GAO Highlights

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

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.

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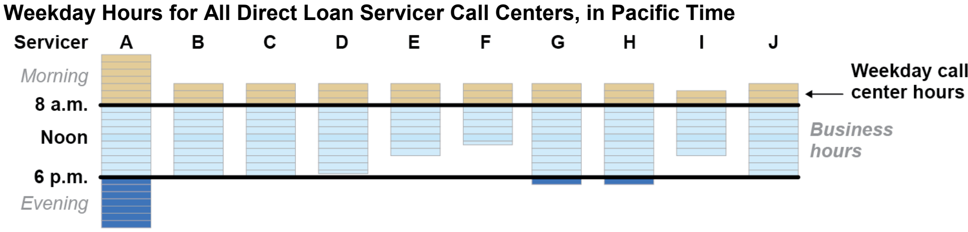
FEDERAL STUDENT LOANS

Education Could Improve Direct Loan Program Customer Service and Oversight

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.