National Council of Higher Education Resources
NCHER

March 9, 2022 Sent Electronically to: Jackson.McClam@ed.gov

Mr. Jackson McClam
Contracting Officer
Federal Student Aid
830 First Street, NE
Washington, DC 20002

RE: USDS RFI Response

Dear Mr. McClam:

On behalf of the National Council of Higher Education Resources (NCHER), thank you for the opportunity to respond to the Request for Information (RFI) posted on February 23, 2022 in which Federal Student Aid (FSA) is seeking information on the creation of a Unified Servicing and Data Solution (USDS). NCHER is a Washington, DC-based trade association that represents state, nonprofit, and private organizations who help students and families develop, pay for, and achieve their career, training, and postsecondary educational goals. Our membership includes organizations with long histories in servicing federal student loans, and several members currently have contracts with the U.S. Department of Education to service federally held loans.

**Fostering Competition that Improves Performance and Innovation**

NCHER does not believe that the federal student loan servicing system is fundamentally broken. The federal student loan program is the only loan program administered by the federal government in which no credit underwriting is performed prior to loan origination. While this is entirely appropriate given the compelling need to promote postsecondary education in the country, the servicing of such loans presents many challenges. The Department of Education and FSA must continue to focus on federal policy that reduces college costs; increases loan counseling, especially for first-time borrowers; and prevents overborrowing before a student or parent goes into repayment.

Since 2009, the Department of Education has used not-for-profit and for-profit organizations to provide important services to borrowers with loans made under the Federal Direct Loan Program. Besides handling general billing and payment processing, federal student loan servicers are the primary contact point for borrowers and assist students and parents who are in repayment on their student loans, including answering their questions and working with these borrowers to identify and enroll in the most appropriate repayment plan to meet their unique and individual financial situations. The current contract structure establishes a benchmark for quality servicing and promotes high levels of customer service. It is also the critical driver of performance and innovation. Competition incentivizes all of the federal student loan servicers to provide high levels of customer service and seek greater efficiency in the delivery of services, while protecting the interest of the federal government. This feature should be retained, and expanded to ensure that loan volume is allocated based largely on performance. Proposals to move to one or two servicers will repeat the mistakes of the past, where the lowest common denominator ruled the day. The synopsis of the RFI states that the USDS contracts will maintain healthy competition among servicers and that FSA will look for additional ways to leverage the Business Process Operations (BPO) vendors so that servicers do not have exclusive claim to servicing-related work. While NCHER welcomes this approach, we urge FSA to provide more detail on how the BPO vendors will be able to service the Direct Loan portfolio. Many of the current BPO vendors are existing federal student loan servicers, and all bid on the prior procurement in good faith. These vendors should not be penalized because of a change in direction by a new administration.

**Providing Adequate Compensation for High-Quality Servicing**

All of the current federal student loan servicers have devoted significant time and resources to helping student and parent borrowers of federal loans, collecting loan payments as agents of the federal government, and performing all of the other services required under their agreements with the Department. They have also borne substantial training and compliance costs as federal contractors in the face of ever-changing and often inconsistent federal and state requirements, including costs to comply with state licensure requirements, audits, and access requests. All servicers, including those with current contracts and any new servicers, must receive additional compensation so that they can continue to provide high-quality customer service to borrowers. The new compensation package must reflect the changing economy and shifting workforce needs, the significant increase in inflation, new federal wage requirements, and new information security requirements that servicers will need to meet under the RFI. FSA should also devote additional resources to the existing federal student loan servicers, the current BPO vendors, and USDS servicers, so that they can provide more intensive services to borrowers who are at-risk for delinquency and default. The current compensation structure is simple inadequate for this purpose.

**Setting Strong and Uniform Standards for Student Loan Borrowers**

The synopsis of the RFI states that FSA is no longer interested in purchasing or building a single platform to service accounts. NCHER supports this new direction. We also believe that FSA should continue to move borrowers and schools toward a single point of contact through StudentAid.gov. Over the last few years, federal policymakers, states, and the media have given the impression that the Department of Education does not adequately provide basic protections for students and parents through the federal student loan programs. Even though there are extensive requirements in the Higher Education Act, Departmental regulations, and the current federal student loan servicing contracts that specify many of the Department's procedures around disclosures, due diligence, and other operational matters, FSA should develop and maintain a Common Manual. A Common Manual would set a single and high standard for the Federal Direct Loan Program and ensure that all borrowers receive strong and uniform consumer protections, regardless of where they reside. Borrowers, as well as federal student loan servicers, would benefit from a federal standard.

**Leveraging the Expertise of State and Nonprofit Organizations**

Even before the onset of the COVID-19 pandemic, student and parent borrowers were in need of more specialized support services throughout their postsecondary education to help them make better and more informed financial decisions. The support is even more important now as borrowers prepare to transition back to repayment status, after more than two years in suspension of payment status, while balancing other economic pressures resulting from the loss of or decrease in employment. State and nonprofit organizations across the country, which are public mission driven with more than 50 years of experience, have been highly successful in providing important services to struggling borrowers for decades because they provide a holistic approach to student success. The agencies act as advocates to help struggling borrowers understand the student loan repayment process and options that may be available to them to help mitigate delinquencies and defaults. They also provide early awareness support to students and families on a variety of educational choices such as career and training opportunities available beyond high school, and guidance on how to apply for college and navigate the financial aid process, how to avoid overborrowing, the importance of managing student loan debt, and budgeting and personal finance management skills. FSA should leverage the skill sets and expertise of state-based organizations that have a long history in assisting borrowers. The failure to utilize the services of these organizations represents a missed opportunity to improve servicing. These organizations are well-known and respected within their states and around the country.

NCHER believes that FSA should incentivize the USDS servicers and the existing BPO vendors to work with state and nonprofit organizations across the country to help struggling borrowers. We recommend that each USDS servicer and BPO vendor be required to subcontract with state and nonprofit organizations that have demonstrated expertise to work with the at-risk borrowers within their portfolio. The plan is not to duplicate or displace the work of the federal contractors but to complement their work on behalf of struggling borrowers. This could include serving as the first contact that borrowers who are in-school have prior to begin repaying their student loans or ongoing and sustained contract for those borrowers who are at risk of delinquency or in default. There is strong support for utilizing state and nonprofit organizations to provide specialized services for the Direct Loan portfolio, including from Democrats and Republicans in Congress. The Labor, Health and Human Services, Education, and Related Agencies Appropriations Act, 2022 includes report language stating that:

> ”State and nonprofit organizations can assist federal student loan servicers in providing important services to struggling borrowers who need access to more specialized support services throughout their postsecondary education to help them understand their financial decisions and act as advocates to help struggling borrowers understand the student loan repayment process and options that may be available to them to help mitigate delinquencies and defaults. The committee urges the Department to explore incentives for federal student loan servicers to subcontract with qualified State and nonprofit organizations as well as small businesses.”

Prior report language directed FSA to put together a plan under which it would give credit to its federal student loan servicers for subcontracting with small businesses, including state and nonprofit organizations with expertise in assisting borrowers in the repayment of their student loans. Even though the past directives were not acted upon to date, NCHER urges FSA to use the upcoming procurement to address the current challenges in the federal student loan program by allowing smaller state and nonprofit organizations to act as subcontractors to provide personalized financial education and debt management services to struggling borrowers.

Thank you again for the opportunity to share our views on the importance and future of student loan servicing. If you have any questions, please feel free to contact me at (202) 822-2016 or jbergeron@ncher.org.

Sincerely,

James P. Bergeron
President