GAO Highlights

Highlights of GAO-16-196T, a testimony before the Subcommittee on Government Operations, Committee on Oversight and Government Reform and the Subcommittee on Higher Education and Workforce Training, Committee on Education and the Workforce, House of Representatives

November 18, 2015

FEDERAL STUDENT LOANS

Key Weaknesses Limit Education's Management of Contractors

Why GAO Did This Study

During fiscal year 2014, Education issued more than $99 billion in Direct Loans to 9.4 million borrowers. Education contracts with and monitors the performance of servicers that handle billing and other services for borrowers, and entities that support rehabilitation of defaulted loans. In 1998, federal law established FSA as a performance-based organization, giving it more flexibility to manage operations, including Direct Loans.

GAO's testimony focuses on: (1) how effective FSA's instructions and guidance to servicers are, (2) how well FSA monitors and documents calls between Direct Loan borrowers and servicers, and (3) the status of FSA's oversight of the defaulted loan rehabilitation process. The first two questions address recently completed GAO work on FSA's oversight of servicers and communications with borrowers. The third question reflects results of GAO's previously issued work. GAO reviewed FSA's contracts, policies, procedures, instructions, and guidance; analyzed its monitoring reports and processes; and reviewed relevant federal laws and regulations. GAO also interviewed federal officials, including officials from FSA, servicers, and representatives from higher education associations. We shared our findings with FSA officials and incorporated their comments as appropriate.

What GAO Recommends

GAO is recommending that FSA (1) review and improve how it provides instructions and guidance to servicers, (2) improve its methodology for monitoring calls between servicers and borrowers, and (3) improve documentation of its call monitoring.

View GAO-16-196T. For more information, contact Melissa Emrey-Arras at (617) 788-0534 or emreyarrasm@gao.gov.

What GAO Found

The Department of Education's Office of Federal Student Aid's (FSA) instructions and guidance to loan servicers are sometimes lacking, resulting in inconsistent and inefficient services to borrowers. While FSA has taken some steps to improve program instructions and guidance, six of the seven servicers GAO interviewed reported various issues resulting from absent, unclear and inconsistent guidance and instructions from FSA. For example, one servicer said there are no instructions for how to apply over- or underpayments to borrower accounts. In other cases, guidance is unclear; for example, according to one servicer, there is insufficient guidance on how to handle reporting certain types of adverse credit history to credit bureaus. Furthermore, in certain instances when FSA provided additional guidance or clarifications, it did not consistently share them with all servicers. Federal internal control standards state that information should be communicated in a form that enables entities to carry out responsibilities. Without improved guidance and instructions to servicers, borrower finances or the integrity of the Direct Loan program could be negatively affected.

FSA monitors calls between servicers and borrowers, but there are weaknesses in the processes for selecting calls to be monitored and for documenting results. For example, FSA monitors far fewer outbound than inbound calls, even though one servicer said it makes 60 times more outbound calls than it receives inbound calls, and outbound calls are often made to borrowers who are delinquent and at risk of default. Also, the methodology for selecting recorded calls for review is not well-defined and relies on servicers to implement, with no verification from FSA to ensure its integrity. This does not align with the Office of Management and Budget's best practices for developing sample designs. In addition, the overall results of the call monitoring are poorly documented. For example, summaries of monitored calls did not consistently track errors over time. FSA's Strategic Plan calls for enhancing customer-facing processes, but FSA's call monitoring leaves management without complete information it needs to understand how well servicers interact with borrowers.

FSA has taken some steps to improve its oversight of the defaulted loan rehabilitation process in response to GAO's March 2014 report. Loan rehabilitation allows eligible borrowers who make nine on-time monthly payments within 10 months to have the default removed from their credit reports. In March 2014, GAO found that FSA was unable to provide most eligible borrowers who completed loan rehabilitation with timely benefits, such as removing defaults from their credit reports, for more than a year after upgrading the information system it uses to manage defaulted loans. As a result of limited planning and oversight of its system contractor, no rehabilitations were processed from October 2011 until April 2012, and FSA officials said they needed until January 2013 to clear the resulting backlog. GAO recommended that FSA take steps to track loan rehabilitation performance and improve oversight of its system contractor. FSA agreed with the recommendations and has begun taking action to address them.