of October 2015, FSA had contracts with the following 10 servicers for the Direct Loan program: (1) Four TIVAS: Great Lakes, Pennsylvania Higher Education Assistance Agency/FedLoan, Navient, and Nelnet; and (2) Six NFPs: Missouri Higher Education Loan Authority, EdFinancial, Granite State, Vermont Student Assistance Corporation Federal Loans, Cornerstone, and the Oklahoma Student Loan Authority Servicing. A seventh not-for-profit servicer, Aspire, chose to leave the federal student loan market in September 2015.

In administering the Direct Loan program, Education uses numerous mechanisms to oversee the performance of its loan servicers. Education issues instructions and guidance to servicers that ranges from direction on day-to-day operations to contractual changes servicers must implement. Education also conducts various monitoring activities to manage the program, including annual compliance reviews of servicers, independent financial audits, and routine discussions with servicers.

Servicer Performance and New Loan Allocation

Education uses five performance measures—intended to improve customer service to borrowers and reduce borrowers' delinquency and default—to assess loan servicers on a quarterly basis. They are (1) customer service satisfaction, based on a survey of borrowers (worth 35 percent of servicer's overall score); (2) percentage of borrowers in current repayment status, or less than 6 days delinquent (30 percent of score); (3) percentage of borrowers more than 90 but less than 271 days delinquent (15 percent of score); (4) percentage of borrowers more than 270 but less than 361 days delinquent (15 percent of score); and (5) FSA employee survey results (5 percent of score).[16] Loan servicers compete twice annually for additional loans based on their relative average quarterly performance on these metrics, although TIVAS and NFPs did

[16]Beginning in September 2014, to incentivize loan servicers to provide better customer service to borrowers and help them repay their loans on time, Education made changes to the servicer performance metrics and their relative weights. In the past, all performance metrics were given equal weight at 20 percent each. Now, Education provides more weight to the borrower customer service satisfaction metric (35 percent) and to the metric regarding the percentage of borrowers in current repayment status (30 percent). In addition, TIVAS used to be rated on a customer satisfaction survey of school financial aid professionals, but after receiving feedback from school financial aid professionals that they had insufficient interaction with loan servicers to evaluate their performance, Education eliminated this metric. The customer service satisfaction survey is conducted each quarter with approximately 250 borrowers per servicer. Education reported it recently switched from a phone survey to an online survey for borrowers. The FSA employee survey is administered to any FSA managers who have had contact with a servicer in a given quarter.

not compete against each other for new loans until March 2016.[17] Each servicer is assigned an allocation of new loans by dividing that servicer's total score by the combined total scores of all servicers.[18] However, some types of loans are only handled by a subset of servicers or a single servicer. For example, new Consolidation Loans are serviced only by the TIVAS, and a single servicer handles all loans in the Public Service Loan Forgiveness (PSLF) program, which is intended to encourage individuals to work full-time in public service jobs.[19]

[17]Until early in 2015, only the 4 TIVAS received borrower accounts for newly disbursed loans; as a result, TIVAS portfolios included a broad range of borrowers from all stages of the student loan lifecycle. In contrast, when they entered the program between 2011 and 2013, the NFP servicers were only assigned loans already in repayment because they did not have interfaces to the system used to originate and disburse—and through which servicers receive—new loans. NFPs began to receive newly originated loans in January 2015. From that point, TIVAS and NFPs competed in separate pools, using common metrics established in late 2014, for a share of new loan volume, of which NFPs were assigned a total of 25 percent. However, the Consolidated Appropriations Act, 2016, Pub. L. No. 114-113, 129 Stat. 2242, 2635, required that, as of March 1, 2016, Education must assign new student loan borrower accounts to servicers on the basis of their performance compared to all loan servicers utilizing established common metrics, and on the basis of the capacity of each servicer to process new and existing accounts.

[18]Loans for an existing borrower may, to the maximum extent practicable, be sent to the servicer already holding that borrower's other loans.

[19]The Public Service Loan Forgiveness (PSLF) program forgives the remaining balance on a borrower's Direct Loans after the borrower has made 120 qualifying monthly payments under a qualifying repayment plan while working full time for a qualified public service organization. Loans from other federal student loan programs, such as the Federal Family Education Loan (FFEL) Program or the Federal Perkins Loan Program, do not qualify for PSLF unless they are consolidated into a Direct Consolidation Loan. Loans made through the Federal Perkins Loan Program are low-interest federal student loans for undergraduate and graduate students with exceptional financial need.

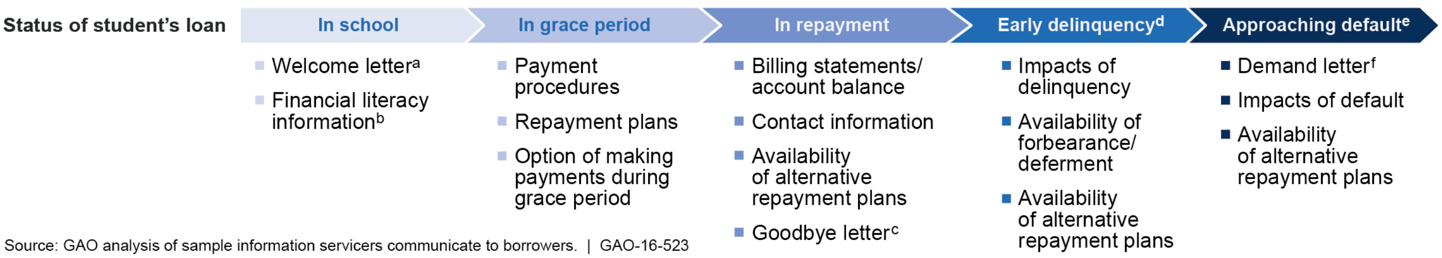
Education and Servicers Communicate a Range of Information, but Some Borrowers Reported Limited Access to Servicer Call Centers

Education and contracted servicers communicate a range of information about federal Direct Loans to borrowers over a loan's life cycle, but some borrowers reported limited ability to contact their servicers by phone. Education and servicers provide information to help borrowers understand their responsibilities as recipients of Direct Loans and options for meeting their Direct Loan obligations. Borrowers receive initial information about their loans and related rights and responsibilities through information provided on their promissory note and through mandatory entrance and exit counseling that schools provide or that borrowers can access through Education's website.[20] In addition, Education's website provides a broad array of general Direct Loan program information, including information and a form for repayment options, and information on delaying payment through forbearance or deferment. Servicers communicate information to borrowers that includes payment procedures, processes for delaying payment through forbearance or deferment, and alternative repayment plans. They also communicate information tailored to borrowers' loan status, such as when they are in school, in a 6-month grace period after leaving school, in repayment, or facing delinquency or default (see fig. 2). Servicers

[20]Entrance counseling must be provided to first-time borrowers before the first disbursement of the loan. The counseling must include an explanation of the master promissory note, the significance of the borrower assuming an obligation to repay a student loan, the consequences of default, and sample monthly repayment amounts, in addition to other specific information related to the borrower's rights and responsibilities with respect to the loan, and the terms and conditions of the loan. Exit counseling must be provided before a student leaves school. Exit counseling includes a review of the information provided during entrance counseling, an estimate of average anticipated monthly payments based on the borrower's actual student loan debt or the average student loan debt of borrowers in the same program at the same school, specific information about available repayment options and debt management strategies, and information about whom the borrower may contact regarding questions about the terms and conditions of his or her loan. See 20 U.S.C. § 1092(l) and 34 C.F.R. § 685.304(a) for entrance counseling requirements and 20 U.S.C. § 1092(b) and 34 C.F.R. § 685.304(b) for exit counseling requirements.

communicate information to borrowers using web-based technology, such as online accounts, as well as email, mail, and by phone.[21]

Figure 2: Sample Information Servicers Provide to Borrowers over a Direct Loan's Life Cycle



Source: GAO analysis of sample information servicers communicate to borrowers. | GAO-16-523

[a]Correspondence that introduces borrowers to their new assigned servicer, specifies services provided, and identifies servicer contact information. Servicers also provide welcome letters when a loan is transferred to a different servicer.

[b]Information to help borrowers manage their personal finances and manage loans.

[c]Correspondence that informs the borrower that a new servicer will be servicing the borrower's loan.

[d]Early delinquency refers to that period of time beginning on the first day when a borrower misses a loan payment, reflecting an account that is no longer current.

[e]Borrowers are considered to be approaching default status as their loan draws closer to becoming 270 days delinquent.

[f]Correspondence that demands payment on defaulted loans and advises the borrower of related consequences, such as reporting loan status to credit bureaus.

[21]While the Telephone Consumer Protection Act of 1991, Pub. L. No. 102-243, 105 Stat. 2394, placed certain restrictions on how wireless phones could be contacted, the Bipartisan Budget Act of 2015, Pub. L. No. 114-74, 129 Stat. 584, 588, allows for the use of automatic dialing systems when contacting wireless phones in the collection of debt owed to or guaranteed by the United States without the need to obtain the borrower's prior express consent. That Act required the Federal Communication Commission to issue implementing regulations by August 2016.

Sample Comments from Direct Loan Borrowers Interviewed by GAO

"Having more customer service hours late in the day would help me obtain more timely information about repayment plans that would match what I could afford to pay."
—Borrower in repayment

"Greater opportunity to contact servicers would help me better align my loan repayment amount with my planned career and income."
—Borrower in deferment

"Because I could not contact the loan servicer on my own terms, my credit score took a big hit, it caused a lot of stress, the list goes on."
—Borrower in delinquency

Source: GAO interviews with Direct Loan borrowers. | GAO-16-523

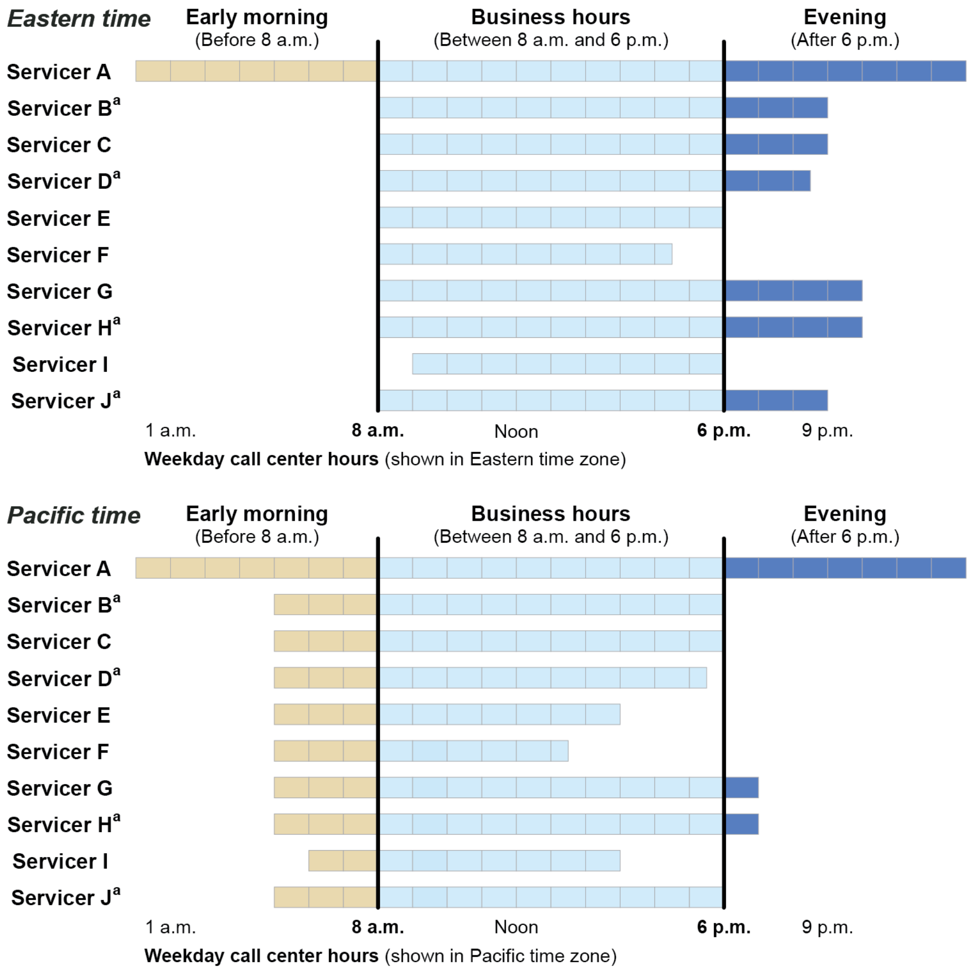
While Education and servicers provide a range of information, many borrowers have limited telephone access to their assigned servicers to obtain information they need to manage their loans. Education lacks a minimum standard for servicer call center hours and allowed servicers to specify their own call center hours. As a result, Education has approved widely variable hours for servicer call centers. Six of 24 borrowers we interviewed reported difficulties in contacting their assigned servicer by phone outside of work hours. Three of these borrowers said they experienced a range of adverse effects at least in part due to limited servicer hours, such as missing opportunities to participate in alternative payment plans when their income changed, falling behind on payments, or slipping into delinquency (see sidebar).[22] Borrowers also noted similar concerns regarding call center accessibility in summary results from Education's 2014 and 2015 borrower satisfaction surveys. In both years, Education identified servicers' call center hours as a key item needing improvement—a focus that would align with FSA's strategic goal of providing superior customer service.

Given that servicers work with borrowers in multiple time zones, call center hours can adversely affect borrower access in different parts of the country, with particular limitations for borrowers on the West Coast. For example, West Coast borrowers with an East Coast servicer whose call center hours end at 1:30 p.m. Pacific time (4:30 p.m. Eastern time) cannot contact their assigned servicer by phone in the afternoon or evening. We found that 3 of 10 servicers close at or before 6 p.m. Eastern time, or 3:00 p.m. Pacific time Monday through Friday—up to 4 hours before most other servicers. Furthermore, four servicers offer limited call center hours on Fridays, closing 1 to 4 hours earlier than on other

[22]We earlier reported that Education has taken steps intended to increase borrower awareness of income-driven repayment plans, but has not consistently provided information about these plans to borrowers who have entered repayment. Once borrowers enter repayment, Education primarily relies on its loan servicers to communicate directly with them about repayment options. Although Education requires loan servicers to send certain communications to borrowers who already participate in income-driven repayment plans, it has not established specific requirements for how servicers communicate with other borrowers about the plans. In this report, we recommended that the Secretary of Education take steps to consistently and regularly notify all borrowers who have entered repayment of income-driven repayment plan options, including Income-Based Repayment and Pay As You Earn. See GAO, *Federal Student Loans: Education Could Do More to Help Ensure Borrowers Are Aware of Repayment and Forgiveness Options*, GAO-15-663 (Washington, D.C.: Aug. 25, 2015) for additional information.

weekdays. Together, these limited weekday hours and early closings on Fridays affect customer service access for about 8.6 million Direct Loan borrowers. Only 1 of the 10 servicers offers call center hours on weekends, and it also operates 24 hours a day (see fig. 3). When servicer call centers are closed, borrowers are connected with an automated voice response system. However, summary results of Education's customer satisfaction surveys of borrowers in 2014 and 2015 showed that borrowers also had concerns about the usefulness of servicers' automated voice response systems when trying to obtain additional information.

Figure 3: Weekday Hours for Direct Loan Servicer Call Centers, in Eastern and Pacific Time



Source: GAO analysis of servicer websites. | GAO-16-523

[a]These servicers have reduced call center hours on Fridays.

While loan servicers communicate with borrowers through various means, some servicers we contacted said phone calls are a key way they connect with borrowers to provide information when an account's status changes or to help avert delinquency and default. For example, one servicer said borrowers have a need for information when a loan goes into forbearance or deferment or when there is a change in the repayment schedule, while a second servicer said it calls borrowers to provide information when a loan is transferred to a different servicer. Another servicer we spoke with emphasized borrower habits that help make them successful in managing their loans, including directly reaching out to servicers by phone to avoid delinquency or default. The servicer said borrowers who remain connected with their servicer feel more responsible for effectively managing their loans and are less likely to default. Borrowers also find it helpful to communicate directly with servicers. For example, some borrowers experience unanticipated income changes that affect their ability to make loan payments on time or in the required amount. Borrowers we interviewed said during these times, they find it most helpful to speak directly with servicer representatives about their unique and changing needs.

In 2015, Education, the Department of the Treasury, and the Consumer Financial Protection Bureau developed a framework for student loan servicing, as directed by the President's Student Aid Bill of Rights. This framework states that borrowers and servicers alike would benefit from a clear set of minimum requirements for services provided by student loan servicers and for servicer communications with borrowers, including adequate and timely customer service.[23] Though Education has no minimum standard for servicer call center hours, it has recognized the importance of such a standard in other contracts. We previously reported that Education has a customer service standard requiring its Common Origination and Disbursement contractor to provide phone access for borrowers and others from 8:00 a.m. to 8:00 p.m. Eastern time.[24] Education officials told us these hours are now from 8:00 a.m. to 11:00 p.m. Eastern time. Similarly, the Internal Revenue Service provides standard call center hours of 7:00 a.m. to 7:00 p.m. local time, Monday through Friday. In addition, the World Bank Group's International Finance Corporation guidance for establishing hours of call center operations states that call center hours should be periodically reviewed and revised based on an assessment of customer demand.[25] Education officials said

[23]U.S. Department of Education, *Strengthening the Student Loan System to Protect All Borrowers.* October 2015.

[24]This customer service standard requires that the contractor provide bi-lingual (English and Spanish) phone support to schools, students, parents, and borrowers Monday through Friday from 8:00 a.m. to 11:00 p.m. Eastern time. For related information, see GAO, *Managing For Results: Selected Agencies Need to Take Additional Efforts to Improve Customer Service,* GAO-15-84 (Washington, D.C.: Oct. 24, 2014).

[25]International Finance Corporation, World Bank Group, *Designing and Building a Call Center for Mobile Money Financial Services*, extracted from www.ifc.org, December 2015.

they will consider making changes to call center hours as they recompete servicer contracts in 2016, by taking into account factors such as practices in the commercial marketplace. However, Education's lack of a minimum standard for servicer call center hours, and the limited hours currently provided, impede borrowers' access to customer service that is responsive to their needs and puts them at greater risk of delinquency or default.

Education Has Implemented Mechanisms to Oversee Servicers, but Key Weaknesses Limit Its Ability to Manage the Direct Loan Program

Education Oversees Servicers but Lacks a Comprehensive Way to Track Borrower Complaints

Education has a variety of mechanisms to conduct oversight of the Direct Loan program and to help ensure that servicers comply with Direct Loan federal requirements. Our analysis found that these oversight mechanisms fall into three main categories: performance monitoring, compliance monitoring, and internal coordination groups. For examples of these mechanisms, see sidebar.[26]

[26]We commented on Education's monitoring of phone calls between servicers and borrowers in a previous testimony, which found that there were weaknesses in the processes for selecting calls to be monitored and for documenting results. To address these findings, we recommended that Education improve its methodology for monitoring calls between servicers and borrowers, and improve documentation of its call monitoring. For more details, see GAO-16-196T.

Examples of Education's Direct Loan Oversight Mechanisms

Performance Monitoring

Phone call monitoring: review calls between servicers and borrowers to determine if servicers are providing accurate information and acceptable customer service.

Complaint systems: track and resolve borrower complaints received by Education and servicers.

Quarterly and annual performance reports: gauge servicer performance against performance metrics; results are used to assign new loans and to regularly monitor that the servicers are meeting key requirements.

Compliance Monitoring

Annual program compliance reviews: assess servicer compliance with program and contract requirements.

Catalog of identified financial deficiencies: corrective action plans that servicers must implement to address problems found by Education in servicers' annual financial statements.

Annual servicer financial audits: results inform Education's annual overall assessment of Education's internal controls over financial reporting.

Annual contract monitoring plans: Education uses to track and monitor servicer process issues and financial matters, including activities related to performance issues and annual servicer financial audits.

Internal Coordination Groups

FSA's Operating Committee: meets weekly to coordinate responses on Direct Loan issues that require immediate executive-level attention.

Financial Monitors and Escalated Issues Group: meets weekly to identify, monitor, and track resolution of financial issues.

Monthly Risk Management Committee: identifies and tracks Direct Loan risks and corrective action plans identified through OIG, GAO, or financial statement audits.

Servicer Monitoring Group: meets monthly to monitor, analyze, and escalate servicer performance issues to the office of FSA's Chief Operating Officer.

Source: GAO analysis of information from Department of Education interviews and documents. | GAO-16-523

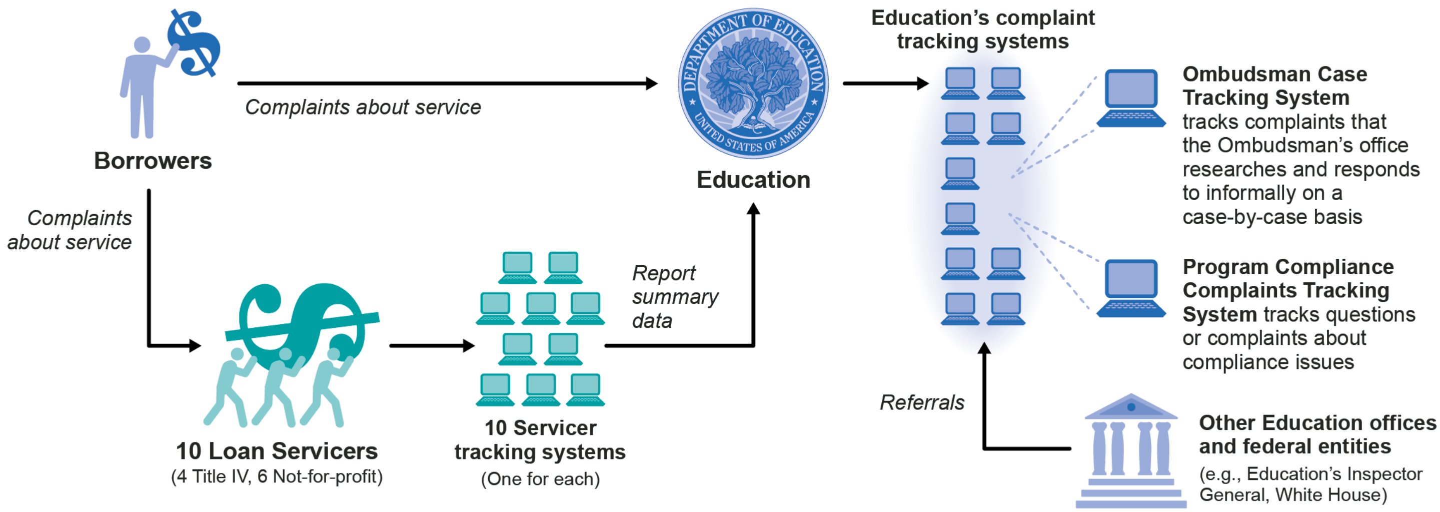
Education officials said that they continuously review their oversight processes by checking to see what works, identifying opportunities for issues to focus on for review, and determining the effectiveness of resolutions. While Education uses multiple mechanisms to oversee servicers, it lacks a systematic way to capture all borrower complaints, including those received through servicers, and make improvements. Education currently relies on various entities, including FSA's Ombudsman[27] and servicers, to collect and resolve complaints on a broad range of issues.[28] Education records borrower complaints in a dozen different systems within the department, including the Ombudsman Case Tracking System, and the Program Compliance Complaints Tracking System.[29] In addition, each of the 10 servicers also receives borrower complaints pertaining to their Direct Loans (see fig. 4).

[27]The FSA Ombudsman's Office was established by the Higher Education Amendments of 1998, Pub. L. No. 105-244, 112 Stat. 1581, 1609. The Ombudsman is a resource for borrowers to use when other approaches to resolving student loan problems have failed. The Ombudsman uses informal dispute resolution processes to address complaints about the Title IV financial aid programs, including the Direct Loan program.

[28]Other Education entities involved in borrower complaint tracking include FSA's Information Center, FSA's servicer liaisons, FSA's Research and Customer Care Center, and the Office of Inspector General, among others.

[29]According to Education officials, Education receives complaints, referrals, and inquiries regarding student loan programs through its Program Compliance Complaints Tracking System. Complaints in the Program Compliance Complaints Tracking System originate from several sources, including directly from borrowers, loan servicers, and schools.

Figure 4: Flow of Direct Loan Borrower Complaints to Education and Loan Servicers



Source: GAO analysis of Education and servicer complaint information. | GAO-16-523

Differences in complaint categories maintained by Education and servicers do not allow for easy comparison of data, and therefore present challenges in determining overall trends in borrower complaints. For example, we found that two of Education's key complaint tracking systems, its Program Compliance Complaints Tracking System and its Ombudsman Case Tracking System, and the systems maintained by six of the seven loan servicers we contacted, used a combined total of at least 74 different complaint categories from 2012 through 2014. Only 17 of these were used by both servicers and Education.[30] In 2015, Education began requiring each servicer to provide monthly reports on the number of borrower complaints received, organized into 23 different categories. While this helps to streamline and standardize how servicers are

[30] Servicers we contacted provided us with a range of information for the categories they used to track borrower complaints. For example, some servicers provided us with more detail on the categories, breaking them down into subcategories, while others provided us with less. The servicer complaint category information also covered different time periods: some servicers provided information for one fiscal quarter, while others provided information that spanned a year or more. While this data is not representative of all complaints used by all servicers and does not always match in time periods covered, it provides information on the types of categories used by servicers and Education, including the categories they had in common through fall 2015.

reporting borrower complaints to Education, these reports do not have sufficient information for Education to understand the nature of the specific issue raised by the borrower. For example, according to Education, in August 2015, servicers reported a monthly total of 8,445 complaints in the category of "service quality," and 3,956 complaints for "payment issues," but Education officials told us they did not receive any further information on what was actually contained in these complaints. Further, Education's definitions of these categories are also very broad: "service quality" includes any complaint regarding a customer service representative or poor customer experience, with issues ranging from correspondence never received to dissatisfaction with the servicer or quality of the customer service representative; while "payment issues" can include unapplied, missing, or duplicate payment issues, questioning a payment or payment posting, or reapplication of payments including those made at a prior servicer. In addition, Education does not use all of the same 23 servicer complaint categories in its own complaint tracking systems, and has yet to harmonize the different complaint categories and formats in the complaint tracking systems used by its various offices. Education officials told us that they review the escalated complaints Education receives with the servicers and obtain related data from them, and that they are in the process of organizing complaint categories and their alignment with those of other Education offices. However, these multiple, different complaint categories make it difficult for Education to collectively examine, compare and prioritize specific information and key issues, and to determine if further actions are needed to ensure servicers meet the agency's strategic goal of providing "superior service and information to students and borrowers."

In March 2015, the President signed a Student Aid Bill of Rights which requires that by July 1, 2016, Education develop and implement a simple process for borrowers to file complaints regarding federal financial aid and track their resolution.[31] As of February 2016, Education officials said they had completed design of the planned unified system and were in the process of building and testing it. Education officials said they were on track to fully implement this new system by the July 2016 deadline. Education officials said the new unified system will generate more robust,

[31]See Presidential Documents, *Memorandum of March 10, 2015 – Student Aid Bill of Rights to Help Ensure Affordable Loan Repayment*, 80 Fed. Reg. 13,475 (Mar. 13, 2015).

standardized borrower complaint information from across various Education functions. In addition, Education officials said that borrowers will be able to enter and track their own complaints in this new system, and partner portal functions will allow responsible entities, such as servicers, to respond directly to a borrower complaint received by Education. Education officials said they will also be able to use the complaint tracking system to gather analytical data to determine trends, help inform oversight, drive service improvements, and produce reports to publish on its public website.

While this new complaint tracking system will be a positive step toward providing better information to Education, servicers, and borrowers, certain shortcomings and uncertainties will remain. According to Education officials, the new system will not initially include the content from borrower complaints received by servicers. Education officials said that the new Education complaint tracking system and the servicer complaint processes serve two separate purposes: the servicer complaint process is intended for initial use by customers and to provide satisfactory resolution quickly and efficiently for cases that do not require the intervention of the department; while Education's new complaint tracking system is intended to be used by customers who have a case that cannot be, or was not, satisfactorily resolved by their servicer or for customers who may be reluctant to submit a complaint through their servicer. One Education official also said that there are challenges to integrating the servicers' complaint information into the department's new complaint tracking system, as there are 10 servicers with 10 different systems for collecting complaint information, and there is no requirement for them to have a common storage system or format. Further, Education officials said that they did not want to depend on each customer service agent across all servicers to decide what gets entered into the new complaint tracking system, as even with extensive training, there would be differences in interpretation. Education officials said that in the current contract environment they will continue to separately collect from each servicer the number of complaints received in 23 complaint categories. Therefore, even though servicers will be able to use the new system to respond to complaints that Education receives directly, Education will still not see the thousands of complaints that servicers receive.[32]

While Education has taken steps to improve and streamline how it tracks the borrower complaints it receives, by not including the thousands of complaints collected each month by servicers, Education will continue to lack full information on all borrower complaints. Federal internal control standards state that an agency's management should ensure there are adequate means of communicating with, and obtaining information from, external stakeholders that may have a significant impact on the agency achieving its goals.[33] In addition, Education has identified an integrated borrower complaint tracking system as a key mechanism to enhance oversight and customer service.[34] By not collecting all borrower complaint information, Education will not be able to comprehensively analyze and readily address overall trends, and respond to the full array of borrower complaints, impeding its ability to ensure that the Direct Loan program fully meets its strategic goals of providing superior customer service and effectively meeting borrower information needs.

[32]Relatedly, we found in our prior work that while borrowers primarily provide direct feedback online or on the phone to a servicer, Education officials do not provide any criteria or process by which the servicer would elevate customer feedback, and recommended that Education develop a feedback mechanism that includes guidance or criteria for service providers to elevate customer feedback to identify the need for and to make service improvements. See GAO, *Managing For Results: Selected Agencies Need to Take Additional Efforts to Improve Customer Service*, GAO-15-84 (Washington, D.C.: Oct. 24, 2014).

[33]GAO, *Standards for Internal Control in the Federal Government*, GAO/AIMD-00-21.3.1 (Washington, D.C.: November 1999).

[34]U.S. Department of Education, *Strengthening the Student Loan System to Better Protect All Borrowers* (Washington, D.C.: Oct. 1, 2015).

Education's Servicer Performance Metrics and Compensation Do Not Fully Align with Strategic Goals for Ensuring Quality Customer Service and Program Integrity

As noted previously, Education currently bases its allocation of new borrower accounts to servicers on performance metrics aimed at improving customer service to borrowers and reducing borrowers' delinquency. Education compensates servicers based on the status of the borrowers they service. However, these metrics and the related compensation structure can sometimes hinder Education's strategic goals of providing superior customer service and ensuring program integrity.

While Education uses the results of a quarterly customer satisfaction survey as one of its current performance metrics, all seven servicers we interviewed raised concerns that other aspects of the performance metrics and the compensation structure conflict with the overall goal of providing borrowers quality customer service. For example, Education officials told us they do not adjust servicer compensation for portfolio losses or gains when a borrower's account moves to a different servicer, such as when a borrower chooses to consolidate multiple federal loans into a Direct Consolidation Loan, which only the TIVAS can service. In addition, consolidations can help make borrowers eligible for debt relief programs such as Public Service Loan Forgiveness (PSLF),[35] and all loans that Education certifies for PSLF are transferred to one servicer.[36] Because servicers are not compensated for their loss when a loan is transferred, in effect, they are paid less than if they were able to keep all of their assigned loans.

Education officials acknowledged that the lack of compensation for transferred loans could be a disincentive for servicers to counsel borrowers about loan consolidation and PSLF. They said that they believe their oversight efforts discourage servicers from acting on this potential disincentive. They also said they do not currently account for any transfers in servicer compensation because it is complicated to include

[35]Beginning in 2017, the PSLF program will offer loan forgiveness on the remaining Direct Loan balances of borrowers who complete at least 10 years of qualifying public service employment and meet other requirements.

[36]In January 2012, Education established a process to certify borrowers' public service employment and loans for PSLF. Education officials said that due to the additional requirements of servicing PSLF, the government conducted a competition across all TIVAS to identify a single servicer to handle all loans certified for PSLF. Borrowers may submit information about their employment at any time or wait until they apply for loan forgiveness beginning in October 2017.

them when they affect a relatively small portion of the overall loan portfolio. Education officials said they want to keep the performance metrics and related compensation simple and straightforward. However, while as of March 2016, Direct Consolidation Loans only represented about 8 percent of all Direct Loans, about 6 million borrowers had them. Relatedly, Education's loan servicer for the PSLF program reported that it had certified employment and loans for fewer than 335,000 borrowers in 2015, while our prior work found that the number of eligible borrowers was likely far higher; certification is voluntary and we estimated that about 4 million borrowers may be employed in public service.[37] We also found in our earlier work that Education had not assessed its efforts to increase borrower awareness of PSLF.[38] Education primarily relies on loan servicers to communicate with borrowers who have entered repayment, and while loan servicers make information about PSLF available through their websites and customer service representatives, borrowers do not seek this information if they are not aware the program is available. Therefore, a disincentive for servicers to counsel borrowers about the program could prevent additional eligible borrowers from benefitting from it. Education officials told us that they will consider making changes to performance metrics and the basis for compensation, to account for PSLF and consolidation transfers when they recompete servicer contracts in 2016, but have not done so yet.

Some servicers we interviewed also expressed concern that the time frames Education uses in its delinquency performance metric affect servicer incentives to provide quality customer service. In October 2014, Education changed how it defines a borrower as delinquent in both the servicer performance metrics and related compensation structure. All servicers are now held accountable for borrowers who miss a payment by more than 5 days. Prior to October 2014, TIVAS servicers did not have a delinquency performance metric, and instead were evaluated on the percentage of borrowers in default and the percentage of their portfolio in default. NFP servicers were evaluated on the percentage of borrowers

[37]See GAO, *Federal Student Loans: Education Could Do More to Help Ensure Borrowers Are Aware of Repayment and Forgiveness Options*, GAO-15-663 (Washington, D.C.: Aug. 25, 2015). Our estimate for 4 million borrowers who may be employed in public service is based on 2012 annual employment data from the Bureau of Labor and Statistics.

[38]GAO-15-663.

who had missed payments by 90 days or more, and on their success in curing borrower delinquencies that were 180 days or greater.[39] Education officials said they originally wanted the delinquency metric and related compensation to start at zero days instead of after 5, but decided to extend it to allow for later automatic postings to borrower accounts from electronic payments. Education officials said that in assessing the process through which borrower payments are posted to their accounts, they determined that some payments scheduled near the end of a month may not be posted for up to 5 days because of holidays, weekends, and processing time for payments to be made to the lockbox maintained by the Department of the Treasury, in addition to time needed for payment postings to be reported to servicers. Education officials also said they made this change without industry input. Some servicers also told us they are used to seeing industry standards that hold them accountable for borrower delinquency at a later point—for example, missing a payment at 15 or 30 days. In addition, under the FFEL program, a servicer was required to send a written notice or collection letter to a borrower by the 15th day of delinquency.[40] Based on their own analyses, two servicers told us that changing the delinquency metric and compensation amounts incentivized them to put more resources toward a large group of borrowers who may simply be chronically late payers but are not at serious risk of default, and away from truly distressed borrowers, thus impacting the quality of customer service that the most at risk borrowers

[39]Prior to October 1, 2014, TIVAS had different performance metrics and compensation than NFPs because Education provided the two types of servicers with different loan portfolios. While the TIVAS serviced the full range of loans – those for borrowers in school, in a grace period, and in repayment – the NFPs were only assigned loans for borrowers already in repayment. Beginning October 1, 2014, TIVAS and NFPs started to operate under common pricing and performance metrics, and NFPs started to receive newly originated loans that were for borrowers in school and in grace periods.

[40]Under the Federal Family Education Loan (FFEL) Program, loans were provided by nonfederal lenders and repayment guaranteed by the federal government. For many years, essentially the same set of loans available under the Direct Loan program were also available through the Federal Family Education Loan (FFEL) program. In March 2010, the SAFRA Act, enacted as part of the Health Care and Education Reconciliation Act of 2010, terminated the authority to make or insure new FFEL loans after June 30, 2010. Instead, borrowers who would have been eligible to receive FFEL loans could receive loans made by Education under the Direct Loan program.

receive. Further, an interagency task force[41] reported that some student loan stakeholders suggested the current metrics and compensation motivate servicing contractors to spend unnecessary resources on borrowers 1 to 5 days delinquent who would otherwise "self-cure"[42] (e.g., the delinquency may be due to the borrower's income regularly becoming available after their loan payment date).

Education also does not include any performance metrics to measure servicers' program compliance, though program integrity is a particular goal of the agency. By not including metrics that address its goal of program integrity, Education is not fully aligning its performance measures with its goals, one of the key attributes of successful performance measures.[43] Education has a range of oversight activities to help ensure program integrity, including Education's annual compliance reviews. These compliance reviews have found repeated servicer issues related to how loan payments are processed, improper tracking of and use of deferments, and improper loan discharges and default processing. Such compliance issues had no effect on the amount of Direct Loan accounts servicers were awarded the next year. For example, fiscal year 2011 compliance reports found that servicers had not given borrowers a full grace period before they were required to start making payments.[44] Education officials said that there were 31,113 loans in total that were not given their full grace period, and that the potential impact of this was that

[41]The task force consisted of Education, the Department of the Treasury, Office of Management and Budget, and the Domestic Policy Council. To develop its recommendations, the task force also consulted with the Consumer Financial Protection Bureau, and experts on performance-based contracting, student lending, and servicing other forms of consumer debt.

[42]"Self-cure" refers to a delinquent borrower being able to solve the issues that led to delinquency in the first place, and make loan repayments without any assistance from the lender.

[43]In our prior work, we noted nine key attributes for successful performance measures, including the one cited here. For more information, see GAO, *Tax Administration: IRS Needs to Further Refine Its Tax Filing Season Performance Measures,* GAO-03-143 (Washington, D.C.: Nov. 22, 2002).

[44]Education officials told us that while servicers understood how to calculate the grace period, they did not execute it properly due to the use of incorrect data fields. Education officials said that they could not locate people or documentation that would speak to whether Education directed the servicers to use the incorrect data fields, or whether the servicers selected these data fields themselves.

servicers began sending bills to borrowers for their loans before their full 6-month grace period had expired. In addition, in fiscal years 2013 through 2015, compliance reports found that six servicers did not appropriately track deferments, or granted deferments to ineligible borrowers in at least one year. In one compliance review, a servicer failed to rescind deferments that were granted to ineligible borrowers.[45] The government pays interest for subsidized loans in deferment. As a result, the government would incur additional costs unnecessarily when deferments are granted erroneously. In addition, borrowers with other types of loans in deferment must pay for the additional interest on their loans. Education officials said that they only found deficiencies in 3.7% of the servicer activities identified in their compliance reviews. However, Education did not provide us with information on how many borrowers were impacted by these deficiencies.

Further, the interagency task force recommended that Education incorporate assessments of compliance, such as measures of their audit and compliance review scores, into Direct Loan servicer performance metrics. While Education officials told us they have a process to resolve Direct Loan audit findings and servicers are required to take corrective measures to address them, this process is separate from Education's

[45]In the compliance reports we reviewed, three servicers granted deferments to ineligible borrowers, but just one was cited for failing to adequately correct them. Education officials said that a prior servicer, who is no longer servicing these loans, was responsible for granting deferments to ineligible borrowers, and the current servicers inherited these errors when the loans were transferred to them. Education decided to accept the risk of not correcting the errors created by the prior servicer back to the point at which the error was created. Education officials said that this benefited some borrowers, who received more deferment than they were entitled to receive. However, Education said that current servicers corrected the errors retroactively, taking back the deferments to the point at which the loans were transferred to them. To address this, Education said that servicers could use an administrative forbearance to cover the period of deferment that was granted to a borrower who was not eligible for it. However, Education did not provide us with information on the extent servicers granted administrative forbearance to borrowers. These multiple changes to the borrowers' loans could cause much confusion for the borrowers.

performance metrics and compensation structure.[46] Compliance issues such as those found through the compliance reviews and other oversight mechanisms are not part of Education's metrics for evaluating servicer performance and assigning new loans, which are heavily based on whether borrowers are current on their payments.[47] As a result, servicers with more compliance errors do not receive fewer loans, and their borrowers may continue to experience servicing errors. Despite the fact that Education was part of an interagency task force that recommended Education incorporate assessments of compliance into servicer performance metrics, Education officials told us they believe that broad results directly tied to overall portfolio performance are the most appropriate driver for assigning new loans to servicers. Education officials also told us that the customer satisfaction survey of FSA managers, one of the servicer performance metrics, reflects the views of oversight and compliance managers, and the survey scores in part reflect the servicers' success in limiting and addressing compliance issues. However, the survey of FSA managers does not measure compliance directly, nor does it focus on managers' views on compliance.[48]

[46]Education officials told us that they have processes to remediate deficiencies through audits and reviews, with any persistent issues escalated up to the point of cure notices (notifications that specify a period - typically 10 days - for the servicer to remedy the condition, and if not corrected within this period, the cure notice states that the contractor may face termination of its contract), withholding payments, and warnings to transfer borrowers away from servicers. However, Education did not provide us with evidence that they have ever actually transferred borrowers away from servicers.

[47]Three of the five current metrics used to determine new loan allocation for servicers are related to repayment, including delinquent payments, and are worth a combined total 60 percent of each servicer's overall score.

[48]The FSA manager survey questions focus on FSA managers' satisfaction with working with the servicers' data systems, work products, information and communication, interactions, working relationship, and general overall experiences with the servicers. The survey also included open-ended questions about reasons for dissatisfaction with servicer performance, and suggestions for what servicers could do to improve their processes or practices for servicing federal loans. Servicers we interviewed expressed concern with the low participation in the FSA manager survey. For example, a survey conducted from July to September 2014 had a response rate of 54 percent, and a survey from April to June 2015 had a response rate of 58 percent. As the reports for these survey results noted, the number of respondents were too small to statistically assess the impact of the results on customer satisfaction.

Education officials told us they may consider alternative performance metrics and related compensation when they recompete servicer contracts in 2016, but they have not yet done so. Officials said the agency did not document the criteria it used to develop and select the current performance metrics and compensation structure. Education has recently undertaken a study on the effects of the new pricing and performance metrics on borrowers.[49] Nevertheless, Education has not conducted data-driven analysis to evaluate whether the existing performance metrics and compensation structure help the agency meet strategic goals. Unless Education takes steps to evaluate and better align its servicer performance metrics and related compensation with strategic goals,[50] borrowers will continue to be at risk of experiencing errors and poor customer service.

Conclusions

Key weaknesses in Education's customer service for borrowers and management of the Direct Loan program leave the agency unable to ensure that student loan borrowers are well-served. Accessibility of information is a major component of good customer service and is crucial to helping borrowers manage their loans and repay their debt, and phone communication is a key way servicers provide information to borrowers. However, without a minimum standard for servicer call center hours, some borrowers will continue to have difficulty contacting their assigned servicers, putting them at greater risk of delinquency or default. In addition, Education's oversight could be improved to better meet the agency's goals of ensuring program integrity and superior customer service. Without an integrated borrower complaint tracking system—identified by Education as a key mechanism to enhance both oversight and customer service—Education lacks comprehensive and comparable information on the nature of borrower complaints made to both Education and its contracted loan servicers, hindering its ability to track trends and address borrower concerns. Furthermore, without linking its evaluation of

[49]Education first told us about their work on this study in October 2015, and shared preliminary results with us in April 2016. While the study is ongoing and GAO did not have enough information about the study design and analysis to assess the interim results, Education noted that initial data seem to indicate better outcomes for borrowers, such as lower default rates and higher levels of repayment, as compared to borrower outcomes under the old system of pricing and metrics.

[50]See GAO/GGD-10.1.20 and GAO-03-143.

servicer performance metrics and compensation to the agency's program integrity and customer service goals, and without taking steps to better align them with those goals, Education's incentives for servicers will continue to have unintended and adverse effects on the customer service borrowers receive, and poor compliance will not affect Education's assessment of servicer performance or reduce the number of new loans assigned to servicers with more compliance issues.

Recommendations for Executive Action

To help address Education's strategic goal of providing superior customer service to borrowers, and to strengthen oversight of the Direct Loan program, we recommend the Secretary of Education take the following three actions:

1. 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.
2. 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.
3. Evaluate and make needed adjustments to Direct Loan servicer performance metrics and compensation to improve assessment, including using baseline data, and alignment with Federal Student Aid'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.

Agency Comments and Our Evaluation

We provided a draft of the report to the Department of Education for review and comment. In written comments, Education generally agreed with our findings and recommendations, stating that it is committed to providing federal student loan borrowers with complete, consistent, and easily accessible information to help them manage their debt and avoid delinquency and default.

In response to our recommendation on servicer call center hours, Education agreed to establish core hours in the requirements for servicers to help borrowers access live customer service representatives. Education also noted that borrowers can use interactive voice response and web technology to access information from their servicers during periods when live operators are not available. While these are additional tools for borrowers, they do not replace the need for access to live representatives, and, as we note in the report, Education's customer satisfaction surveys of borrowers in 2014 and 2015 raised concerns about the usefulness of servicers' automated voice response systems. Establishing core call center hours in servicer requirements, if implemented as Education described, would meet the intent of the recommendation.

In response to our recommendation that Education's complaint system should include comprehensive and comparable information on complaints made to both Education and servicers, Education expressed some potential challenges to including comprehensive information on complaints to servicers under the current servicing structure. However, it noted that its recent solicitation to procure a new loan servicing system will create a single web portal through which all borrowers can manage their accounts. Education stated that, when implemented, this new servicing environment, in conjunction with the department's new complaint system, will collect complaint information comprehensively, as we recommend.

In response to our recommendation that Education evaluate and make needed adjustments to Direct Loan servicer performance metrics and compensation to improve assessment and alignment with customer service and program integrity goals, Education agreed to evaluate existing and alternative performance metrics and compensation strategies as part of its ongoing student loan servicing procurement and reflect the results in future servicing contracts. As we mention in the report, Education has also recently undertaken a study on the effects of compensation and performance metrics on borrowers, and the agency stated it will continue this analysis. However, Education stated that our discussion related to compensation and performance metrics did not adequately acknowledge that these factors are only two elements in a broader contract management structure designed to support Education's strategic goal of providing "superior service," and cited such elements as monitoring, reporting, and ongoing servicer engagement as playing a key role in driving servicer performance. We acknowledged these efforts in our report and incorporated additional details about them based on Education's comments and additional supporting documentation. Although these additional elements may affect servicer performance, they do not change the allocation of new loans and the remuneration servicers receive. Therefore, we maintain that the performance metrics and compensation are primary drivers of servicer performance, which directly affects the borrower experience. Education also disagreed with our description that program compliance is not reflected in the current performance metrics, stating that the customer satisfaction survey of FSA managers in part reflects managers' views on the servicers' success in limiting and addressing compliance issues. While the FSA survey is one of the servicer performance metrics, it is not a direct measure of servicer compliance, nor does it specifically solicit the views of FSA managers about servicer compliance, focusing instead on elements such as communication with servicers, interacting with servicer data systems, and quality of working relationships. Moreover, as we note in the report, an interagency task force that included Education recommended that Education incorporate direct assessments of compliance, such as measures of audit and compliance review scores, into Direct Loan servicer performance metrics. For all these reasons, we continue to believe that Education should incorporate direct measures of compliance in its performance metrics.

Education also provided technical comments, which we incorporated as appropriate. Education's comments are reproduced in appendix I.

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 interested congressional committees and to the Department of Education. 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 are listed in appendix II.

Melissa Emrey-Arras

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

Appendix I: Comments from the Department of Education

April 29, 2016

Ms. Melissa Emrey-Arras
Director, Education, Workforce, and
Income Security Issues
Government Accountability Office
Washington, DC 20548

Dear Ms. Emrey-Arras:

Thank you for providing the U.S. Department of Education (Department) with an opportunity to review and respond to the draft of the Government Accountability Office (GAO) report, FEDERAL STUDENT LOANS: Education Could Improve Direct Loan Program Customer Service and Oversight (GAO-16-523).

The Department is committed to ensuring that we provide Federal student loan borrowers with complete, consistent, and easily accessible information to help them manage their debt and avoid delinquency and default. The student loan programs offer a wide range of repayment plans, loan forgiveness options, and entitlements such as deferments and forbearance; the very breadth of these options, and the need for borrowers to consider them within the context of their unique financial circumstances, creates unique challenges for the Department, Federal Student Aid (FSA), and our loan servicers. We appreciate your insights and recommendations, which we know are intended to assist us in our efforts to improve the borrower experience.

Over the past few years, we have taken a number of steps to enhance our customer service. Your draft report acknowledges many of these accomplishments, including changes to our contract pricing and performance incentives, the creation of a new Enterprise Complaint System (ECS), and our work with the Department of the Treasury and the Consumer Financial Protection Bureau to establish a framework for student loan servicing. We have also recently begun the crucial process of recompeting the student loan servicing contracts. Consistent with the President's Student Aid Bill Of Rights, our objectives for this new procurement include: implementing enhanced servicing oversight and enforcement capabilities; ensuring that borrowers receive consistent and high level service under a single Department of Education banner, regardless of who actually manages their account; and providing borrowers access to a single portal to receive information about all of their loans and which can be used to make payments and change repayment plans.

While we generally concur with the report's findings and recommendations, we believe the discussion related to compensation and performance-driven allocation of new borrower accounts to loan servicers does not adequately acknowledge that these factors are only two elements in a

Federal Student Aid
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830 First St. N.E., Washington, DC 20202

broader contract management structure designed to support our strategic goal of providing "superior service." Other elements of this structure -- such as monitoring and oversight; validation, reporting and reconciliation activities; and ongoing vendor engagement through ad hoc and regular meetings -- also play a key role in driving servicer performance. As written, the draft report leaves the reader with the inaccurate impression that changes to compensation and allocation structures represent the only way for the Department to affect servicer performance. In addition, we disagree with the suggestion that program compliance is not reflected in the current performance metrics themselves. The customer satisfaction survey of FSA managers reflects the views of oversight and compliance managers, whose scores in part reflect the servicers' success in limiting and addressing compliance issues.

With regard to the report's three recommendations, the Department's response to each of the recommendations follows:

Recommendation 1: 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.

Response: The Department will establish core call center hours in the requirements for the ongoing student loan servicing solicitation to help borrowers access live customer service representatives. We should note, however, that borrowers currently can use interactive voice response and web technology to access information from their servicers during periods when live operators are not available.

Recommendation 2: 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.

Response: Replacing the servicers' front-line complaint capture systems with ECS will significantly complicate the comparison of servicer complaint volumes within ECS in the current servicing environment. FSA does not want to depend on each customer service agent across all servicers to decide what gets entered into the ECS. Even with extensive training, there will be differences in interpretation. Additionally, one of the major benefits of the ECS will be the publication of complaint reports by servicer. FSA believes, and has heard from other organizations that capture complaints, that publically reporting complaint volume and resolution by vendor drives positive changes in vendor processes and service, including increased satisfactory resolution of complaints in a single call or expedited time frame.

By relying on the borrowers' individual action, or someone acting on the borrowers' behalf, to log a complaint, it removes the issue of judgment of the servicer and individual customer service representative. In addition, it provides extra incentive for servicers to do a better job of satisfactorily resolving complaints at first contact.

Page 3 – Ms. Melissa Emrey-Arras

FSA will conduct communication and awareness campaigns to ensure borrowers know of the existence and purpose of the complaint system. One of the communication channels used will be through the servicers.

Finally, as you may know, we recently issued a solicitation to procure a new state-of-the-art loan servicing system. Under the planned contract, FSA will create a common borrower experience and common branding by, among other things, creating a single web portal clearly labeled as representing the Department of Education through which all borrowers can access information, make payments, apply for benefits, and manage their accounts. This will reduce confusion caused by the current lack of a single interface and common branding. In this environment, borrowers will interact with the "Department of Education" as their servicer, rather than particular vendors using their own corporate identity. Consequently, when implemented, this new servicing environment, in conjunction with our new, centralized ECS, will collect complaint information comprehensively, as recommended by GAO.

Recommendation 3: Evaluate and make needed adjustments to Direct Loan servicer performance metrics and compensation to improve assessment, including using baseline data, and alignment with Federal Student Aid'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.

Response: As noted in your draft report, we have preliminary results from an analysis of the impact of the changes to servicer compensation and performance metrics that were implemented in late 2014. The initial results indicate that the changes have led to reduced delinquency and lower use of forbearances, both of which were goals of the revised structure. We will continue this analysis. In addition, we will evaluate existing and alternative performance metrics and compensation strategies as part of the ongoing student loan servicing procurement. The results of this evaluation, along with information gleaned from other market research conducted in the context of the procurement and proposals submitted by prospective vendors, will be reflected in future servicing contracts.

Thank you again for the opportunity to review and comment on the draft GAO report.

Sincerely,

James W. Runcie
Chief Operating Officer

Appendix II: GAO Contact and Staff Acknowledgments

GAO Contact

Melissa Emrey-Arras, (617) 788-0534 or emreyarrasm@gao.gov

Staff Acknowledgments

In addition to the contact named above, Kris Nguyen (Assistant Director), Rebecca Woiwode (Analyst-in-Charge), Hedieh Fusfield, Kristy Kennedy, Timothy Shaw, and Mark Ward made key contributions to this report. Additional assistance was provided by Amy Anderson, Susan Aschoff, James Bennett, Deborah Bland, Jessica Botsford, Jason Bromberg, Alexandra Dew Silva, Joel Green, Kurt Gurka, Benjamin T. Licht, Robin Marion, Jenn McDonald, Sheila McCoy, Jean McSween, Jeff Miller, Amy Moran Lowe, Ellen Phelps Ranen, Ken Rupar, Karissa Schafer, Paige Smith, Sonya Vartivarian, and William T. Woods.

Related GAO Products

Federal Student Loans: Key Weaknesses Limit Education's Management of Contractors.GAO-16-196T. Washington, D.C.: Nov. 18, 2015.

Federal Student Loans: Education Could Do More to Help Ensure Borrowers Are Aware of Repayment and Forgiveness Options. GAO-15-663. Washington, D.C.: August 25, 2015.

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