GOVERNMENT-RUN STUDENT LOANS: ENSURING THE DIRECT LOAN PROGRAM IS ACCOUNTABLE TO STUDENTS AND TAXPAYERS

HEARING

BEFORE THE

SUBCOMMITTEE ON HIGHER EDUCATION
AND WORKFORCE TRAINING

COMMITTEE ON EDUCATION
AND THE WORKFORCE

U.S. HOUSE OF REPRESENTATIVES

ONE HUNDRED TWELFTH CONGRESS

FIRST SESSION

HEARING HELD IN WASHINGTON, DC, OCTOBER 25, 2011

Serial No. 112–45

Printed for the use of the Committee on Education and the Workforce

Available via the World Wide Web:
www.gpo.gov/fdsys/browse/committee.action?chamber=house&committee=education
or
Committee address: *http://edworkforce.house.gov*

U.S. GOVERNMENT PRINTING OFFICE

70–771 PDF WASHINGTON : 2012

For sale by the Superintendent of Documents, U.S. Government Printing Office
Internet: bookstore.gpo.gov Phone: toll free (866) 512–1800; DC area (202) 512–1800
Fax: (202) 512–2104 Mail: Stop IDCC, Washington, DC 20402–0001

COMMITTEE ON EDUCATION AND THE WORKFORCE

JOHN KLINE, Minnesota, *Chairman*

Thomas E. Petri, Wisconsin
Howard P. "Buck" McKeon, California
Judy Biggert, Illinois
Todd Russell Platts, Pennsylvania
Joe Wilson, South Carolina
Virginia Foxx, North Carolina
Bob Goodlatte, Virginia
Duncan Hunter, California
David P. Roe, Tennessee
Glenn Thompson, Pennsylvania
Tim Walberg, Michigan
Scott DesJarlais, Tennessee
Richard L. Hanna, New York
Todd Rokita, Indiana
Larry Bucshon, Indiana
Trey Gowdy, South Carolina
Lou Barletta, Pennsylvania
Kristi L. Noem, South Dakota
Martha Roby, Alabama
Joseph J. Heck, Nevada
Dennis A. Ross, Florida
Mike Kelly, Pennsylvania

George Miller, California,
Senior Democratic Member
Dale E. Kildee, Michigan
Donald M. Payne, New Jersey
Robert E. Andrews, New Jersey
Robert C. "Bobby" Scott, Virginia
Lynn C. Woolsey, California
Rubén Hinojosa, Texas
Carolyn McCarthy, New York
John F. Tierney, Massachusetts
Dennis J. Kucinich, Ohio
Rush D. Holt, New Jersey
Susan A. Davis, California
Raúl M. Grijalva, Arizona
Timothy H. Bishop, New York
David Loebsack, Iowa
Mazie K. Hirono, Hawaii
Jason Altmire, Pennsylvania

Barrett Karr, *Staff Director*
Jody Calemine, *Minority Staff Director*

SUBCOMMITTEE ON HIGHER EDUCATION AND WORKFORCE TRAINING

VIRGINIA FOXX, North Carolina, *Chairwoman*

John Kline, Minnesota
Thomas E. Petri, Wisconsin
Howard P. "Buck" McKeon, California
Judy Biggert, Illinois
Todd Russell Platts, Pennsylvania
David P. Roe, Tennessee
Glenn Thompson, Pennsylvania
Richard L. Hanna, New York
Larry Bucshon, Indiana
Lou Barletta, Pennsylvania
Joseph J. Heck, Nevada

Rubén Hinojosa, Texas
Ranking Minority Member
John F. Tierney, Massachusetts
Timothy H. Bishop, New York
Robert E. Andrews, New Jersey
Susan A. Davis, California
Raúl M. Grijalva, Arizona
David Loebsack, Iowa
George Miller, California
Jason Altmire, Pennsylvania

C O N T E N T S

GOVERNMENT–RUN STUDENT LOANS: ENSURING THE DIRECT LOAN PROGRAM IS ACCOUNTABLE TO STUDENTS AND TAXPAYERS

Tuesday, October 25, 2011
U.S. House of Representatives
Subcommittee on Higher Education and Workforce Training
Committee on Education and the Workforce
Washington, DC

The subcommittee met, pursuant to call, at 10:00 a.m., in room 2175, Rayburn, Hon. Virginia Foxx [chairwoman of the subcommittee] presiding.

Present: Representatives Foxx, Kline, Petri, Biggert, Platts, Roe, Thompson, Bucshon, Hinojosa, Tierney, Altmire, Bishop, Andrews, Davis, Loebsack, and Miller.

Staff Present: Jennifer Allen, Press Secretary; Katherine Bathgate, Press Assistant/New Media Coordinator; Casey Buboltz, Coalitions and Member Services Coordinator; Heather Couri, Deputy Director of Education and Human Services Policy; Daniela Garcia, Professional Staff Member; Amy Raaf Jones, Education Policy Counsel and Senior Advisor; Rosemary Lahasky, Professional Staff Member; Brian Melnyk, Legislative Assistant; Krisann Pearce, General Counsel; Mandy Schaumburg, Education and Human Services Oversight Counsel; Linda Stevens, Chief Clerk/Assistant to the General Counsel; Alissa Strawcutter, Deputy Clerk; Kate Ahlgren, Minority Investigative Counsel; Daniel Brown, Minority Junior Legislative Assistant; Jody Calemine, Minority Staff Director; John D'Elia, Minority Staff Assistant; Jessica Finkel, Minority Detailee—Education; Brian Levin, Minority New Media Press Assistant; Melissa Salmanowitz, Minority Communications Director for Education; and Michael Zola, Minority Senior Counsel.

Chairwoman FOXX. A very strong quorum being present, the subcommittee will come to order. Good morning and welcome to today's subcommittee hearing. I would like to thank our witnesses for joining us today. We appreciate the opportunity to hear your perspective on the Department of Education's implementation of the Direct Loan Program.

Nineteen months ago, the Democrat-controlled Congress approved a federal takeover of the student loan industry to help pay for the president's health care law. My Republican colleagues and I were rightly concerned this political tactic could have unintended consequences on the nation's students' higher education institutions and our economy. Any time the federal government assumes control over a private sector industry, there can be national complications.

As the sole provider and guarantor of federal student loans, the Department of Education is now one of the largest banks in the nation. In fiscal year 2012, it is expected to originate $124 billion in student loans. This is an enormous responsibility for any company or organization, let alone the agency also tasked with administering all federal education programs.

When the transition to the Direct Loan Program began, critics warned of a possible increase in student default loan rates. In today's economic climate with reports of loan default rates on the rise, this is something the committee should take seriously.

Some are also concerned that growing default rates could be further exacerbated by the elimination of helpful services previously available through the now defunct Federal Family Education Loan Program. These services, such as debt counseling, default prevention programs, and financial aid personnel training help to ensure financial aid officers and students fully understood the loan terms and processes. Schools and students must now rely on the Department of Education to provide these services, which many complain are no longer being offered or effectively administered.

The transition to the Direct Loan Program has also resulted in a decline in customer service for students and financial aid officers. Given the volume of students applying for loan assistance, it has become difficult to speak to a program administrator to ask questions or share concerns about the loan process. Although the Department of Education had lofty promises of strong customer service when this transition began, many schools have voiced concerns about increasing instances of problems and mistakes.

For example, earlier this month the Direct Loan Web site crashed and users were able to see other students' personal and financial information. The implications of this kind of Web site malfunction are severe particularly when it affects millions of borrowers nationwide.

Additionally, institutions have criticized the Department's handling of student loan data. Some schools report they no longer receive accurate or consistent information from the handful of government loan servicers which limits their ability to assist students with their loan options and terms.

As members of the Subcommittee on Higher Education and Workforce Training, we have the responsibility to conduct proper oversight to ensure the Direct Loan Program is meeting the needs of higher education institutions, students, and taxpayers. The witnesses with us today will provide interesting insight into execution and accountability measures of the program. I look forward to a productive discussion on this important issue.

I now would like to recognize my distinguished colleague, Rubin Hinojosa, for his opening remarks.

[The statement of Mrs. Foxx follows:]

Prepared Statement of Hon. Virginia Foxx, Chairwoman, Subcommittee on Higher Education and Workforce Training

Good morning, and welcome to today's subcommittee hearing. I'd like to thank our witnesses for joining us today. We appreciate the opportunity to hear your perspective on the Department of Education's implementation of the Direct Loan Program.

Nineteen months ago, the Democrat-controlled Congress approved a federal takeover of the student loan industry to help pay for the president's health care law. My Republican colleagues and I were rightly concerned this political tactic could have unintended consequences on the nation's students, higher education institutions, and our economy. Any time the federal government assumes control over a private sector industry, there can be national implications.

As the sole provider and grantor of federal student loans, the Department of Education is now one of the largest banks in the nation. In fiscal year 2012, it is expected to originate $124 billion in student loans. This is an enormous responsibility for any company or organization, let alone the agency also tasked with administering all federal education programs.

When the transition to the Direct Loan Program began, critics warned of a possible increase in student loan default rates. In today's economic climate, with reports of loan default rates on the rise, this is something the committee should take seriously.

Some are also concerned that growing default rates could be further exacerbated by the elimination of helpful services previously available through the now defunct Federal Family Education Loan Program. These services, such as debt counseling, default prevention programs, and financial aid personnel training, helped ensure financial aid officers and students fully understood the loan terms and process. Schools and students must now rely on the Department of Education to provide these services, which many complain are no longer being offered or effectively administered.

The transition to the Direct Loan Program has also resulted in a decline in customer service for students and financial aid officers. Given the volume of students applying for loan assistance, it has become difficult to speak to a program administrator to ask questions or share concerns about the loan process. Although the Department of Education had lofty promises of strong customer service when this transition began, many schools have voiced concerns about increasing instances of problems and mistakes.

For example, earlier this month, the Direct Loan website crashed and users were able to see other students' personal and financial information. The implications of this kind of website malfunction are severe, particularly when it affects millions of borrowers nationwide.

Additionally, institutions have criticized the department's handling of student loan data. Some schools report they no longer receive accurate or consistent information from the handful of government loan servicers, which limits their ability to assist students with their loan options and terms.

As members of the Subcommittee on Higher Education and Workforce Training, we have a responsibility to conduct proper oversight to ensure the Direct Loan Program is meeting the needs of higher education institutions, students, and taxpayers. The witnesses with us today will provide interesting insight into execution and accountability measures of the program. I look forward to a productive discussion on this important issue.

I now recognize my distinguished colleague, Rubén Hinojosa, for his opening remarks.

Mr. HINOJOSA. Thank you, Chairwoman Foxx.

I also want to welcome and thank our distinguished witnesses for joining us today. It is a pleasure to see you, and we look forward to your presentations.

Today's hearing will provide us with an update of the U.S. Department of Education's remarkably successful transition from the Federal Family Education Loan Program, better known as FFELP, to the Direct Loan Program. As ranking member of this subcommittee, I am pleased that about 6,000 schools are using the Direct Loan Program.

Enacted as part of the Health Care and Education Reconciliation Act of 2010, the Student Aid and—SAFRA, which is the Student Aid and Fiscal Responsibility Act, took both steps to expand accessibility and affordability in higher education by ending the taxpayer subsidized federally guaranteed Federal Family Education

Loan Program and replaced it with the William D. Ford Federal Direct Loan Program.

SAFRA, a tremendous victory for students, families, and taxpayers, made Federal college loans more stable and efficient at no cost to the taxpayers, reinvested billions of dollars into student financial aid programs such as Pell Grant, and supported President Obama's college access and completion goals.

On July 1, 2010, eligible students began borrowing directly from the Department of Education and no longer paid new subsidies to banks to make loans. Under the DL programs, student lending remains a federal program, and the Department of Education continues to work with the private sector and nonprofits to service student loans.

In terms of oversight, while the Department of Education's Office of Inspector General has conducted several reviews of the transition to DL programs, I understand that none of these reviews have identified material issues associated with the transition. Instead, the reviews demonstrate that the Department has led a seamless and successful transition to the DL program. In fact, the first report found that the Office of Federal Student Aid took actions to monitor student loan market conditions and estimate the impact of the significant changes on DL origination and servicing demands. FSA also took actions to expand existing DL processing systems, awarded four contracts to assist in servicing potential log-in increase and appeared to have access to sufficient resources to assist schools with the ability to transition to the DL program and maintain FSA's compliance monitoring activities.

The second report found that although there was a variance between the actual and the projected monthly activity in the DL's origination process, the level of risk in exceeding the DL origination capacity was low.

The final report found that FSA took actions to ensure the effective processing of student loans as a result of the 100 percent transition to the DL program.

The OIG also concluded that the FSA had been providing appropriate technical assistance to help impacted schools successfully transition to the DL program.

While I am encouraged by the OIG's findings, we must be vigilant in protecting the taxpayer investment in higher education programs. Today, I am eager to hear more about the transition from our panel of witnesses and about how the Department is ensuring accountability to students and taxpayers.

With that, Madam Chair, I yield back.

[The statement of Mr. Hinojosa follows:]

Prepared Statement of Hon. Rubén Hinojosa, Ranking Minority Member, Subcommittee on Higher Education and Workforce Training

Thank you, Chairwoman Foxx. I want to welcome and thank our distinguished witnesses for joining us.

Today's hearing will provide us with an update of the U.S. Department of Education's remarkably successful transition from the Federal Family Education Loan Program (FFELP) to the Direct Loan Program (DL). As Ranking Member of this Subcommittee, I am pleased that about 6,000 schools are using the Direct Loan Program.

Enacted as part of the Health Care and Education Reconciliation Act of 2010, the Student Aid and Fiscal Responsibility Act (SAFRA), took bold steps to expand accessibility and affordability in higher education by ending the taxpayer-subsidized, federally guaranteed Federal Family Education Loan Program (FFELP) and replacing it with the William D. Ford Federal Direct Loan (DL) Program.

SAFRA, a tremendous victory for students, families, and taxpayers, made federal college loans more stable and efficient at no cost to taxpayers, reinvested billions of dollars into student financial aid programs such as Pell Grants, and supported President Obama's college access and completion goals.

In July 1, 2010, eligible students began borrowing directly from the Department of Education and no longer paid new subsides to banks to make loans.

Under the DL Program, student lending remains a federal program and the Department of Education continues to work with the private sector and non-profits to service student loans.

In terms of oversight, while the Department of Education's Office of Inspector General (OIG) has conducted several reviews of the transition to DL program, I understand that none of these reviews have identified material issues associated with the transition.

Instead, the reviews demonstrate that the department has led a seamless and successful transition to the DL program.

In fact, the first report found that the Office of Federal Student Aid (FSA) took actions to monitor student loan market conditions and estimate the impact of the significant changes on DL origination and servicing demands.

FSA also took actions to expand existing DL processing systems; awarded four contracts to assist in servicing potential volume increase; and appeared to have access to sufficient resources to assist schools with the ability to transition to the DL program and maintain FSA's compliance monitoring activities.

The second report found that although there was a variance between the actual and the projected monthly activity in the DL's origination process, the level of risk in exceeding the DL origination capacity was low.

The final report found that FSA took actions to ensure the effective processing of student loans as a result of the 100 percent transition to the DL program. The OIG also concluded that the FSA had been providing appropriate technical assistance to help impacted schools successfully transition to the DL program.

While I am encouraged by the OIG's findings, we must be vigilant in protecting the taxpayer investment in higher education programs.

Today, I am eager to hear more about the transition from our panel of witnesses and about how the Department is ensuring accountability to students and taxpayers.

Thank you.

Chairwoman FOXX. Pursuant to Committee Rule 7(c), all subcommittee members will be permitted to submit written statements to be included in the permanent hearing record. Without objection, the hearing record will remain open for 14 days to allow statements, questions for the record, and other extraneous material referenced during the hearing to be submitted in the official hearing record.

It is now my pleasure to introduce our distinguished panel of witnesses.

Mr. James Runcie was appointed as the Chief Operating Officer for the Office of Federal Student Aid on September 15, 2011. Before joining the Department of Education, Mr. Runcie served as co-head of Equity Corporate Finance of UBS investment bank.

Mr. Ron Day is the Director of Financial Aid at Kennesaw State University. Prior to Kennesaw State University, Mr. Day served in the same capacity at several other schools.

Ms. Nancy Hoover has been Denison University's Director of Financial Aid for more than 17 years. She is the immediate past national chair of the National Direct Student Loan Coalition.

Mr. Mark Bandré has served as Vice President for Enrollment Management and Student Affairs for Baker University since June 2010 after having served in similar capacities at other schools.

Before I recognize you to provide your testimony, let me briefly explain our lighting system. You will have 5 minutes to present your testimony. When you begin, the light in front of you will turn green. When 1 minute is left, the light will turn yellow. And when your time has expired, the light will turn red, at which point I would ask that you wrap up your remarks as best as you are able. After you have testified, members will each have 5 minutes to ask questions of the panel. And of course your submitted remarks will be made a part of the record.

I would now like to recognize Mr. Runcie for 5 minutes.

STATEMENT OF JAMES W. RUNCIE, CHIEF OPERATING OFFICER, OFFICE OF FEDERAL STUDENT AID, U.S. DEPARTMENT OF EDUCATION

Mr. RUNCIE. Thank you, Chairwoman Foxx, Congressman Hinojosa, and other distinguished committee members, for the opportunity to testify before the committee.

My name is Jim Runcie, and a little over a month ago I was appointed by Secretary of Education, Arne Duncan, to be the Chief Operating Officer of the Department's Federal Student Aid Office.

Federal Student Aid, or FSA, is responsible for implementing and overseeing the federal student financial assistance programs. I am here today to discuss the transition from two major federal student loan programs to 100 percent direct lending. I also want to share with you the many new processes and programs that have been implemented by the Department to ensure appropriate stewardship of taxpayer funds and the continued integrity of the student aid programs.

Let me begin by providing some context. As you know, the decline of the financial markets that began in 2007 directly affected student lending by severely restricting the availability of capital for private lenders to make federally supported student loans. This potentially could have left millions of students without the funds needed to finance their education. Many schools observing the economic and financial landscape at the time began the process of transitioning to the DL program. In fact, the number of schools entering the DL program increased by 52 percent in the 19 months prior to President Obama's proposal to originate all federal student loans through a single loan program.

As the number of schools moving to the DL program increased, we took steps to make sure that FSA had the capacity to assume additional direct loan volumes. Beginning in 2008, we increased our standby loan origination capacity to ensure it could handle expected volumes. We also augmented our back-end servicing capacity with the award of loan servicing contracts to four private sector companies. The structure of these contracts ensures that borrowers will have access to better counseling to help manage their student loan obligations. Borrowers will also receive the highest quality service at the lowest possible cost to taxpayers.

In the summer of 2009, FSA began reaching out to schools that were considering joining the DL program. In October, we implemented a comprehensive training plan designed to assist schools with the transition. I can report to the committee that every school wishing to originate a direct loan has been able to do so. Last year, the Department made $102 billion in direct loans to 11.5 million students and parent borrowers. This transition from a dual program structure increased the Direct Loan Program disbursements from $42.6 billion in the 2009-2010 academic year to $102.2 billion the following year.

With the number of schools participating in direct lending came the need to significantly increase our program's support efforts. We increased staff to provide oversight and compliance to ensure that taxpayer funds are being used as intended. In addition, we continued to enhance our processes to identify at-risk schools. This will ensure the highest integrity in the student aid programs.

We are also taking steps to improve accuracy of information provided by students and families through the Free Application for Student Federal Aid, or FASFA. This includes the new IRS data retrieval tool which provides greater accuracy of the financial information provided by applicants, and new regulations will help the Department and institutions better target the verification of student reported data.

We augmented our risk management capacity within FSA to better identify and mitigate systemic, operational, and business vulnerabilities. Additionally, we are enhancing our security efforts with those organizations charged with compiling and storing student aid data. With the growth in federal student aids borrowing base, we are also increasing our customer outreach, default prevention, and risk management efforts.

Last year, FSA established its customer experience office, which is charged with managing customer advocacy, financial literacy, and consumer protection. We also updated our student loan counseling for borrowers and provided incentives to our new private sector loan servicers to better counsel borrowers in an effort to reduce defaults.

Ultimately, it is the student aid recipients and their families who are our customers, and we want to equip them with the best tools and resources to make informed financial decisions.

In an effort to support the transition to and, more specifically, to enhance the financial literacy and deprevention services for student borrowers, the Secretary of Education invited sale program guarantee agencies to submit proposals for voluntary flexible agreements, or VFAs. VFAs use existing statutory authority to leverage private sector best practices to improve efficiencies and customer service at no additional cost to taxpayers. We look forward to working with the guarantee agencies as they continue to provide services to students and families.

A summary of our progress to date would be incomplete without an acknowledgment of the student aid staff. I also want to recognize financial aid professionals at institutions participating in the DL program, including my colleagues on this panel, for their tremendous efforts in enabling this transition.

Thank you for inviting me to testify, and I am happy to take questions.

[The statement of Mr. Runcie follows:]

Prepared Statement of James W. Runcie, Chief Operating Officer, Office of Federal Student Aid, U.S. Department of Education

Thank you for the opportunity to testify before the Committee on the Department of Education's office of Federal Student Aid's progress in transitioning to the William D. Ford Federal Direct Loan Program (Direct Loan Program). I believe that this transition has been and continues to be a success, and I am pleased to appear before you today.

A little over a month ago, Secretary of Education Arne Duncan appointed me as the Chief Operating Officer of Federal Student Aid. Prior to this appointment, I held the position of Deputy Chief Operating Officer of Federal Student Aid. By way of background, my prior experience includes over 20 years in management and financial services in the private industry. I was also a recipient of federal financial assistance over 20 years ago while attending Harvard University as a graduate student. I am honored to serve the very programs that helped me to complete my education. It is a privilege to be a part of an organization that supports student access to higher education and workforce training.

Federal Student Aid is responsible for implementing and overseeing the federal student financial assistance programs, authorized under Title IV of the Higher Education Act of 1965 (HEA). These programs represent the largest source of student aid for postsecondary education in the United States. Last year, Federal Student Aid processed over 21 million applications for federal student aid and delivered roughly $150 billion in grant, work-study, and loan assistance to approximately 15 million postsecondary students and their families. Today, our loan portfolio is valued at over $848 billion, with 36 million individual borrowers and 146 million loans.

Federal Student Aid is not alone in these efforts; we are supported by our public-private partnerships. Federal Student Aid's workforce includes over 1200 employees supported by approximately 9,000 private sector contract employees. In fact, approximately 84 percent of Federal Student Aid's administrative budget goes to private-sector vendors. In addition, we are supported by, and work closely with several offices within the Department. As the numbers will tell, we efficiently manage a high volume of work with our federal staff in an effort to be good stewards of taxpayer money.

Before I discuss the Department's process in transitioning FFEL Program lending to the Direct Loan Program, I would like to quickly highlight some of the other work Federal Student Aid is doing to support students as they pursue education and training beyond high school.

First, we have greatly simplified the Free Application for Federal Student Aid (FAFSA) as part of our overall strategy to increase access to postsecondary education and meet President Obama's goal of having "the best educated, most competitive workforce in the world" by 2020. Federal Student Aid redesigned our online application—FAFSA on the Web—with improved "skip-logic" and expanded the availability of the Internal Revenue Service Data Retrieval Tool. These improvements reduced the time for families to complete the application by approximately one third. FAFSA on the Web allows financial aid applicants and their parents to retrieve, directly from the Internal Revenue Service, certain income and other information they had reported on their federal income tax returns and to automatically transfer that information to their FAFSA. This not only makes it easier for families to complete the application, but it also increases the accuracy of the information used to determine a student's eligibility for federal student aid. Aid applicants are taking note of these changes. Last quarter, the FAFSA received a score of 90 from the American Customer Satisfaction Index, which is a national economic indicator of customer evaluations of the quality of products and services available to household consumers in the United States. The average government score is 75, and scores above 88 are considered "outstanding."

Another improvement I would like to highlight is the smooth completion of the Federal Family Education Loan (FFEL) Loan Purchase Programs, which resulted from the authority given to the Secretary of Education in the Ensuring Continued Access to Student Loans Act of 2008 (ECASLA). As you know, the decline in the financial markets that began in 2007 directly affected student lending by severely restricting the availability of capital for private lenders to make federally supported student loans. This crisis had the potential to leave millions of students without the funds needed for a postsecondary education. We have many of you on this Committee to thank for ensuring students had access to these funds.

As a result of Congressional action, the Administration established the ECASLA Loan Purchase Programs. By authorizing the Department to purchase eligible federal student loans, the ECASLA Loan Purchase Programs provided FFEL lenders with the capital necessary to make Stafford and PLUS loans for the 2008—09 and

2009—10 academic years. The purchase of new loans under the ECASLA Program was completed on October 15, 2010 after the Department purchased almost $109 billion in FFEL Program loans representing approximately 85 percent of all FFEL loans disbursed during that period. In addition to these programs, the Department also guaranteed another $41 billion in FFEL Program loans financed by an asset-backed commercial paper conduit

These are just a few of the many achievements Federal Student Aid has accomplished in the past few years, while continuing to provide record amounts of aid at lower incremental cost to more students than ever before. I am very proud to report these achievements to the Committee today.

The primary reason I am here today is to discuss Federal Student Aid's efforts to ensure a smooth transition of the FFEL Program to 100 percent Direct Lending. I also want to discuss the many processes and programs that have been implemented by the Department to ensure appropriate stewardship of taxpayer funds and the continued integrity of the student aid programs.

On March 30, 2010, President Obama signed the Health Care and Education Reconciliation Act, P.L. 111-152. The provisions that prescribed the significant changes to the Title IV program are referred to as the SAFRA Act. The SAFRA Act ended new lending under the FFEL program beginning July 1, 2010. While the SAFRA Act ended new FFEL lending, it is important to note that 77 million FFEL Program loans totaling almost $490 billion and representing over 23 million borrowers still exist today.

I am pleased to report that the transition to 100 percent Direct Lending was a success and the Department made $102.2 billion in Direct Loans to 11.5 million recipients during academic year 2010-2011. This transition from the FFEL Program to the Direct Loan Program resulted in a 140 percent year-over-year increase in Direct Loan Program disbursements in the 2010-11 academic year.

Beginning in 2007, the decline in the credit markets compelled a number of schools to move to the Direct Loan Program and many FFEL lenders to advocate for federal assistance in securing loan principal for new originations. In fact, the number of schools entering the Direct Loan Program increased by 52 percent in the nineteen months prior to the February 2009 release of President Obama's 2010 budget proposal to originate all Stafford, PLUS and Consolidation loans via a single loan program. As the number of schools moving to the Direct Loan Program increased, we initiated steps to ensure Federal Student Aid had the capacity to assume additional Direct Loan volume. Beginning in 2008, we increased the Direct Loan origination capacity of our Common Origination and Disbursement system. We accomplished this through a series of three upgrades that improved the system's infrastructure and increased call center and system operations support.

In 2009, the volume of loans sold to the Department by FFEL lenders under the ECASLA loan programs quickly grew, while at the same time schools continued their migration to the Direct Loan Program. With front-end Direct Loan volumes increasing, we augmented our back-end servicing capacity with the award of four loan servicing contracts to our Title IV additional servicers (TIVAS): private sector companies—Nelnet Servicing, LLC; Great Lakes Educational Loan Services, Inc; SLM Corporation (Sallie Mae); and the Pennsylvania Higher Education Assistance Agency. These contracts provided the Department with the capacity necessary to support the anticipated increase in the number of loans owned by the Department. The structure of these contracts ensures that borrowers will receive the highest quality of service at the lowest possible cost to the taxpayer. Today, the Department's federally held portfolio with the four servicers is more than $125 billion in Direct Loans and over $100 billion in outstanding principal and interest on FFEL loans purchased by the Department through the ECASLA programs.

While Federal Student Aid's systems and processes were ready to support the increase in Direct Loan volume, many schools still required assistance in transitioning to the Direct Loan Program.

In summer 2009, Federal Student Aid began offering assistance and guidance as schools contemplated joining the Direct Loan Program. We established the Direct Loan Task Force to provide dedicated technical assistance to schools transitioning into Direct Lending.

In October 2009, the Department implemented a comprehensive training plan to assist schools transitioning to the Direct Loan Program. That same month, we launched our Direct Loan Webinar Training Series for domestic schools. This consisted of a suite of six different modules on multiple aspects of administering the Direct Loan Program. We established and published the Direct Loan Source, a monthly newsletter for schools considering a transition to the Direct Loan Program. In December 2009, we hosted over 5,300 financial aid professionals at our annual conference—providing detailed Direct Loan training. We offered Direct Loan training again at our 2010 annual conference, with over 5,700 attendees. We also conducted Regional Direct Loan Training Conferences in 15 cities across the Nation, serving almost 2,600 financial aid professionals. Additionally, our team traveled to 10 cities to offer training to foreign schools personnel.

I can report to the Committee that all eligible institutions of higher education in the United States wishing to participate in the Direct Loan Program have successfully transitioned and are able to provide Direct Loans to students at their institutions. Today, approximately 5,800 domestic institutions are participating in the Direct Loan Program.

The SAFRA Act also amended the HEA to provide eligibility for domestic students attending foreign institutions to borrow under the Direct Loan Program. Today, 400 foreign schools now participate in the Direct Loan Program. Every foreign school wishing to originate a Direct Loan has been able to do so.

We are also taking additional steps to augment our loan servicing capacity. The Department is now implementing the SAFRA Act provision that providing mandatory funding for the Department to allow certain non-profit servicers to service Direct Loans. Final pricing was announced on April 19, 2011. To date, 15 entities representing 26 not-for-profit servicers and 30 states have entered into memoranda of understanding with the Department, and one servicer has entered into a contract with the Department and already received its first allocation. We anticipate that other not-for-profit servicers will come on line over the next year.

With the knowledge that most schools participating in the Direct Loan Program would have fewer than two years experience in administering the Direct Loan Program, we significantly increased our program support and compliance efforts. Our program support staff continues to assist with account reconciliation and technical support. We also increased staff to provide oversight and compliance in this area to ensure taxpayer funds are being used as intended. In addition, we are reviewing existing policies and procedures for identifying at-risk schools and practices, further enhancing our ability to ensure integrity of the program.

As already mentioned, Federal Student Aid is taking steps to improve the accuracy of information provided through the FAFSA. This includes the new IRS Data Retrieval Tool which ensures greater accuracy of financial information provided by applicants as well as the resulting aid eligibility determination. New regulations, effective July 1, 2012, help institutions better target the verification of student-reported data for student aid recipients. We are also developing targeted verification techniques leveraging enhanced skip logic functionality within future versions of the aid application.

We also augmented our risk management capacity within Federal Student Aid to identify and mitigate systemic, operational and business vulnerabilities. Additionally, we are enhancing our security of student aid data to protect FSA systems and student data.

With the growth in Federal Student Aid's borrower base, we are also increasing our customer outreach, default prevention and risk management efforts. Last year, Federal Student Aid established a Chief Customer Experience Officer, whose role is to manage the overall customer experience. This officer is responsible for, among other things, customer advocacy, financial literacy and consumer protection. We have also updated our financial counseling for new borrowers, and have provided incentives for our new loan servicers to reduce defaults. Ultimately, it is student aid recipients who are our customers, and we want to equip them with information to make informed financial decisions.

Finally, with the growth in the number of federal student loans owned by the Department comes greater risk for a higher number of defaulted borrowers whose accounts must be serviced. Over the years, we have increased the number of debt collection vendors under contract to 23, and are implementing a new default management system that features more flexibility and greater analytics to increase the effectiveness of our debt collection efforts.

In an effort to support the continued transition from FFEL to Direct Loans, the Secretary invited FFEL Program guaranty agencies to submit proposals for Voluntary Flexible Agreements (VFAs) in late May). As authorized by the HEA, VFAs use existing authority to leverage private sector best practices to improve efficiencies and customer service in the administration of the Title IV programs, while reducing the cost to the American taxpayer. As of August 1, 2011, the Department received a total of 22 proposals, representing 24 guaranty agencies. The Department is currently reviewing these proposals. We look forward to working with the guaranty agencies to continue to provide services to students.

A summary of our progress to date would be incomplete without an acknowledgment of the incredible efforts of the Federal Student Aid staff. The dedication, professionalism and absolute commitment of this team to ensuring students have the aid they need to achieve their educational pursuits is truly inspirational. I would also like to recognize financial aid administrators at institutions participating in the Direct Loan Program for their efforts in making the transition a success.

Thank you for inviting me to testify on the Department's progress in the Direct Loan transition and for the opportunity to present the steps we are taking to ensure that eligible students and their families have access to Direct Loans they need, and taxpayers' investments are protected. On behalf of the dedicated staff of Federal Student Aid, I would like to reiterate our commitment to serving the Nation's students and their families. I am happy to take any questions you may have.

Chairwoman FOXX. Thank you very much, Mr. Runcie.

I now recognize Mr. Day for 5 minutes.

STATEMENT OF RON H. DAY, DIRECTOR OF FINANCIAL AID, KENNESAW STATE UNIVERSITY

Mr. DAY. Good morning, Madam Chair, and other distinguished committee members. I am Ron Day, Director of Financial Aid at Kennesaw State University in Kennesaw, Georgia. Thank you for the opportunity to testify about the successes and the challenges of the William D. Ford Federal Direct Loan Program.

Today I will offer my perspectives on the transition process from FFEL and the current strengths and weaknesses from the now single federal loan program. As a current and former board member and now serving as incoming chairman to the National Association of Student Financial Aid administrators, I want the share some national perspectives as well.

As an aid administrator for over 28 years, I have previously been associated with both private and public nonprofit schools that have participated in the FFEL program. FFELP allows students and parents the opportunity to selecting a lender of their choice from the private loan market. The FFELP lenders assisted us in our schools and students with the following—brochures and informational items, step-by-step processes for applying and repaying, budget calculators, budget advice, financial planning tools. One of the most helpful things was default management counseling and management tools that helped explain to students how to keep out of default, the consequences of default, and the basic how to and why to repay student loans. Their assistance was extremely valuable to our students.

With the situation that occurred in 2008 with the financial markets, we have consulted and many of the private lenders decided to discontinue participation in the FFEL program. The community became very unrested. Financial aid administrators sought advice and direction but quickly realized that the change of transition would not be as easy as turning on a light switch.

We were faced with staffing concerns, how to implement a transitional plan all within a relatively short time frame. We were concerned about internal systems and our need to reconfigure computer systems, yet we were compelled to begin the planning process. And after gathering information, reading materials, attending many workshops and seeking assistants from campus administrators, key staff members and discussing with units and divisions on my campus, I advised my administration that we would be transitioning to DL in January of 2010.

The transition was not without bumps. We did need to reconfigure our systems and not just our computer systems. We had to formulate training and retraining activities and develop communications plans for students and parents on new processes and procedures. It was not an easy task for students. Being transferred from liaison to liaison on the department level, this required the daily need for conversations with area colleagues.

Yet I can say that today I have not heard of any student that was denied access to a student loan. The current process is not perfect. I raise the following concerns:

Reporting must improve within the process. This causes delay in disbursement of funds to students; better real time processes should be solved. Additional streamlining is needed. The FAFSA should and could double as a promissory note or at least link for ease of completion to the document. Previously a question was included on the FAFSA asking the student if they wished to receive a student loan. Against the advice of the financial aid community, it was removed. Default management tools and assistance tools should increase, and educational process for students is important to show how to prevent defaulting on student loans.

Standardization must increase. Many of the previous FFELP winners are now servicers. They have been allowed to implement different policies and practices. There is no single publication that has been released that easily tells students about these differences.

Finding their loans between multiple servicers. There is no single point of contact that should be available to students. Because of multiple servicers of the DL program, students are often uncertain about whether loans are being serviced. This should be corrected as soon as possible with a centralized phone system or Web site that easily sends students to their servicer.

I do not see these challenges as insurmountable, and I feel confident that as we partner together we can see positive outcomes for students. I once more wish to express my gratitude for the opportunity to offer you a glimpse into our transitional process from FFELP to DL and to share some areas that we belive require some immediate and additional improvement. We, as aid administrators, see ourselves as partners with you, and with the Department in ensuring that nearly $150 billion in federal student aid is delivered efficiently, accurately, and successfully to needy students.

The financial aid community is appreciative of you and your willingness to hear our needs, struggles, and successes. Thank you very much.

[The statement of Mr. Day follows:]

Prepared Statement of Ron Day, Director of Financial Aid, Kennesaw State University

Good Morning Madam Chair and other distinguished Committee Members. My name is Ron Day, Director of Financial Aid at Kennesaw State University in Kennesaw Georgia—a 4-year public university located in a suburb of metropolitan Atlanta. Thank you for the opportunity to testify about the successes and challenges of the William D. Ford Federal Direct Loan Program. Today I offer my perspectives on the transition process from the Federal Family Education Loan Program, or FFEL, and the current strengths and weaknesses of the now single federal loan program. As a current and former board member and now incoming chairman of the National Association of Student Financial Aid Administrators (NASFAA), I want to share some national perspectives as well.

FFEL Program

As an aid administrator for over 28 years, I have previously been associated with both private and public non-profit schools that participated in the FFEL Program. FFEL allowed students and parents the opportunity of selecting a lender from the private loan market. The FFEL partners assisted my schools by offering the following to my students:

- Brochures and informational items that included:
- Basic explanation and eligibility criteria for student loans
- Descriptions of step-by-step application and repayment processes
- Budget advice and calculators that could be utilized for proper financial planning
- Information regarding rebates and other incentives to encourage on-time repayment.
- Default prevention, counseling, and management tools that included information on:
- How much should be borrowed
- How to track and manage loans
- How to repay student loans
- The consequences of defaulting
- Options to prevent student loan default
- Consolidation information and when that may or may not be a good option
- Information on the numerous repayment plan options and how differences in those plans would ultimately affect the total cost of their loans

Their assistance was extremely valuable to our students and provided them useful resources that educated students on all aspects of a loan—from the application process through repayment. Inasmuch as schools are held responsible for the numbers of students that default on loans, these vital services complimented institutional efforts to keep students out of default.

DL Transition

Schools had also previously received information on the current loan environment from various higher education associations. For example, on April 30, 2008, the American Association of Community Colleges wrote to members, "As a safeguard against any potential disruption in loan capital due to private lenders no longer providing loans to your students, you may want to consider gaining initial approval to participate in the Department of Education's Direct Loan Program." The American Council of Education also expressed to its members "there is a need to consider alternative financial options and whether the Direct Lending Program is a feasible way to navigate these uncharted waters." NASFAA issued similar guidance to schools in 2009, advising schools to at least make plans to convert into the Direct Loan Program given the uncertainty surrounding an ECASLA extension.

It was a very difficult and confusing time for schools. Financial aid administrators sought advice and direction from as many sources as possible, but we knew it wouldn't be as easy as turning on a light switch. Once a school decided to transition from FFEL to Direct Loan, many other decisions and considerations came into play, such as:

- What staffing would be needed to implement the transition in a relatively short amount of time?
- What current initiatives would need to be forestalled in order to make the transition quickly and smoothly?
- What capital investments might be needed for training and system changes?
- Do we have the necessary staff to administer a new program effectively?
- What restructuring of staff and organizational arrangements should take place?
- How do we learn and adapt new processes to our computer systems?
- How long would it take for full implementation to occur?

Kennesaw State University Planning

After weighing all of the pros and cons, the current and predicted future market conditions, and talking to many colleagues across the country, in the Fall 2009 we at Kennesaw State University began the planning process of determining whether to move to the Direct Loan Program.

We developed a timeline to implement this transition, which included:

- Reviewing information available from various groups—including current DL schools, local schools with the same computer system as KSU who had previously transitioned to DL, and transitional plans developed by schools of comparable size as KSU
- Selecting a "Task Force" of campus individuals from critical offices to explore the possibility of transitioning:

- Budget Office
- Bursar's Office
- Business Services
- Information Technology
- The Financial Aid Office
- Developing an informational meeting for key individuals to explain the differences in programs and seeking feedback regarding the possibility of moving to Direct Loans. These individuals included:
- Upper Administrators
- Budget and Planning
- Office of Financial Planning
- Internal Audit
- Attending and participating in webinars, workshops, and conferences from the higher education community and the U.S. Department of Education
- Reconvening the institutional Task Force in early January 2010 for additional education in process changes
- Seeking assistance from other schools who had the same internal computer system to help with:
- Transitional information
- Manuals
- The timeline in making this transition
- Talking with IT professionals employed by the school (KSU)
- Reviewing steps needed to setup our system

Although an avid supporter of FFEL, when the financial markets froze in 2008, when many local and area banks discontinued participation in 2009 and 2010, when remaining private lenders showed an uncertainty in their longevity of participating in FFEL, the decision became clear. Ultimately, I determined the Direct Loan Program was the best option for our students and our institution and advised my administration on January 28, 2010, that we would be making the move from FFEL to DL by the following summer. Our first disbursement was successfully made during the Summer 2010 semester.

What is Best for Students

Kennesaw State University has always framed decisions from the perspective of what is "best for students" first and then what is "best for KSU." We felt Direct Loans to be good for students for the following reasons:

- Funding is obtained directly from the Federal Government, which were the surest form of undisrupted capital at that time.
- Federal Direct Loans are fully integrated into the Federal student aid delivery process through ED's common origination and disbursement (COD) system, the same system that delivers Pell Grant funding.

KSU Transition Process

Although ultimately successful, our transition was not without bumps and challenges. Challenges included:

- Reconfiguring our computer system(s) to accommodate new processes
- Training and retraining of staff
- Counselors within the Financial Aid Office
- Processing staff within the Financial Aid Office
- External staff in KSU
- Bursar Office
- Business Services
- Developing a communication plan to assist students with new requirements:
- New Promissory Note for all previous and future borrowers
- New processes and location and revamping of websites, links, and forms

With the assistance of workshops, colleagues, manuals, and the U. S. Department of Education, our students did not experience insurmountable struggles or roadblocks through the transition.

As a board member of NASFAA, I heard from schools on an ongoing basis who were struggling to make the transition successfully. This was no easy task for schools to undertake in such a short amount of time and many schools were shifted from liaison to liaison at the U.S. Department of Education as ED increased their operational capacity to help schools transition and implement the program successfully. However, when it was all said and done, I am proud to say that I am not aware of any student who was denied access to student loans due to a school not successfully transitioning into the Direct Loan Program.

Today, schools across the country are successfully operating in the Direct Loan Program. However, this program is not perfect. I raise the following issues that I believe require additional, immediate attention:

• Better and more accurate reporting. Quite often the data is not reported in a timely fashion from multiple servicers to our national, central database—The National Student Loan Data System (NSLDS). Delays in reporting data adds to the student confusion and could have negative ramifications for disbursement of funds. As an example:

• If an institution originates a student loan because a student indicated s/he would be attending that term and only finds out several weeks later that the student decided to attend another institution—the current institution must delay disbursement until the data is cancelled and resubmitted. This causes great harm to students. Other private, national student loan and attendance databases are successful in updating student information within a 24-48 hour turnaround. Improvements should be made or additional partnership struck with the private sector to ensure a more timely delivery of information.

• Additional streamlined services: With a single federal loan program, many of the processes that used to be in place during the FFEL program could be updated to make the entire student aid process easier for students. For example, until this last year, the Free Application for Federal Student Aid (FAFSA) would ask whether students were interested in taking federal loans. If they indicated yes, the FAFSA could easily double as a Master Promissory Note or link over to the federal MPN, which would streamline the entire process. Instead, and against the advice from NASFAA and other financial aid administrators, the Department has simply eliminated that question altogether from the FAFSA. The promise of a single federal loan program should result in innovative ways to streamline other federal student aid processes. I think much more can be done on this front.

• Additional college access and default prevention materials and assistance: The legislation that eliminated the FFEL program also allowed previous FFEL program student loan guarantors to offer college access and default prevention materials and services to schools and students. Unfortunately, there has been a bit of a lapse between the period when FFEL was eliminated and these new programs coming to fruition. Recently the Department announced it would allow guarantors to operate under new flexible arrangements to compensate them based on metrics like keeping students out of default or participating in other college access initiatives. However, the timeframe to get these programs up and running has some schools scrambling to fill in the gaps, all while a sour economy is leading to ever increasing student loan defaults. Schools and students need these services sooner rather than later.

• Increased standardization of loan servicing: Perhaps one of the most disconcerting parts of the Direct Loan Program has been the lack of standardization in loan servicing. Many of the former FFEL partners went from lending federal student loans to servicing them. These servicers are awarded student loan accounts based on several criteria and they are allowed to implement different policies and practices in the name of competition in hopes of receiving additional servicing contracts. However, to date no single publication has been released that easily tells schools and students about the different practices and policies of these servicers. Under the FFEL program, lenders and guaranty agencies came together to create a "Common Manual" that clearly outlined lender policies, procedures, and practices. It is disappointing that a similar effort has not been spearheaded by the Department, who oversees these contracts.

In some instances, these differences in servicing practices have resulted in drastic increased expenses for students. For example, servicers have different practices for capitalizing interest after periods of deferment or forbearances. Those differences have resulted in different expenses for students, sometimes resulting in drastically higher costs. We were recently assured

By the Department of Education that this issue is being standardized, yet other variances may still exist such as the type of documentation individual servicers will accept for deferments, forbearances, or income based repayment. We believe students should have standardization with a single federal loan program. And where there are differences between servicers, finding all of these practices in one location should be a requirement.

With dozens of other servicers scheduled to come online in the coming months, we as a community are extremely concerned about how students are to keep up with the various processes and procedures.

Finding Loans In Between Servicers: One of the outcomes of ECASLA and the switch to 100 percent Direct Lending has been the transition of loans from FFELP lenders to Direct Loan servicers. Because of multiple servicers of the Direct Loan Program, students are often uncertain about where their loans are being serviced.

There have been scattered reports that some loans have gone “off the grid” entirely for multiple weeks, sometimes over a period of time when a borrower was expecting to make payments. This process must be smoother for students and they must be informed in an expeditious way the unique phone numbers and websites where they can obtain assistance. NSLDS is not updated in real-time, and that time lag can cause angst and possibly missed payments for students.

I do not see these challenges as insurmountable and I feel confident that as we partner together we can see positive outcomes for students.

I once more wish to express my sincere gratitude for the opportunity to offer you a glimpse into our transition process from FFEL to Direct Loan and to share some areas that we believe require some additional improvement. We as aid administrators see ourselves as partners with you and the Department in ensuring that the nearly $150 billion in federal student aid is delivered efficiently, appropriately, and successfully to needy students around the country. The financial aid community is appreciative of you and your willingness to hear of our needs, struggles, and successes.

Chairwoman FOXX. Thank you very much, Mr. Day.

I now recognize Ms. Hoover for 5 minutes.

STATEMENT OF NANCY HOOVER, DIRECTOR OF FINANCIAL AID, DENISON UNIVERSITY

Ms. HOOVER. Chairwoman Foxx, Senior Democratic Member Hinojosa, and members of the subcommittee. Thank you for the opportunity to be a witness for this important hearing on federal student loans.

I am Nancy Hoover, the immediate past chair of the National Direct Student Loan Coalition, and I am the Financial Aid Director at Denison University in Granville, Ohio. Denison is a selective, independent, residential, undergraduate liberal arts college with an enrollment of about 2,200 students. Denison University implemented the Direct Loan Program as a year two school in 1995.

Prior to my becoming the director at Denison in 1994, I had processed or administered the processing of loans in the FFEL program at three other private universities.

I speak to you today on behalf of the National Direct Student Load Coalition, a grass-roots organization comprised of schools dedicated to the continuous improvement and strengthening of the Direct Loan Program. Its members are volunteers who are practicing financial aid professionals. The coalition would like to extend its thanks and congratulations to the staff at the Department of Education and especially at Federal Student Aid for the tremendously successful transition of all schools into the federal Direct Loan Program. Over the past several years, the coalition has played a significant role in the successful transition of schools into the Direct Loan Program by establishing a mentoring program of financial aid administrators who were working at direct loan schools.

These financial aid professionals were willing to volunteer their time and expertise to help other schools making the transition. The mentors represented schools from every sector, from different enrollment sizes, and different software platforms used to process loans. The Coalition Mentoring Program assisted over a thousand schools at no cost to any of these schools.

While some in the industry predicted that 100 percent transition to direct lending was an impossible task, the partnership of financial aid administrators and the Department of Education resulted in a very successful outcome and it built on the existing collegiality in our profession. To date, I do not recall there was a single instance in which students did not receive their Stafford loan funds during and after the transition.

This transition of all schools to the federal Direct Loan Program could not have been more successful for students, schools, and taxpayers. Benefits to the students and families generate savings that support increases in the maximum Pell Grant. It simplifies the federal loan application process by embedding it in the application for federal aid. It assures the availability of capital for educational loans. It provides repayment options for borrowers that can prevent defaults.

Accountability to students. Every disbursement record for student loans is recorded in the federal Common Origination Disbursement System to ensure accountability for the individual student's records.

Benefits to school. With all the federal loans and the grants processed through one system, the Common Origination and Disbursement System, student aid processing and delivery is now focused on the student rather than each individual program.

Schools that were already processing federal programs in the system did not have to buy additional software and hardware to make the transition. Some of the features of this system are its loan delivery system so that financial aid staff can have more time to counsel students and parents. The standard common format in the system enables quick programming. If Congress develops new programs, then the software vendors then can do the program quickly.

The system provides accountability because funding for all programs is processed through one system, the Department of Education's Grant Management System. The system now contains information about the multiple servicers so that schools will know where their student loans have been assigned.

In closing, the accountability that is inherent in the Direct Loan Program provides benefits to the taxpayers, requires reconciliation by the schools of the loan funds to the penny for each fiscal year, and ensures accountability of taxpayers' funds. The elimination of subsidies to private lenders saves taxpayers billions of dollars and helps support financial aid programs without additional costs.

There are those who continue to argue that the transition of all schools to federal Direct Loan Program is just another government controlled program. It should be very clear that the FFEL program has already federal loan program since its beginning. The cost of both programs have always been borne by the taxpayers. Instead of the government paying dollars to lenders to make the loans, the government is spending some of these dollars on students to improve the aid programs and provide them access to college.

Chairwoman Foxx, thank you again for the opportunity to appear before you and your committee today to provide the National Direct Student Loan Coalition's perspective on the successful transition by all schools to direct lending. I will be happy to respond to any questions you or the members of the subcommittee might have on.

[The statement of Ms. Hoover follows:]

Prepared Statement of Nancy Hoover, on Behalf of the National Direct Student Loan Coalition (NDSLC)

Chairwoman Foxx, Senior Democratic Member Hinojosa and Members of the Subcommittee, thank you for the opportunity to be a witness for this important hearing on federal student loans.

My name is Nancy Hoover and I am the immediate Past Chair of the National Direct Student Loan Coalition (NDSLDC). I am the Director of Financial Aid at Denison University in Granville, Ohio. Denison University is a selective, independent, residential, undergraduate liberal arts college with an enrollment of almost 2200 students. Prior to becoming the Director of Financial Aid at Denison in 1994, I was an aid administrator at two other nationally known private universities where I administered the loan processing in the Federal Family Education Loan Program. Denison University implemented the Federal Direct Loan Program as a Year Two school in 1995.

I speak to you today on behalf of the National Direct Student Loan Coalition (NDSLC), a grass roots organization comprised of schools dedicated to the continuous improvement and strengthening of the Direct Loan Program. Its members are volunteers who are practicing financial aid professionals working in participating institutions.

The Coalition would like to extend its thanks and congratulations to the staff at the Department of Education, and especially at Federal Student Aid for the tremendously successful transition of all schools into the Federal Direct Loan Program. The Department's staff was proactive in ideas for a successful transition and worked tirelessly to ensure schools could implement the new loan program with minimal interruption to their financial aid production.

Over the past several years, the National Direct Student Loan Coalition has played a significant role in the successful transition of thousands of schools into the Federal Direct Loan Program by establishing a mentoring program of financial aid administrators who were working at direct loan schools. These financial aid professionals were willing to volunteer their time and expertise to help other schools that were making the transition to Direct Lending. The mentors represented schools from every sector with different enrollment sizes and different software platforms used to process loans. The number of mentors increased as a result of financial aid administrators having a good transition experience and subsequently volunteering to become mentors. The Coalition mentoring program assisted over 1,000 schools and at no cost to any of these schools and it built on existing collegiality in our profession.

The Coalition also monitored several professional list serves for any discussions by schools about processing issues that were related to the transition to Direct Lending. The Coalition partnered with the staff members in the Office of Federal Student Aid to mentor any school that needed extra assistance. While some in our industry predicted that the 100% transition to Direct Lending was an impossible task, the partnership of financial aid administrators and the Department of Education resulted in a very successful outcome. To date, I do not recall that there was a single instance in which students did not receive their Stafford Loan funds during and after the transition. This transition of all schools to the Federal Direct Student Loan Program could not have been more successful for students, schools, or taxpayers.

Benefits to Students and Families :

- Generates savings that support increases in the maximum Federal Pell Grant
- Simplifies the federal loan application process by imbedding it in the application for federal aid
- Assures the availability of capital for educational loans
- Provides repayment options for borrowers that can prevent defaults

Accountability to students:

- Eliminates excessive and expensive lender marketing about "borrower benefits" that are not included in the promissory note and thus not guaranteed
- Every disbursement record for student loans is recorded in the federal Common Origination and Disbursement System to ensure accountability for the individual student's records

Benefits to Schools:

With all federal loans and grants processed through one system, the Common Origination and Disbursement (COD) system, student aid processing and delivery is now focused on the student, rather than on each individual program. Schools that were already processing other federal grant programs in this system did not have to buy additional software and hardware to change their loan delivery system from FFEL to DL.

- The Common Origination and Disbursement system streamlines the loan delivery system so that financial aid staff has more time to counsel students and parents.
- The Direct Loan Program simplifies student loan administration processes and improves institutional efficiency and accountability.
- Monthly and annual reconciliation processes that require a school to account for funds to the penny minimize the possibility of fraud and abuse that became possible in the bank based system.
- The standardization of the common record format in the Common Origination and Disbursement system simplifies and enables quick programming that is required by software vendors to deliver funds for new programs that Congress develops.
- The Common Origination and Disbursement system provides accountability because funding for all programs is processed through one system—the Department of Education's Grant Management System (G5)
- The Common Origination and Disbursement system now contains information about the servicer to which students' loans have been assigned. This information is crucial now that the loans made by a school can be assigned to multiple servicers.

In closing, the accountability that is inherent in the Direct Loan Program provides benefits to the taxpayers:

- Required reconciliation by schools of the loan funds to the penny for each fiscal year ensures accountability of taxpayers' funds.
- The elimination of subsidies to private lenders saves taxpayers billions of dollars and helps support financial aid programs without additional costs.

There are those who continue to argue that the transition of all schools to the Federal Direct Loan Program is just another government controlled program. It should be very clear that the Federal Family Education Loan (FFEL) program has always been a federal loan program since its beginning. The costs of both programs have always been borne by the taxpayers. Instead of the government paying dollars to lenders to make the loans, the government is spending some of these dollars on students to improve the aid programs that provide them access to college.

To summarize the experiences that I had as a mentor to over 100 schools, I would like to give a quote from a colleague that I personally mentored when he had to transition to DL in July of 2009 after two lenders called him and told him they would not be able to process his students' loans for that fall semester. His comments are similar to hundreds that the Coalition heard as we helped schools make the transition.

"Things are going well for us and Direct Loans. I had to make some changes to a FFELP loan the other day and decided I was glad we went Direct. I am saddened by my years of resistance to DL."

Chairwoman Foxx, thank you again for the opportunity to appear before you and your committee today to provide the National Direct Student Loan Coalition's perspective on the successful transition by all schools to Direct Lending. I would be happy to respond to any questions you or the Members of the Subcommittee might have.

Chairwoman FOXX. Mr. Bandré, I would like to recognize you for 5 minutes.

STATEMENT OF MARK A. BANDRÉ, VICE PRESIDENT FOR ENROLLMENT MANAGEMENT AND STUDENT AFFAIRS, BAKER UNIVERSITY

Mr. BANDRÉ. Thank you, Madam Foxx, thank you for this opportunity. It is a real pleasure to be here. I represent Baker University in Baldwin City, Kansas. Baker has a student population of 3,700 split between several different multiple delivery options, which I will explain in a little bit.

Having personally served at five private colleges and universities since 1989, I particularly value the chance to share information that has the potential to improve service to those pursuing higher education. Prior to my appointment at Baker in June 2010, I served as Director of Financial Aid at Hendrix College, in Conway, Arkansas, another small liberal arts college serving 1,400 students.

Because I was serving at Hendrix when the direct loan mandate was signed into law, I am able to share experiences from both institutions, which I will do.

First, I would like to talk about the Hendrix experience a little bit. Hendrix's student loan program had always been through the FFEL program that Ms. Hoover mentioned; however, the institution there welcomed the opportunity to add direct lending as a choice for students. Beginning with the fall 2009 semester and prior to the mandate, Hendrix added direct loans as an option for all new borrowers. Interestingly, that first semester only four students chose direct lending out of 200 potential borrowers.

However, working with those students, the financial aid staff, the business office, and the registrar were able to learn how the direct lending process works. Hendrix uses software called PowerFAIDS, which is a product of the College Board. It was compatible with direct lending but there was a learning curve at the school for sure learning how to figure out the functions of direct lending within that software.

In June 2010, when I arrived at Baker, Baker's financial aid and business office staffs had previously decided to delay their transition in direct loans until there was clear direction from Congress. Staff based this decision on experience with past financial aid, legislative, and regulatory changes that resulted in them putting forth a great deal of time and effort only to have the legislative regulatory decision changed by the time they were actually ready to implement.

When it became clear the decision would stand, though, on direct lending, Baker rapidly moved forward, learned the systems, and with the software in place at Baker, which is known as CampusVue, they were efficient in enabling the transition.

One reality faced by all colleges and universities is they were now extremely reliant on selected companies to provide the software necessary to process aid and conduct business. Of course, software providers also need time to implement changes. And at the time we needed help with direct loan process from the CampusVue folks, they were busy working on year-round federal Pell Grant regulations that you may recall came about at the same time. What wound up happening of course 2 short years later the year-round Pell Grant Program no longer exists. The end result though was for much of the 2010 spring and summer, a great deal of energy went into trying to make both programs work.

Prior to the direct loan transition, Baker processed over $15 million annually in FFELP, Stafford, and PLUS loans for approximately 3,000 borrowers. Converting the Direct Loans for our traditional program in less than 6 months was an educational challenge for our new and current students in that we had to teach them about process in a short amount of time.

We also, as I mentioned, have non-term programs with multiple class starts, different loan periods and disbursement dates, numerous schedule changes, and reviewing and making necessary adjustments by staff in order to accommodate new promissory, make sure notes compiled, et cetera, again an educational challenge.

A list of things that Baker did to prepare for direct lending. Six staff members participated in four Direct Loan Webinars, three staff members participated in conference calls, 8 hours per week over 11 weeks were spent developing procedural changes, consumer information. Much time was spent trying to get the learning curve up so we that would be ready to help students.

The Department of Education did assign a financial aid office with a contact person who was to assist Baker with any process-related questions or concerns. We discovered though that these people hadn't had as much training as we might have preferred. We wound up instead of relying on the Department official, we relied on peers from other colleges that used the same software to be able to work through the process.

Looking forward, there are several ways the Direct Loan Program could be improved. For example, borrowers use the studentloans.gov Web site to complete a promissory note and complete loan counseling. The Web site in our opinion needs to be more user friendly and clearly direct borrowers to each require task. We see too many students who unknowingly complete either a promissory note or entrance counseling but not both even though they need both to complete the Stafford loan. The system needs to require both promissory note and counseling once the students commences the sequence.

I am happy to report we experienced no disruption in loan availability to our students either during or after the transition. The Direct Loan Program is working. However, it is also correct to report that Baker financial aid staff now spend more time trying to help students track down, understand the details of their loans than was previously the case. We are now doing most of the work that customer service representatives used to do at the banks and guarantee agencies.

Despite the lack of competition that I feel drives innovation, we hope the Department of Education continues to seek ways to improve service to students. I thank you for holding this hearing and for the opportunity to participate.

[The statement of Mr. Bandré follows:]

Prepared Statement of Mark Bandré, Vice President for Enrollment Management and Student Affairs, Baker University

Good morning Madam Chair and other distinguished Committee members. I first want to thank you for the opportunity to present testimony before this Committee. My name is Mark Bandré and I am Vice President for Enrollment Management and Student Affairs at Baker University—a private not-for-profit institution serving 3700 students in Baldwin City, Kansas. This morning I offer you the perspective of the transition to Direct Loans from a small institution. I will also address some areas of concern that remain. Having served at five private colleges and universities since 1989, I particularly value the chance to share information that has the potential to improve service to those pursuing higher education.

Prior to Direct Loan Mandate

Prior to my appointment at Baker University in June 2010, I served as Director of Financial aid at Hendrix College, another small school in Conway, Arkansas. Because I was still serving at Hendrix when the Direct Loan mandate was signed into law, I am able to share experiences from both institutions.

First, I would like to address my experience at Hendrix. Hendrix's student loan volume had always been through the Federal Family Education Loan, or FFEL, program; however the institution welcomed the opportunity to add the Direct Loan Program as a choice for students. Beginning with the Fall 2009 semester, and prior to the mandate, Hendrix added Direct Loans as a student lending option for all new borrowers. Interestingly, only four students out of over 200 new borrowers that semester chose Direct Loans. Through working with those students, the financial aid, business office, and registrar staff at Hendrix were able to learn how the Direct Loan process worked. The software used at Hendrix at the time (PowerFAIDS, a product offered by the College Board) was not particularly compatible with administering Direct Loans so there were numerous learning curves, even for a small number of students.

In June 2010, I accepted the position at Baker University. Prior to my arrival, Baker's financial aid and business offices had agreed to delay their transition to Direct Loans until there was clear direction from Congress. Staff based this decision on experience with past financial aid legislative and regulatory changes that resulted in a great deal of time and effort in order to comply, only to have the decision reversed shortly after implementation. When it became clear the decision would stand, Baker rapidly moved forward and learned the Direct Loan process in order to ensure timely service to students. The software in place at Baker, known as CampusVue, was efficient in enabling the transition.

The Transition and Implementation Process

Although Hendrix and Baker began the Direct Loan transition process at different times, both schools experienced similar challenges related to service from the Department of Education and respective software providers. For example, colleges and universities are extremely reliant on selected companies to provide the software necessary to process aid and conduct business. Of course, software providers also need time to implement changes mandated by legislation or regulation and at the time we needed help with Direct Loan transitions most software providers were busily working out how to manage the new year-round Federal Pell Grant regulations—a provision of the Pell program that, two short years later, no longer exists. As a result, for much of the 2010 spring and summer a great deal of energy went into trying to make both programs work. I would like to share with you more detail on how this process unfolded at Baker.

Prior to the Direct Loan transition Baker processed over $15,000,000 annually in FFELP Stafford and PLUS loans for approximately 3,000 students. Converting to Direct Loans for our traditional programs in less than six months was an educational challenge for our new and current students in that we had to teach them about the new process in a short amount of time. On the other hand, our non-term programs have multiple class starts, different loan periods and disbursement dates, and numerous schedule changes, all of which led to significant manual review and necessary adjustments by financial aid staff in order to accommodate new promissory notes, make sure disbursement dates complied, etc. Because new student cohorts start each month, and some students' enrollment periods went past September 30, we were literally doing twice the work, by processing both a FFEL and a Direct Loan for a period of time that in the past was covered by just a single FFEL loan.

This effort did require significant investment. From the administrative side, I'd like to offer the following estimates related to the Direct Loan transition:

- Six staff members participating in four Direct Loan webinars
- Three staff members participating in four conference Direct Loan set-up calls
- Approximately 8 hours per week were spent over 11 weeks developing procedural changes and consumer information
- Getting the office set up with Department's Direct Loan component of Common Origination and Disbursement or COD process
- Developing and distributing student and parent application process instructions to both new and current students and parents
- Updating catalog copy and web sites
- One staff member attended a Direct Loan conference in St. Louis
- Two staff members attended state conference for sessions on Pell and Direct Loan changes
- Working with IT on testing our system and the communication flow with COD
- Pending work—re-awarding hundreds of students in the non-term programs with Direct Loans to complete their academic year funding.

The Department of Education assigned the financial aid office with a contact person who was to assist Baker with any process-related questions or concerns. After working with the contact person through early phases of the transition, we soon realized it was not feasible to wait for the contact person to provide answers to our questions. Instead, Baker contacted its software provider to inquire about schools that had already completed the testing and transition process. Thankfully, such a school existed, and their financial aid staff cooperated with us in order to solve a number of problems. While we believe the Department had good intentions by assigning a specific contact person, their availability was limited based on the number of schools transitioning; there is no doubt that working with colleagues at other schools is what enabled Baker to complete the transition successfully.

While I left Hendrix before full implementation to Direct Loans, former colleagues shared with me that throughout the 2010-2011 academic year, they encountered numerous problems with software and inability to get files through to COD. They attribute portions of this to issues on the PowerFAIDS software end while others stemmed from inability to obtain helpful answers from their assigned Department contact. It seems the frustrations centered on problems with accumulating and sending needed files. In the current 2011-2012 award year, my Hendrix colleagues believe Department officials are much more knowledgeable about the process.

Suggested Improvements

Obstacles do remain and there are several ways that the Direct Loan Program could be improved. For example, borrowers use a Direct Loan web site, studentloans.gov to complete a promissory note and complete loan counseling. The web site needs to be more user-friendly and clearly direct borrowers to each required task. We see too many students who unknowingly complete either a promissory note or entrance counseling, but not necessarily both even though both are required before they can receive a Federal Stafford Loan. The system needs to require both promissory note and counseling once a student commences the sequence.

I am happy to report we experienced no disruption in loan availability to our students either during or after the transition. The Direct Loan Program is working. However, it is also correct to report that Baker financial aid staff now spends more time trying to help students track down and understand the details of their loans than was previously the case. We are now doing most of the work that customer service representatives used to do at the banks and guaranty agencies. It is my observation that under the FFEL program, lenders and guarantors would help borrowers even when the loans had been transitioned to another lender or servicer. We're finding an increasing number of borrowers with loans mixed between the two programs coming back to us to help them track down loan records. It would be helpful if all servicers were able to provide comprehensive information on a student's loan so students would not need to call multiple agencies to try and track down important loan information.

Despite the lack of competition that often drives innovation, we hope the Department of Education continues to seek out ways to improve service to students. Thank you for holding this hearing and for the opportunity to participate.

Chairwoman FOXX. Thank you very much, Mr. Bandré.

I would like to now recognize Mr. Petri for 5 minutes to ask questions.

Mr. PETRI. Thank you very much, Madam Chairwoman.

I thank the panel. And Ms. Hoover, I would like to thank you and your members for donating voluntary time to help other schools mentoring or advising on your members' experience with the Direct Loan Program so that they could transition successfully to it.

I wanted to give Mr. Runcie an opportunity to respond to some of the comments of the other witnesses, particularly about enhancing the information and effectiveness of the Department's Web sites for students and for schools. We are moving into a new world and government tends to lag on that but I expect you are hard at work attempting to upgrade that and make that a more powerful and effective tool.

And secondly, if you could at all comment, you mentioned that you are coordinating or collaborating to some extent with the IRS on data. And in other countries that have direct loan programs, they have gone further. And I know in Australia, I think New Zealand and Britain, so that students have the option of having a flexible income contingent repayment through their IRS system. So it works very effectively. Years ago some of us worked on that in Congress and we were told by the IRS they had a mess on their hands at managing the move from sort of paper and manual processing to a computer IRS. And that is now largely completed although I am sure there are problems. So this might be an opportunity to take another look. I know there are other contingent programs out there, but this would be pretty seamless once it was set up from the point of view of the student would avoid default and collection costs and yet ensure repayment when people were earning money. So there are a lot of advantages. And if other countries have done it, we have something we can look at as an experiment.

I wonder if you could comment on any of those points.

Mr. RUNCIE. In terms of the customer service aspect of our Web sites, we hire a customer, a chief customer experience officer, who is really focused on looking at, making sure we optimize our Web sites so that we provide the optimal service to students and also to institutions that rely on these Web sites. I do acknowledge the comments that were made. And some of those criticisms were very constructive. We will look at ways to make it easier for folks to navigate through our Web sites.

We are also looking at consolidating potentially some of our Web sites. We have a good number of Web sites and the ability to consolidate those Web sites could be a way that we would potentially make it easier for students and institutions to leverage the information we have on those Web sites.

In terms of our work with the IRS, it has been tremendous in terms of the ability to reduce the time to fill out the application as well as to eliminate inaccuracies. And that has improved our improper payment rate. I think it reduced about 40 basis points which equated to about potentially $146 million of lower improper payments.

In terms of working with the IRS to find additional ways to leverage that institution and what we do, we are very open to it. I have not had discussions about that level of engagement. But again, it sounds like it is a potential way to make it more efficient and more customer friendly. So we would be open to looking at that, and thanks for that input.

Mr. PETRI. I have another question. We have been working in this committee and others with the for-profit institutions and their relationship to the program. One complaint they make is the amount that students can borrow exceeds commission in many cases and is an incentive for students to over borrow and buy cars and things like that. Do you have any idea if that is a major problem or if there are things that could be done to tighten up on what the funds can be used so that it is more closely related to education and kids don't unintentionally dig themselves too deep a hole?

Mr. RUNCIE. What we do is we oversee statutory, I mean there are certain legislative and regulated uses of the funds. And I think we have a pretty substantial group of folks in our program compliance area that monitor that aspect of the funding. But I think some of the things that could potentially impact that would be more policy related, and we are more operational and we implement whatever the regulations and whatever the laws are. So I don't know that we would have an impact on the uses of those funds.

Chairwoman FOXX. Thank you, Mr. Petri. I thank you, Mr. Runcie.

I would now like to recognize Ranking Member Mr. Hinojosa, for 5 minutes.

Mr. HINOJOSA. Thank you.

Mr. Runcie, first of all, thank you for being here. And I would like to thank you and all of the hardworking staff in the Federal Student Aid Office for your professionalism and your commitment to ensuring a smooth transition to the Direct Loan Program so that students can receive the assistance they need to pursue their educational goals.

My first question to you refers to the testimony. You state that you are pleased to report that the transition to 100 percent direct lending was a success. Can you tell us how you have measured success?

Mr. RUNCIE. I think the ultimate measure of success really has to do with making sure that all students who are eligible to receive federal aid through Direct Loan Programs, they were able to do so. I think some of my colleagues on the panel have mentioned that no student who was seeking direct loans were not able to—they were all able to receive those funds. I think that is the ultimate measure.

I think in terms of working with the institutions, we put together significant resources, had contracts with vendors, put up Web sites. We did a lot of things in terms of providing resources so that the transition could be as seamless as possible.

Clearly when you look at the scope of trying to make sure that 5 to 6000 schools are all DL ready and all of these schools have different levels of capability, different systems, it is not a trivial exercise. But I think given the circumstances, the ability to migrate all of those schools over, and I also want to recognize the fact that other organizations and Ms. Hoover also got into the discussion about how they were able to work with schools as well, but I think the totality of that effort and the collaborative effort that we went through delivered all of the schools over to the DL program that wanted to provide those funds and those loans to students.

Mr. HINOJOSA. Mr. Runcie, we have heard the testimony that the Department and its transition partners provided valuable technical assistance and guidance to facilitate a successful move. Can you describe the steps the Department has taken to assist the schools?

Mr. RUNCIE. To assist the schools? Well, initially as I said, we put a number of resources in place, including a point of contact for all schools, and the point of contact typically was the point of contact for the Pell program, and we leveraged the system that was used for Pell so that it was a bit easier for schools to migrate since most schools that used the Pell had some expertise related to that. Of course the addition of leveraging or using the promissory note, that added some complications but at least we had a base to work from.

In addition to that, we had Web sites, we had training conferences throughout the year. We had the big FSA conference that roughly 2000 institutions and 6000 participants from financial aid community attended. And there we had discussions as well as training on the transition.

We also had vendors that were on standby so that we could provide on-site support as well as folks at FSA that were willing to provide on site support. We also have remote support. So we had a large basket of assets and resources that were there for schools and we were pretty proactive in terms of trying to make sure that people were trying to realize that we had resources available to them.

Mr. HINOJOSA. The number that attended are amazing. They are high. It looks like you are going to have a lot of success. Can you tell us the steps that the Department has or is taking to ensure that the security of its loan systems and can you also tell us the steps that the Department has or is taking to aid those student borrowers against default?

Mr. RUNCIE. In terms of the security, our systems are all—they go through vigorous technology review. That is required for all federal systems, so we comply with those standards. And our partners and their systems that we leverage, they have to be FISMA compliant. So we have to meet that standard. We also have quite a few security, technology security officers. We also have Privacy Act folks that are associated with the security process.

So I think we can always sort of the augment the system. This year, for instance, we are adding two-factor authentication which is now the need for a token. So in addition to passwords and identification, you need a token. So it is another level of security that we are providing both internally and rolling out to the schools.

In terms of default prevention, we are leveraging the servicers we have contracts with for private sector servicers for the Direct Loan Program. A part of how they are allocated and how they compete relates to how well they handle defaults. So there is a customer satisfaction component and there is a default prevention component so they look at the default rate. So the way they run their business models I am sure you know would necessitate that they provide as many resources around preventing defaults as possible because ultimately it is going to impact their revenue and profitability.

Mr. HINOJOSA. Thank you. My time has expired. But I appreciate that you answered all of my questions.

Chairwoman FOXX. Thank you both.

I would now like to recognize Mrs. Biggert from Illinois for 5 minutes.

Mrs. BIGGERT. Thank you, Madam Chairman, and thank you all for being here.

My first question would be for Mr. Runcie. In your testimony you talk about the Secretary inviting the FFEL program guarantee agencies to submit proposals for voluntary flexible agreements. Could you talk a little bit about that and I know that you say here that it has the existing authority to leverage private sector best practices to improve efficiencies in customer service in the administration of the title IV programs while reducing the cost to American taxpayers? I know they are not doing it for free but I am wondering how it works and how it lowers costs.

Mr. RUNCIE. Thank you. The voluntary flexible agreement, and they were used before, not as extensively as we are looking to use them now, but one of the requirements for a voluntary flexible agreement is that it would be that it at least cost neutral. So the idea of cost neutrality means that there would be additional cost to taxpayers.

We are looking at that structure because given that there is no more new origination, we wanted to recognize and acknowledge the level of expertise and service that these guarantee agencies have. They have a fair bit of expertise in default prevention, debt management, financial literacy and outreach, and they have the infrastructure that spreads across the country. So we wanted to look at ways to leverage that expertise and collaborate with them in the vehicle that we have is the voluntary flexible agreement.

Some of the outcomes that we are looking to achieve is we are looking to have a level of performance-based metrics if we could. We are looking to potentially eliminate perceived conflicts of interest between default prevention and the collections piece because conceptually they may be at odds in terms of how folks might be incentivised.

We are looking at risk management. We want to make sure that their systems have the level of security in terms of PII that systems that are contracted with the federal government have because these are agreements with the guarantee agencies not contracts so potentially there could be a different level of security.

Mrs. BIGGERT. I am glad you are looking at financial literacy. I know Mr. Hinojosa and I have looked for a long time on the issue of financial literacy. What does cost neutral mean.

Mr. RUNCIE. Sort of hypothetically, if we were to spend a billion dollars over 10 years in terms of payments and fees to the guarantee agencies, if we change the way they provide services and they change their business models, we would pay no more than that billion dollars that we would have paid otherwise, and so it is cost neutral in terms of not costing us any more money outlays to those guarantee agencies.

Mrs. BIGGERT. In other words, this is an ongoing programs so there is moneys that has available for that?

Mr. RUNCIE. I am sorry?

Mrs. BIGGERT. I said it is an ongoing money program so there is already money that has already been allocated?

Mr. RUNCIE. Yes. Because even though the FFEL origination has stopped there is still a portfolio of 450, it is well in excess of $400 billion that is still out there that needs to be monitored and there is a wind-down process. So these guarantee agencies would be around for X-amount of years anyway in terms of managing the existing portfolio.

Mrs. BIGGERT. Mr. Day, you talked about some delays in information reporting that has caused some confusion to students about where to pay or when to pay their loans. And you talk about other private national student loan and attendance databases that are successful in updating student information within a 24—48-hour turnaround. What specific improvements would you recommend to help the Direct Loan Program achieve a similar data processing capacity?

Mr. DAY. Thank you very much. What is happening, and this may get a little bit technical so bear with me just a moment. We have a system that originates student loans from our campus up through what is called Common Origination Disbursements, COD. They communicate with the national database, which is NSLDS, where all of the student loans reside.

Quite often what we are finding is that students may indeed say they are coming to my school but in essence will go to another. I will have to cancel it on my side and then report it to COD, and they have to report it to NSLDS. It is not done in a very timely fashion. What happens is we may have students that come to my school that I may have to pro-rate their eligibility. What we are finding is some of the other situations that we have such as the national clearinghouse where we report attendance records are unable to do those things in a timely fashion. So with all of that automation, I would hope this would improve.

Chairwoman FOXX. I would now like to recognize Mr. Bishop from New York.

Mr. BISHOP. Thank you very much, Madam Chair, and thank you to our panel for your testimony.

I have to say I found your testimony quite gratifying for those of us who worked hard to see to it that we would make the transition, that we would make the public policy decision to move to 100 percent direct lending. Your testimony taken in the aggregate validates the wisdom of that decision. Because what you have all said in one form or another is that not a single student was disrupted, that their access to student financial aid programs remained unencumbered and not disrupted.

And I hope you would all agree that when we evaluate financial aid programs, and there are several different vantage points that we can use to evaluate them, that the extent to which students are serviced and not inconvenienced has to be far and away the most important measure. Do you all agree with that?

So by that measure, is it fair for me to conclude that you would all agree that this transition has been a success?

[Witnesses answer in the affirmative.]

Mr. BISHOP. Thank you.

Let me go to a couple of things.

Mr. Day and Mr. Bandré, you both spoke about some issues having to do with computer platforms and processing and so on. Would you both agree that those issues that you raise—and I don't mean to minimize them—they both fall into the heading of growing pains; is that fair to say?

Mr. BANDRÉ. I think it is fair to say. In the Department's defense, they didn't get a whole lot of lead-in time either. So I mentioned that the assigned representative we had at the Department wasn't always able to answer our questions so we relied on peers instead.

It is fair to say that person, whoever he or she was, didn't have enough time to really get trained. So I agree.

Mr. BISHOP. Mr. Day?

Mr. DAY. Yes, sir. I agree with that as well. The systems we had are quite often canned systems. We had them configured one way and they had to be reconfigured another. That was an internal issue that we had to face in our State. In Georgia, for example, most of our public schools have the same system so we sought assistance from them.

Mr. BISHOP. Thank you very much for that.

You are all much younger than me, but I was a financial aid director in the first year of the basic educational opportunity grant program, and we had our share of growing pains. But I think we would all agree that a financial aid program that didn't have the Pell Grant would be one that would be significantly deficient in terms of our ability to help students. So we worked through them, and I am confident that the current generation of enrollment management professionals will work through them.

Ms. Hoover, one of the things that we heard as we were debating this issue is we heard some Armageddon-ish type of projections of the staffing burden that would be imposed on enrollment service offices, specifically financial aid offices, and the extent to which colleges and universities would have to materially staff up in order to accommodate this transition.

In your experience with the schools that you work with, or Mr. Day, in your experience—you are now the President of NASFA, is that right? Incoming. Have any of those projections come true? Have there been massive increases in enrollment services staff so as to accommodate this transition?

Ms. HOOVER. I have not heard of any increased staff issues. And as I indicated, our coalition worked with over a thousand schools. My loan processor, who is now my associate director, I want to make sure if he is watching, that he knows he has been promoted, helped. And he and I personally mentored over a hundred schools. We never heard that issue that they had to increase staff. In fact, it became so streamlined that in times they were able to have this current staff do other responsibilities and actually gain some staff time in essence. But I have not heard that. But again, that is the experience from a thousand schools.

Mr. BISHOP. Okay, thank you. Mr. Day?

Ms. DIXON. From a personal perspective, we did increase staff. We did not increase staff for reasons that we later found were necessary. The processing end that we thought would indeed be there was much more streamlined than we had anticipated. However, I will say this, we have now had to remove some of those staff from the loan processing and move them over into the area of default managers, for example. We did take on that responsibility because we feel it necessary that the FFELP lenders had done previously.

Mr. BISHOP. Thank you al very much. My time is about to expire. I want to thank you, Mr. Runcie, for presiding over the Department's efforts to make this transition as seamless as it obviously was. Thank you all very much for your testimony.

Chairwoman FOXX. I would now like to recognize Dr. Roe from Tennessee.

Dr. ROE. Thank you all for being here today. It has been a great panel.

Before I came to Congress, I served as a foundation board president where I went to college at Austin Peay, and one of our things was to raise money for students, and it is the greatest investment that I ever made in my life was my college education. No doubt about it. I went out to dinner last night, it was more than a quarter of college when I went. It was $65 a quarter to go to college. Unbelievable. That shows how ancient I am.

But it is becoming, as Mr. Hinojosa and Mrs. Biggert have pointed out, much more difficult for young people to afford to go to college now. It is just astronomical. And I hear stories all the time.

And one of the things I am concerned about is the financial literacy part is making sure students understand if I graduate from college and get a $35,000 or $40,000 a year job, if I can find that job, I can't pay off a $200,000 loan. I had a parent that came to me the other day. It was a young doctor who had a 200 and something thousand dollar loan that he had to start paying back while he was a resident, and it took up almost a third of his liveable income.

So we are creating problems in this country.

And I guess the question I have is how much can a student borrow through this program? Mr. Runcie, I guess you are the person I should ask that to.

Mr. RUNCIE. The Pell Grant is $5,500, and there is a limit in terms of subsidized piece and unsubsidized loans. It could be a substantial amount.

Mr. ROE. How much is that? If a student comes into college, Denison or Baker University, how much could I go on the—could I borrow? And I want to make sure because, as an 18- or 19- or 20-year old, tomorrow is a long time. It is hard to—I have to pay this money back. I know how much trouble I have gone through to raise money for scholarships that you don't have to pay back; these loans have to be paid back. So how much can you go into debt for through this program.

Mr. BANDRÉ. The answer to your question results in a fairly complicated answer. I hate to say it depends, but it does, on the students choices. Does the student stop at a bachelor's degree? And if so, the second question is, does that student have parents that are of good credit and willing to assist? If a student borrows the basic amount each year, they can borrow $3,500 as a freshman, $4,200 as a sophomore and then $5,500 each their junior senior year. That is pretty common. There are a lot of students out there who borrow those, so $21,000 is one way to answer your question.

Let's say, though, that that student's parents don't have good credit and they are denied credit for a parent loan that Mr. Runcie mentioned, that adds to it. So there are other variables that impact each individual choice. And you mentioned your doctoral student, certainly those who pursue graduate degrees of some sort add to their total.

Mr. ROE. How many students—what percent of students are on the FFEL program and the Direct Student Loan Program when this transitioned, before 2008 and before we could see it happening; how many chose one, and why did they chose one versus the other? Just out of curiosity. I don't know.

Mr. DAY. Primarily that was because of the way the school was configured. Most of the FFEL lenders—is the choice of the schools to decide to stay with the FFEL lenders with a private market. You had a choice; you could choose to be DL or are FFEL, but most of the schools that were FFEL just basically felt that the service they were receiving was better on that side then going the DL route.

Mr. ROE. So it was just a choice that the university made?

Mr. DAY. That is right.

Mr. ROE. What interest rates are the students charged? On the direct program, what interest rate are they charged on their loans?

Mr. RUNCIE. 6.8.

Mr. ROE. 6.8? Whew. It couldn't be a little lower? Because interest rates now are at historic lows.

Mr. RUNCIE. Yes, that it is a statutory rate.

Mr. ROE. Did we do that? If we did do that, we need to look at that again.

And I guess the last thing, again, through financial literacy, I want to be really sure that we are doing that.

And congratulations, Mr. Runcie, on making this transition. I know you have worked a lot of long hours, and thank you for doing that.

Students really don't care where the money comes from; they just want the money to go to school. I know I would. I could care less where I get the money. But I would like to be able to pay it back, and it seems like 6.8 percent is a pretty steep interest rate. I think that is something we could look at.

Mr. RUNCIE. Yeah, there are—we have income-based repayment, and we need to sort of get that message out. There are public service loan forgiveness programs. There are certain options that can be leveraged, but I think you are right in terms of the financial literacy piece, making sure people understand that it is an investment, and there needs it be a return component that is commiserate with the investment that they are making. So we have a lot of efforts around that in terms of making sure people understand at the point of decision what their needs might be.

Mr. ROE. I yield back.

One last thing, Mr. Day, I don't wish you any bad ill, but I hope East Tennessee State beats Kennesaw State.

Mr. HINOJOSA. Would the gentleman yield for 30 seconds?

Mr. ROE. Yes, I will.

Mr. HINOJOSA. I like that last question that you asked on the 6.8 percent being pretty steep, but we need to remember that before this, 10 percent interest rate and 12 percent interest rate was common in some of the bank loans and some of the Sallie Mae loans. So this looks pretty attractive to most parents, like myself, that have two girls going to college.

Mr. ROE. I yield back.

Chairwoman FOXX. I want to recognize Mr. Andrews for 5 minutes.

Mr. ANDREWS. Thank you, Madam Chairwoman.

I thank the panel.

I would say to my friend from Tennessee that I would support a bill that says the interest rate on direct loans should be calculated as follows: Take the cost of the government acquiring the money, add to that the cost of administering the program, both on campus and the Department of Education, put in reserve for loan default, and make the interest rate that, which is what we proposed in 1991, as setting a rate that would be considerably lower than 6.8 percent. If he would be happy to cosponsor that, I would welcome his help. I would yield to him.

Okay. Let me ask the panelists some questions. My understanding is that the consensus on the panel from Mr. Bandré, Ms. Hoover, and Mr. Day is that no student went without a loan during this transition period because of the transition; is that correct? And although there were bumps in the road that—in the case of Mr.

Bandré and Mr. Day, that are actually running programs on campus.

Ms. Hoover, are you as well?

Ms. HOOVER. I am a Direct Loan school, yes.

Mr. ANDREWS. So, all three of you, there have been bumps in the road, but the program is working pretty well on your campuses.

And the third thing that I heard is that I heard some very constructive suggestions that I am sure Mr. Runcie and his colleagues will take any account. I think a quicker turn around time is essential. I think that students need the money to do a lot of things at the beginning of the semester, and waiting is a problem. I think that certainly the Web site problems that the chairwoman pointed out need to be addressed at the Department.

I think there are a number of other things, but would anybody, particularly the three campus witnesses, would anybody here characterize the Direct Loan Program as a disaster?

No.

Would anybody characterize it as a very flawed law?

No, I wouldn't either.

Would anybody here support the repeal of the Direct Loan Program, any of the three campus-based witnesses?

No, okay.

I think we have reached a point of consensus here that is commendable. I think the program absolutely could use improvement.

And Mr. Runcie, again, I would hope that you would take to heart the very constructive suggestions you have heard from the campus-based witnesses here today to try to see what we can do about it.

Mr. Runcie, the final thing I would ask you, and I will ask it for the record—I have written to the Secretary, and you have been kind enough to respond. I have some concerns about the consolidation loans, the statutory authority and the consolidation loans that I have some concern has been exceeded by some loans that had been originated. I am going to send you some follow-up questions on the record for that.

I will just close by saying this, that the source of the question about the program being a disaster was a Wall Street Journal editorial that claims the program should be done away with. And the source of the very flawed law comment was the chairwoman, who, in January of this year, called the program a very flawed law. I think she has made some very constructive suggestions about how it could be improved, and I would work with her.

But I would disagree; I would join you in asserting the fact that the program is not very flawed and should not be repealed.

I yield back.

Chairwoman FOXX. Thank you very much, Mr. Andrews.

Mr. Andrews has raised the issue of a follow up from us to members of the panel for additional questions that may not get asked during this hearing. And so we will be, all of us have that opportunity. And I think you could probably expect that from various members of the committee.

I would now like to recognize Mr. Thompson from Pennsylvania for 5 minutes.

Mr. THOMPSON. I thank the chairwoman. Thanks to the panel for your service to education and your expertise.

With the direct lending bill, you know, it is seems to me that when it comes to access of loans, that I assume our somewhat status quo, it sounds like consensus is that young folks pursuing education have access the loans. I would argue that they had access to loans before, so I want to dig a little deeper than just that one metric.

I happen to think this is a flawed bill, based on three premises. At a time when our economy is struggling with the weight of the cost of government, it grew government. It cost private sector jobs. Those two are not compatible.

And frankly, I think it failed to address a primary issue that my good friend, the physician from Tennessee, raised and adequately, I believe, but I want to explore that more with my questions in terms of financial literacy.

Mr Runcie, thanks for your leadership with the role you stepped into. In your testimony, you talked about increasing staff to provide the oversight and compliance. How many staff do we have now in terms of with this direct lending; what has been the growth in terms of number of positions to administer?

Mr. RUNCIE. Yeah, we have—our staff's mid 1,200s right now. And we have increased from a little over a 1,000 over a 2-year period.

Having said that, the numbers are still lower than what they have been at points historically, but I think more importantly, in terms of the DL program, a lot of that is outsourced. So 84 percent of our budget goes to private contractors. And so, in addition to the folks that we use for DL, there's another 9,000 contractor folks that we use to operate. And a portion of that, a significant portion, relates to the servicing level.

So the ratio is about 1 to 7, 1 to 8, our employee base to the contractor, so I think that has probably expanded maybe more so than our own internal hiring.

In addition, the contracts that we put in place with the servicers, they require for all those jobs to be domestic. And so there were a number of jobs that were overseas that came back into the U.S. because of the way the contracts were structured.

Mr. THOMPSON. Do you have—is there—I am not sure you should know this, but do we know how many private sector jobs were actually were eliminated as a result of this direct lending program over the past—course of the past year where we have increased the government ones?

Mr. RUNCIE. I don't know. I really sort of was speaking how we have grown some of the numbers. But in terms of the elimination, I don't have that information.

What I can say is that we are also standing up not-for-profit servicers, and those servicers were servicing FFEL loans before. We are now moving them over to service Direct Loans, so I would imagine that that would have a positive impact in terms of the job counts.

Mr. THOMPSON. You had, also in your testimony, talked about—let me find it here in my notes, basically equip with the best tools and resources, so I want to move into the financial literacy part of my question. Last week I had a visit to a large university. I am blessed with a number of universities I have, one that was direct lending, and many small ones have had to make that transition. This one has been a direct lending university for some time. And when I raised the question of financial literacy, there was like there is no direction to—there is no importance, it doesn't seem, that comes from this direct lending program to address that.

Students there are graduating with an average debt of 31—over $31,000. I think the national average, from what I understand, is slightly less than that. And to me, that is what we should have been focusing on when we looked at this bill. And it doesn't seem like we have done that.

Some of my colleagues have raised other issues about just financial literacy and making good decisions. You are accruing long-term debt when you are investing, and do we—how have we done with financial literacy in terms of how much can we borrowed? Is it a good return on investment? Right down to the kids are going to school for this first year, and there is an attrition rate, but when they drop out of school after a year, they drop out with these loans and, frankly, grants they have to pay back; all have to do with what I call financial literacy. And I managed to run out of my time. So if you can provide that, any thoughts on that in terms of response to that in writing, that would be fine.

Mr. RUNCIE. Absolutely, absolutely. Thank you, Congressman.

Chairwoman FOXX. Thank you.

I now recognize Ms. Davis from California.

Mrs. DAVIS. Thank you, Madam Chair.

And thank you to all of you for being here. One of the areas that I wanted to focus on for a minute are the default rates. And it is my understanding that I think, despite the fact that people felt that they would go up, in fact, the default rates are going down; at least that is my understanding.

Is that correct, in your view, Mr. Runcie?

Mr. RUNCIE. Well, the default rates, the overall default rates have risen. And they have risen—there are a number of factors that are associated with the rise. A lot of it has to do with the economy. It has to do with graduation rates, job placement. And that was the—I think folks had expected that there would be some rise, given the current the given economy.

In terms of the increase, maybe it was potentially lower than expected. So it may be that that is a part of the discussion. But you know, the efforts that we have around dealing with those cohort default rates relate a little bit to some of the servicing that we talked about before. We have servicers that have performance-based contracts, so they are incentivized to do whatever they can in terms of financial literacy and default prevention to lower those rates.

Mrs. DAVIS. Okay. I guess perhaps it is compared to what? Because at least what I understood was that they had gone down compared to what the FFEL rates had been, but like you say, perhaps there are some other situations going on.

Mr. RUNCIE. Absolutely. No, if you look at the overall FFEL rate default rate versus Direct Loan default rate, the Direct Loan default rate is lower across all school types and all categories. So the

Direct Loan—and I don't know sort of underlying reason for that, but I will say as a matter of fact that the DL rates, default rates have been lower.

Mrs. DAVIS. I have seen numbers of 9.5 percent under FFEL and 5.6 percent under DL.

Mr. RUNCIE. Yes, I think—yes, if that is what you are speaking to in terms of DL rates being lower. Yes, that is right.

Mrs. DAVIS. Great. Thank you.

Mr. Day, you had mentioned that some of your employers actually had gone over to become default managers so they were able to assist students. I wondered specifically what you found was the most helpful to students. We have talked a little bit here about the interest rates being even lower. And again, this is—we know they were quite a bit higher, and there have been proposals in the past to make them even lower than they are today. Is there—do you have any information that would suggest, had they been lower, that there are fewer students that were perhaps defaulting? What has really been the experience of your default managers as relates to students? Because I think what we are looking for here is, how does this benefit our students? Does it make it easier for them to access it? Do they have as much information as they need to really act responsibly, which is what we hope that they can do?

Mr. DAY. Let me answer it this way, I think the more you can offer the students as far as assistance in literature or assistance in Web sites or in training initiatives or any form or fashion whatsoever to assist them in staying out of a default situation, whether it be literature that you offer them up front, Web sites or whatever the case may be, is vitally important. I have not been able to research your particular question to know exactly how to answer it. However, I will say that I do appreciate every effort that can be made to assist the students; it must be the students first.

Mrs. DAVIS. Yes.

And I don't know, Ms. Hoover, do you have some thoughts as well, perhaps giving Mr. Runcie a little more ammunition here in terms of, what is it that really would make a difference for them so that they don't default?

Ms. HOOVER. Thank you for the opportunity to answer.

As indicated, Denison has been a Direct Loan Program since 1995. And when I came to Denison, I noticed the default rate was somewhat higher, and it has been substantially lower since we were in the Direct Loan Program.

Now I am fortunate that I am at a small school, but we are a very expensive school. And I took a personal passion in believing that if these students are paying this price for my education, they need to come out of here with some absolutely incredible information.

So we actually print a personal portfolio for every senior of every loan they borrow. And we have personal interviews with them. We go through and show them every repayment option, what they would have. And we explain to them, if you earn this and so, this is what you have to earn for your indebtedness.

And I am extremely happy to say that my default rate has been either 1 or less than 1 percent for the last 4 years. And I believe it just comes from taking the materials the Department has and just working internally. Again, I am a small school, but I take it passionately, and I believe that it is important, because when they pay what they pay for my school, that is just part of the return for the investment.

Mrs. DAVIS. Thank you very much.

Mr. HINOJOSA. Could you yield me 30 seconds?

Chairwoman FOXX. The gentlewoman's time is up.

I would now like to recognize the chairman of the committee, Mr. Kline.

Mr. KLINE. Thank you, Madam Chairwoman.

I thank the panel for your testimony and for answering the questions. I understand that the gist of your testimony for everyone is that the transition has gone relatively smoothly, that the students' loans are being provided and serviced, and for that, I am very glad.

We still have a difference of opinion on this panel and elsewhere as to whether or not the law was a good law, whether it is flawed or not flawed. My friend and colleague, Mr. Roe from Tennessee, was talking about the loan rate, and as everybody at the table knows and we up here know, 6.8 percent, the federal government is borrowing at something less than 1 percent and loaning at 6.8 percent, you create a pretty good slush fund for the government, over $60 billion when we passed it. And immediately, of course, $10 billion of that was taken to pay for the health care law, Obamacare. So it is a slush fund. I think it was a mistake to do it. Having said that, I am glad to see that the transition seems to be going pretty well.

However, Mr. Runcie, we have heard some problems regarding the security of borrowers' private information. This has been touched a little bit on. You said there are a good number of Web sites and so on. But last week, the Direct Loan Web site crashed, as I understand it, according to my note here, and personal financial information was revealed to other borrowers. And there have been some complaints that Social Security numbers have been divulged in the address line to official correspondence due to an error with the initial booking and disbursement of student loans. Can you take a minute or two here and talk about what the Department is doing to address those concerns?

Mr. RUNCIE. Yes, yes, you know, last week or the week before, we had an issue; we have, obviously, very large-scale systems. And we were in the process of doing a transition of 11.5 million borrowers. During that transition, we experienced what I would call sub-par response times. So, as a part of that process, there was a configuration change to improve the performance time. So, because of that configuration change, there was a 6- to 7-minute span where users who logged on saw account information of others that had logged on but not their own.

So the site did not crash; we took the site down for those security reasons. Within 48 hours, the site was back up. We immediately notified all the impacted—potentially impacted users and offered credit monitoring. And so we responded as quickly as we could.

Mr. KLINE. You mentioned—I am getting my numbers confused here, you said something about 11 million, 11.5 million; how many students were impacted?

Mr. RUNCIE. Oh, yeah, that was the pool—the impact of students potentially was as much as 5,000.

Mr. KLINE. Go ahead, I am sorry.

Mr. RUNCIE. And we immediately notified folks. I think the first day or two, we received 25 responses from the 5,000 that we contacted. But having said that, we still sent mailings out to everyone to make sure that they understood that credit monitoring was available. We corrected problem. The system is back up. That has been addressed.

But in terms of the overall security architecture, that is something that, you know, we are very concerned about. We invest meaningful sums of money. But when we have this scale of system, when we are doing transitions, sometimes glitches occur, and we look to respond and try to fix those and remediate those as quickly as we can.

Mr. KLINE. Do you have any idea what that goodly sum of money might be?

Mr. RUNCIE. I am sorry?

Mr. KLINE. You said you are spending a goodly sum of money in this effort. Are we—billion——

Mr. RUNCIE. I am sorry?

Mr. KLINE. How much?

Mr. RUNCIE. Well, it is embedded in some of our contractors, because our contractors also provide a level of security. We have security initiatives that range, you know, sort of $2.5 million up to $10 million, if you sort of took out some of that money. But it probably pales in comparison to maybe what is offered by other private sector institutions. But we have a limited budget, but I think we are pretty efficient in terms of how we use those dollars.

Mr. KLINE. Okay, as long as we are protecting those students.

Madam Chair, I yield back. Thank you.

Chairwoman FOXX. Thank you, Mr. Chairman.

I would now like to recognize Mr. Altmire from Pennsylvania.

Mr. ALTMIRE. Thank you, Madam Chair.

Mr. Runcie, as you well know, the Department's OIG recently identified an increasing number of cases involving large, loosely affiliated groups of individuals who conspired to defraud Title IV programs through distance education program. Mr. Miller and Mr. Hinojosa then urged Secretary Duncan to take swift action to address this fraud, and many members of this committee were pleased to see the Department issue a "dear colleague" letter last week urging colleges, universities to take immediate steps to detect and prevent fraud. I was hoping that you could, for the record, inform the committee of the specific steps FSA is taking or plans to take to detect and defeat fraud, waste, and abuse in the Title IV programs.

Mr. RUNCIE. Yeah, that is right. Thank you. We took it very seriously. We have been cooperating with the OIG to work with them on this distance fraud issue.

There are a number of recommendations that were made, none of them surprising, a lot of those that we had considered, and we are in the process of trying to figure out which ones we can actually address.

But immediately we sent out the “Dear Colleague” letter to promote awareness and to identify some of the issues around distance fraud. Our conference, which is coming up in another month or so, will have 6,000 financial aid professionals and represent about 2,000 schools.

We are going to have training sessions and incorporate that as a part of the financial aid conference. So we feel that we could provide the institutions with the tools to combat that through the training process.

In addition, we have established an intra-department task force to address all the recommendations and also come up with new suggestions in terms of how we can address this issue. We are looking at technical, technology. We are looking at systems and other processes that we could use potentially to address this issue. In addition, we are going to look at the regulatory and legislative process to see if that is something that can help address the situation.

Mr. HINOJOSA. Congressman Altmire, could you yield any 30 seconds?

Mr. ALTMIRE. Certainly.

Mr. HINOJOSA. I want to say that I am one of the cosigners of this letter that expressed our concerns of waste and fraud, dated September 28th. And one of the big concerns I had was the example that was given to us when OIG found that gangs of criminals were completing the paperwork and enrolling straw students in online programs and then logging into the classes online for the first 30 days in order to obtain the balance of the Title IV funds not used for institutional charges. And there is no doubt in my mind that this is something that shows that our side of the aisle is very concerned about this taxpayer money and that it not be wasted by examples as I just gave you.

With that, I yield back.

Mr. KLINE. Would the gentleman yield?

I thank the gentleman.

As I understand it, the reporting of this fraud came from the schools; is that correct?

Mr. RUNCIE. That is correct.

Mr. KLINE. Thank you, I yield back.

Mr. ALTMIRE. Thank you.

Mr. Runcie, also, while the federal government is exempt from the Fair Debt Collection Practices Act, private collection agencies are not. And with 23 private collection agencies, there is a lot of potential for abuse for defaulted borrowers. For example, one PSA could receive a letter from the borrower asking them to stop contacting them, but nothing stops the Department from then assigning the borrower to a new private collection agency, and then the borrower would have to exert their rights a second time. And just on this issue, I was wondering what is the Department doing to monitor and prevent abusive practices by the private collection agencies?

Mr. RUNCIE. Well, we have an oversight group that deals with that. And that is their role. I mean, they follow sort of the regulations, and that has just been brought to my attention. I will make sure that when I go back, we will see if there is an issue around that. But I don't have an answer for you at this time.

Mr. ALTMIRE. Thank you. And lastly, just a statement for you to consider, Mr. Runcie, as my time expires, this committee previously, in a previous Congress, made sure that veterans under veterans disability determinations did not have to reapply if they are determined by the VA to be 100 percent disabled for the purpose of waiving student loan obligation; they didn't have to go through that process again for the Department medical review. There is a similar situation which has not been corrected with the Social Security disability and the ability of 100 percent disabled folks to have their loans waived. Is that something the Department has reviewed?

Mr. RUNCIE. Oh, yes, absolutely. We are looking at streamlining the process and making it consistent so people don't have to go through multiple applications and multiple processes to get that determination.

So we are looking to address that shortly.

Mr. ALTMIRE. Thank you.

Chairwoman FOXX. Thank you, Mr. Altmire.

I would now like to recognize Mr. Bucshon for 5 minutes.

Mr. BUCSHON. Thank you, Madam Chairwoman.

I want to focus a little bit on default rates. I am interested in that, because I have—my wife and I had a tremendous amount of student loans, and we paid them all back, so we weren't one of the people who defaulted.

I am interested in the data that is being used to say that one program is better than the other. And I was a health care provider, a surgeon, before, and I know every patient is different. And in that respect, every university is different, based on the size of the university, the scope, the location. And I would argue that discussing overall default rates is something that is not that helpful to me, honestly, without getting down into the weeds, and in that vein, although the low default rate at Denison is very commendable in the Direct Loan Program, your university is completely different than Indiana University. You are in a unique situation.

I would be more interested, honestly, in the data that is to come in the future years, because the data that I am going to be interested in is what is going to happen at schools that have the FFEL students, specifically within their university, and then what the default rates were and what they will be in the future. Are we—I guess, Mr. Runcie, are we going to have the ability to track individual universities and give more specific in-the-weeds type data? Because I think it is a confounding thing to quote from one university and then compare their results with the Direct Loan Program to another university that had both or one more than the other and say that one program is better than the other.

Mr. RUNCIE. Yeah, no, I agree. I mean, they are all very different, the characteristics and composition of the student population, core structure; everything is different, so you are absolutely right. The large numbers mask the individual identities and characteristics of the institutions. So the ability to dig into the details, you know, we have a pretty substantial database that has a lot of information. So I think there is a possibility that we can look at that data and provide more actionable information in terms of making decisions about default rates and making comparisons. But what we have are those aggregate numbers. We also have them by school types. So we do break it down a little bit but not to the point where I think you can look at one school and potentially have a control group and make a good comparison.

Mr. BUCSHON. I just wanted to point out that I consider that comparing apples to oranges. And to make an argument based on one school type that a program, whatever that is—and I am not arguing that the Direct Loan Program or the other are better than the other. The fact of the matter is we don't know, because it may take us years or maybe decades to know what the difference will be between what we are doing now and what we have been doing in the past. Would you agree with that?

Mr. RUNCIE. Well, I mean, the data we have, it is sort of statistical information. What we can look at, though, is we can look at, you know, FFEL for public 4-year, and we can look at DL for public 4-year. And the statisticians might tell you that any number above 100 or some number would be statistically meaningful. So from a statistical standpoint, I think there is a body of information that says that you could compare the two, and there is some meaningful difference, but again, that is not comparing individual schools and students before and after, which is what I think is——

Mr. BUCSHON. Another confounding factor, of course, would be graduation rates at different institutions. As everyone knows, students who don't graduate have a much higher incidence of default. I know universities like Ms. Hoover's are excellent in that area.

But, for example, University of Illinois, where I went, I know the graduation rate of all starting freshman, at least in 1980, was about 65 percent of the students. So whether they went on to other universities or didn't finish their education is very important.

So the point I just wanted to bring up with this is there are many, many confounding factors, and I really believe that it would be helpful to Congress going forward to assess these type programs, to not discuss just apples and oranges, but give us data that is in the weeds. Otherwise, you really can't make a fair comparison. So with—I yield back. Thank you.

Chairwoman FOXX. Thank you, Dr. Bucshon.

It is, again, helpful to have different members of the committee bring up their different perspectives. It is very useful.

Mr. Tierney, you are recognized for 5 minutes.

Mr. TIERNEY. Thank you.

And thank all the witnesses. You have added some good perspective and information to us today.

One thing I am hearing is the program is working well. And one thing that I know is we saved over $60 billion by taking away guarantees in subsidies to private lenders who had then relatively high interest rates. As Mr. Hinojosa pointed out, some of the interest rates were up as high as 12 percent.

Mr. BUCSHON. Would the gentleman yield?

Mr. TIERNEY. Who is asking?

Mr. BUCSHON. Bucshon. Did we save the $60 billion and use that is as deficit reduction, or did we spend it elsewhere?

Mr. TIERNEY. It is wonderful you ask. It is a good segue. We took $10 billion of that, and we paid it down on the debt. With the balance of it, we were able to increase the Pell Grants, which had fallen from about three quarters of the cost of a public higher education down to a third. So we were able to raise the Pell Grant amounts on that, which helped not only more students get that but higher up on the income scale to some lower middle-class families.

We were able to cut interest rates on the subsidized loans significantly, in half in some instances. And I have heard some talk about interest rates here being an issue on that. So the resistance we got at that time was tremendous. It is nice to hear two of my colleagues over here complain about the interest rate now, because we would certainly like to work to get that down.

We put some money, invested some money into community colleges, so that they were able to further do their work, improve their facilities, and help people to get trained for jobs on that.

And we had the income-based repayment system, which we were able to do out of that and which I think is probably one of the most under-heralded positive factors that have come out of it.

And Mr. Runcie, tell us just what the income-based repayment system is, because I think a lot of families don't know it, and they should.

Mr. RUNCIE. Thank you, Congressman.

Yes, that is something we have talked about as a way to manage the debt and also decrease the default rates. There is a universe of people that could use that, and of that universe, we don't think the take-up rates are what they could potentially could be. So as those take-up rates go up substantially, we would see a positive impact on the default rate, because it is just another tool that allows students and borrowers to be able to manage their debt based upon what their income levels are.

In addition to that, there is a public service loan forgiveness program, which is another tool I think we have to get the word out, because that is something that, again, is another way to manage debt and also to make sure that there is some return on your investment and you don't fall into default and delinquency. Those are two things that we know we have to make sure that we market, publicize, get the word out, and put it up on our Web sites.

Mr. TIERNEY. And campuses as well have a role in that. I am sure our three other witnesses acknowledge that the campuses have a role in making sure students are aware of that.

Let me speak briefly to the interest rate situation, Mr. Kline made a mention that we are getting our money at 1 percent and then turning around and getting 6.8 percent from students. The fact of the matter is I think we get it at about 2.5 percent for a 10-year loan, if I am not mistaken. Would that be fair to say, Mr. Runcie? Somewhere in that ballpark?

Mr. RUNCIE. Yes, in that ball park.

Mr. TIERNEY. The difference in that cost of managing the loan.

Mr. RUNCIE. Yes, the cost of managing the loan would be in that difference.

Mr. TIERNEY. And if there are any balances, that would go back to issuing further loans or more loans?

Mr. RUNCIE. Yes.

Mr. TIERNEY. So Mr. Andrews had a suggestion that we calculate the interest rate on some of the cost of the money, plus the cost of administering it, plus a little bit for reserve, and then establishing that rate. Do you find that objectionable?

Mr. RUNCIE. It is not objectionable to me. I know that others make that decision.

Mr. TIERNEY. I can tell you who it has been objectionable to, and there is a whole host of people over to my left over here. We have had that fight going on and on. But I was very happy to here Mr. Kline raise it as an issue and Dr. Roe, because hopefully now we can work with them to try and lower that interest rate even further on students. It does make a difference.

I think we have covered all the ground. I don't want to get into an area of raising the same issues over again. But I have an unrelated thing, so we can sort of get off of that and take you off the hot seat.

I have had graduates come in and tell me about their private loans, which are substantial and the interest rates are significantly high. They find it a burden, and they have trouble consolidating those loans. And they feel if they did consolidate those loans at a lower interest rate, they would not only be able to carry out their lives better on that, but they would have more money to spend, which would help the economy on that. It is difficult for the Department to do anything about that; it is private loans on that. But I was wondering if our other three witnesses had any thoughts. You must see some of your students come back with those issues, and if you had any thoughts on how we might provide some assistance to that cohort.

Ms. Hoover.

Ms. HOOVER. Thank you, Mr. Tierney.

One of the things that helped my students is when the ECASLA was passed and the extra 2,000 unsubsidized loan for all undergraduate students, I have seen a substantial decrease in my private loan volume. Also, the fact that the parents now have the ability to get a deferment for parent loan substantially also reduced my private loans.

And I was very grateful to you and to Members of Congress for those benefits that have helped my students.

If we could do something like that, I think that would help reduce the private loans further, if we could increase.

I know there are other viewpoints that don't want to increase the loan indebted—loan amounts for students—again, I am coming from a private school perspective, high costs, and I understand we all have different perspectives, but for my students and my parents, that was very helpful, thank you.

Mr. TIERNEY. Thank you, I yield back.

Chairwoman FOXX. Thank you very much.

Mr. Platts is recognized for 5 minutes.

Mr. PLATTS. Thank you, Madam Chair. First, I want to thank you for hosting this hearing, very important topic and for all our witnesses. I don't want to be repetitive, apologize for coming in late from another commitment, but I do want to express my support and the importance of ensuring the long-term strength of this program.

I paid off my last student loans from undergrad and law school as a Member of Congress and understand the very important resource that we provide.

I have always looked at our nation as being the land of opportunity. And one of the keys to being the land of opportunity is access to a great education, whether that be K to 12 or higher education. And to me, that is what this loan program is about, is allowing every student out there to have that opportunity to advance themselves through higher education.

I am one who did support the transfer to the direct program here on committee, and when it was voted, individually, I did not support its inclusion in the health care reconciliation language.

I think it is a way of ensuring that the assistance is available, but ensuring that any, if we want to say, profit or excess funds that are generated by it are put back into investing in the students, which I think is what we are doing now, rather than into private hands to go elsewhere, that if there are excess funds, that they are reinvested.

So the suggestion that we try to tighten up the program and what the interest rate is paid I think is a wise one and an important one to make sure we are given the best value for what is being charged.

And I do think it is also important to recognize that the interest rates, my wife and I, ours ranged from 7 to 9 percent when we were repaying our loans. We want to drive that rate down as much as possible but also recognize that without that program, these individuals would not get loans because they are young citizens without a credit history, a track record. And the private sector would not lend in this way without a government role and, in this case now, a direct role. So it is critical for us to be involved and make sure this program is successful in the long term.

And to each of you, your testimonies I think add a great knowledge base to each of us committee members as we seek to do just that, ensure its long-term success and solvency while we are making sure we give the students the best opportunity possible. So I certainly look forward to working with my colleagues on both side of the aisle to take your knowledge as we go forward and, maybe specifically on the interest issue, try to get an even better opportunity out there for students.

With that, Madam Chair, I yield back.

Chairwoman FOXX. Thank you, Mr. Platts.

I yield myself now 5 minutes. You may not know of my background, but I was the director of a Upward Bound Special Services Program for several years at Appalachian State University. But it has been a while since I have work in the student financial aid area, but I do know a little bit about that area.

I also worked my way through college. I spent 7 years getting my undergraduate degree and didn't borrow a dime of money. I spent 8 years working on my doctorate, working full time. So I have a background in this area and some experiences.

I would like to say, one quick question, ask one quick question to Mr. Runcie. It seems to me that with the income-based interest rates and public service loan forgiveness, there is very little reason for anyone to ever default on these loans. Would you agree would that?

Mr. RUNCIE. I don't know all the factors involved, but I think that those are two mitigating factors.

Chairwoman FOXX. Thank you very much.

There is also—I have some interest in the fact that we hear these horror stories of people borrowing $80,000 a year. I mean, I have talked to students who have told me that, and yet you have a limit on the amount that people can borrow, so I find it kind of interesting that we can hear these stories that people have borrowed so much money when I know, again from my own experiences and others, that it isn't necessary to do that.

I would like to ask you a really important question, Mr. Runcie. We know that the president's budget proposal included a loan conversion plan and possibly some other changes in the loan programs that would dramatically increase the amount of direct loans on the federal government's books. And we have heard today—there is a report in the Wall Street Journal—that the president is about to announce a major change in the program that we have not yet acted on in the Congress. And I am wondering if the Department is moving forward with this proposal through executive fiat, and then, if this is the case, what specific authority does the Department have for this administrative action that we read in the press is about to be announced?

Mr. RUNCIE. I can't answer that question. I mean, I think that question is more sort of OGC, and it is about what our legislative authorities are and what the regulatory framework is. And I can't—but what I will say is that whatever we are told to do in terms of implementation and execution, we will make sure that we optimize and we do what is in the best interest of students and borrowers.

Chairwoman FOXX. Let me switch gears just a minute and ask a different kind of question. As you know, because of the new gainful employment regulation, some institutions of higher education are being judged on whether their graduates are paying down the principal on their loans. What steps is the Department taking to ensure that its servicers work to keep student loan borrowers in actual repayment and not simply be directed to deferment or forbearance?

Mr. RUNCIE. I believe the structure of the contracts of the servicers speak to that. I think that there is incentive to keep them in repayment; they get paid depending on the status of the loans. So there are some statuses that result in less payment. I think it is geared toward keeping them in repayment. So the servicers are provided servicing for RDL loans. Their contracts are structured in such a way that I think they are incentivized to keep folks in repayment.

Chairwoman FOXX. Thank you.

I would like to ask a question of Mr. Day and Mr. Bandré. You both talked about how institutions are spending a lot of time providing services to students and borrowers that used to be done by lenders and guarantee agencies. Have there been implications to these changes?

Mr. Day, you talked a little bit about needing to do counseling and financial planning management. Would you talk a little bit more about that in terms of the services that you are having to provide?

Mr. DAY. Yes. The financial aid office has to provide services in a wide variety of activities, particularly in assisting students with all type things. Not having the assistance from the FFEL lenders that previously provided default management, for example, work the loans, if you will, to try to keep kids out of default. We have felt the need. I am not familiar that much with the default management on the DL side at this time because we are so relatively new in the system. But I felt the need to go ahead and implement a process and put it in place, just to ensure that our students are educated on the process. So I felt that need. I applaud that need. I think our staff has done an exceptional job with that.

Mr. BANDRÉ. Yes, ma'am, the biggest thing that we have found in that area, as Mr. Day alluded, is ability for our staff to learn things that the banks and guarantee agencies provided. And I will cite one example from my experience in Arkansas, since default prevention has been a key topic amongst your colleagues. The Student Loan Guarantee Foundation of Arkansas with Hugh Hendrix College has and does work quite closely, had a default prevention measure that they informed the school when the student was in danger of going into long-term default or short-term default. They would send a list of students. The colleagues there and I worked together to write a letter, which they sent us a copy of the letter when it was a student at risk. We forwarded that right on to the student. So it was a way for the guarantee foundation and the college to work together to help students out of default.

I know Mr. Runcie and his colleagues are working on ways for that to happen. But as Mr. Day alluded, I don't know how those will take place, not having been in the Direct Loan Program all that terribly long.

I also just wonder, going back to default rates, what is going to happen when our graduates—because our freshmen now are the first group truly having Direct Loans, it is going to be a while before we know, as Mr. Bucshon alluded, how long it will take for those to truly hit the books.

Chairwoman FOXX. Thank you very much.

I would like to, again, thank our distinguished panel of witnesses for taking the time to testify before the subcommittee today. And I thank all of the members of the subcommittee who were here.

Mr. Hinojosa, do you have any closing remarks?

Mr. HINOJOSA. Thank you.

Yes, I do. In closing, I want to share with you that, from 2007, 2008, 2009, and 2010, I served as the chair on the Subcommittee on Higher Education, and I had many college presidents from throughout the country, West Coast and East Cost, and chancellors of college systems come to visit in me my office and share with me their concerns about affordable and accessibility of higher education because of the rising costs of higher ed.

And I am glad to say that much of what was discussed on both sides of the aisle here have been solutions to increase the numbers of students who are now able to afford it. I saw a study done by the Pew Hispanic Center, a study that they did for 2009 to 2010—I am sorry, 2009 and to the next year 2010, and their results indicated that they found an increase of 24 percent of Hispanics being able to access higher education, which is extremely important to us, because it is a group, a population, that is growing so very fast in the United States.

So I am pleased that in the materials they gave us, we have this chart that talked a lot about the comparison of all types of student loans together, and then they break them out, one being the federal Direct Student Loan Program versus the Federal Family Education Loan Program. And without a doubt, from 2006 through 2010, the default rates for the blue on this thing is the family—Federal Family Education Loan Program, that is the highest, at 9.5 percent. You compare that with the Direct Loan the same year of 2010—I am sorry, 2009, and you see 5.6 percent. So I think we are dining the right things. We are on the right road to address what the chancellor said, accessibility and affordability.

So, thank you, Madam Chair, for having this hearing.

And I thank all of you for joining us today.

And I commend the Department of Education for their leadership in making a seamless and successful nationwide transition to the Direct Student Loan Program. This program clearly expands what I said, accessibility and affordability in higher ed, for millions of students throughout the country. As we strive to achieve President Obama's pledge to lead the world in proportion of college graduates by the year 2020, we must ensure that eligible students have access to the Direct Loan Program.

And with that, I yield back.

Chairwoman FOXX. Thank you, Mr. Hinojosa.

Again, I would like to thank the members of the panel for being here today.

I will say that I am a big proponent of access to higher education, and my own experience, again, tells me that we have tremendous access to higher education in this country. Never before have we had as much as we have today. There is no excuse for anyone who wants to get a degree past high school not to get one. It is available out there, in community colleges and distance learning and on campus programs and small campuses and large campuses. It is everywhere. There is no lack of choice in this country.

At the same time, there are many questions being raised about whether or not people need to be getting higher education in order to be able to get a job. Skills are really what students need, not just degrees, but they need skills in order to get degrees. And I have great concern over the number of people who are going to school and taking on huge loans because they lack financial literacy.

And I will always be concerned about our government taking on a function that the private sector has always been able to do and do well. I think the federal government should be very limited in its work. I think the Founders were right when they delineated the responsibilities of the federal government. So I believe that we should draw back on what we do instead of expand what we do in the federal government.

However, I commend the Department of Education for what it has done.

I commend all of you for the work do you and for your commitment to individual students. Again, having been close to your work when I was in university and college work, I understand what you do, and I understand the importance to those individuals.

And I think, as Dr. Bucshon brought out earlier, we need to look at this from many different perspectives in terms of the data that we collect. And I know, again, from having been a college president and having students come in and talk to me about how their lives have been changed by being in a college or university, that we do make huge differences in the lives of people. I want to thank you for what you do.

And I want to pledge to you that our committee looks for ways that the federal government can provide the most effective and the most efficient services to our students. So thank you very much for being here with us today.

And the meeting is adjourned.

[Additional submission of Mrs. Foxx follows:]

National Council of Higher Education Loan Programs, Inc. NCHELP

October 25, 2011

The Honorable Virginia Foxx
Chair, Subcommittee on Higher Education and Workforce Training
U.S. House of Representatives

The Honorable Ruben Hinojosa
Ranking Member, Subcommittee on Higher Education and Workforce Training
U.S. House of Representatives

Re: Hearing on "Government-Run Student Loans: Ensuring the Direct Loan Program is Accountable to Student and Taxpayers"

Madam Chair and Mr. Hinojosa:

On behalf of the National Council on Higher Education Loan Programs, Inc. (NCHELP), I am pleased to submit for the record this statement in strong support of the services provided by non-profit student loan guaranty agencies and non-profit lenders and secondary markets. NCHELP represents a nationwide network of organizations which, for nearly 50 years, have provided student loan servicing, debt management, delinquency prevention, college access, financial literacy and other services to students and borrowers.

At a time when our nation is facing severe economic hardship, rising student loan defaults and outstanding education loan debt that will exceed $1 trillion this year, we believe non-profit student loan guaranty agencies and lenders and secondary markets have a key role to play in helping students, families and schools and in assisting the U.S. Department of Education (USDE) administer the federal education loan programs. We continue to hear that, with the change in student loan delivery enacted last year, more and more schools see a diminution in the type and quality of service on which they previously relied.

As Direct Lending is the subject of this hearing, NCHELP would like to take this opportunity to comment on two specific USDE initiatives - the voluntary flexible agreement initiative for guaranty agencies and the Not-For-Profit (NFP) Servicer Program. Though new originations in the Federal Family Education Loan Program ended last year, existing FFELP loans are longer term loans and there is a continuing need for the services provided by guaranty agencies, a need that is made more critical as many borrowers are having difficulty finding and maintaining their jobs. There is a leading role for guaranty agencies to play in providing loan counseling, default aversion and financial literacy services. It is for this reason that NCHELP cimmended the USDE when it invited guaranty agencies to submit proposals for Voluntary Flexible Agreements (VFAs). We viewed this as a way to sustain the servicing strengths and missions of many guaranty agencies. We believed the USDE shared this view, as evidenced by the following statement in the USDE's *Federal Register* notice dated May, 31, 2011: "The [Education] Secretary also wants to ensure that guaranty agencies are able to continue to provide high quality services to borrowers, lenders, and schools while supporting the important responsibilities that they have in the areas of default prevention, outreach, and oversight."

While this recognition is welcome, we are troubled by the apparent decision of the Department to foreclose the possibility that VFA guarantors can provide supplemental support to Direct Loan borrowers. Given the current troubled student loan landscape, the USDE should want to leverage the experience and local presence of the nation's guaranty agencies. And we continue to hear that financial aid officials that they sorely miss the services provided by guaranty agencies and believe that the services provided by Direct Lending need to be more robust. We look forward to working with the U.S. Department of Education to ensure that all student loan borrowers receive the support they deserve, regardless of the student loan program.

We also would like to take this opportunity to comment on the status of the NFP Servicer Program, established through the Student Aid and Fiscal Responsibility Act (SAFRA). NCHELP applauds the U.S. Congress and Department of Education for its recognition of the quality student loan servicing capabilities of not-for-profit student loan providers. Twenty eight NFP servicers have so far signed up with the USDE to service Federally owned loans, and under the law each servicer initially will be allocated 100,000 student borrower accounts. At present, the Department of Education has stated that it will take an additional 16 months to bring all of these 28 servicers online. This means that it will have taken almost three years from the SAFRA's passage for some of these servicers to "go-live". We hope that the U.S. Department of Education will look into accelerating the on-boarding process for this program in order to better serve borrowers. In addition, the Department has yet to fully establish a process for NFP servicers to receive additional borrower accounts above their initial allocation. The issuance of additional borrower accounts will allow the NFP servicers to create even more efficient servicing operations and provide an even higher level of service to borrowers.

In order to fully realize the intent of Congress under SAFRA and preserve the important role that NFP servicers can play to ensure high quality loan servicing to student borrowers, the U.S. Department of Education should (1) significantly speed up the agency's timeline to bring the NFP servicers on-line, and (2) create a more defined path to awarding additional borrower accounts (based on performance) to the NFP servicers.

Thank you for the opportunity to express these views on behalf of the National Council of Higher Education Loan Programs. We hope the Subcommittee will take these points into consideration as it continues its oversight of the Federal Direct Loan Program.

Sincerely,

Sheldon Repp
President

[Questions submitted for the record and their responses follow:]

U.S. CONGRESS,
Washington, DC, November 10, 2011.

Mr. JAMES RUNCIE, *Chief Operating Officer,*
Office of Federal Student Aid, U.S. Department of Education, 830 1st Street NE, Washington, DC 20202.

DEAR MR. RUNCIE: Thank you for testifying at the Subcommittee on Higher Education and Workforce Training hearing entitled, "Government-Run Student Loans: Ensuring the Direct Loan Program is Accountable to Students and Taxpayers," on October 25, 2011. I appreciate your participation.

Congressional oversight is critical to ensuring taxpayer dollars are being spent appropriately. To that end, committee members request your response to the enclosed questions. Please provide written responses no later than December 1, 2011 for inclusion in the official hearing record. Responses should be sent to Amy Jones or Mandy Schaumburg of the committee staff who may be contacted at (202) 225-6558. After receiving your responses, committee members will review the answers and pose any additional questions they may have.

Thank you again for your contribution to the work of the committee.

Sincerely,

VIRGINIA FOXX, *Chairwoman,*
Subcommittee on Higher Education and Workforce Training.

CHAIRWOMAN VIRGINIA FOXX (R-NC)

1. The FSA strategic plan states that you are in the process of establishing a position of Chief Customer Experience Officer (CCEO) to be the "internal champion" of customers at FSA. At what level are you establishing the CCEO? Will they have staff? How will the CCEO have a different role than the FSA Ombudsman?

2. I have heard from institutions of higher education that they have a much higher default rate on their put loans than on their non-put loans. Have you analyzed the data to determine whether the default rate on put loans is higher than on regular loans? How have you analyzed that data? What notice has been distributed to students to inform them that their loans have been sold to the Department of Education?

3. Has the Department taken any proactive steps to warn college students about the interest rate increase that will be happening next year as a way to better prepare these students and, hopefully, prevent over-borrowing? What else is the Department doing to help prevent over-borrowing?

4. I understand that FSA has recently shut down the ability of lenders and servicers to view the loans of any borrower, except those that they service, on the National Student Loan Data System (NSLDS). This is preventing lenders from helping married borrowers that apply for income-based repayment (IBR) unless both borrowers use that lender or servicer. Why is the Department preventing a lender or servicer (including its own direct loan servicers) from helping borrowers and implementing the Department's own regulations?

5. We heard during the hearing that the quality of the Department's customer service has slowly been deteriorating. Since that time, we have also received a number of complaints that the website and customer service line has been experiencing severe disruptions making it impossible for borrowers to view their payment information. How are you ensuring that borrowers are receiving the same level of customer service touted by many in the FFEL program? Did the Department develop a comprehensive plan to ensure high levels of customer service are maintained? If so, can you give us some details on that plan and how it was implemented?

6. What type of outreach does the Department undertake to inform students about their obligations of repaying their loans, particularly during the post-graduation grace period when borrowers often need to be reminded that they are about to enter into repayment?

7. Can you describe how the Department funds all the functions (originations, servicing, collections, personnel costs, other contracts, or administrative expenses) of the Direct Loan Program? Please detail from what accounts (student aid administration appropriation, mandatory servicing account, off-budget financing account, etc) each of these items is funded.

8. What types of regular interaction does the Department have with the four main servicers? How do you oversee the current servicing contracts and how is FSA planning to oversee compliance with the addition of new nonprofit servicer contracts? Furthermore, how do you ensure that the products coming out of each servicer are consistent? Could you articulate which products are consistent across all servicers and what products are different?

9. Now that the Department of Education is one of the largest banks in the country, what is your office doing to combat any fraud and abuse that may occur within the federal student aid programs?

10. Earlier this year, the Department launched its Voluntary Flexible Agreement initiative, which you have stated is a way to preserve the services provided by the nation's guaranty agencies. Under the initiative, guaranty agencies are encouraged to propose new and innovative means of providing services to schools and students. Yet the Department has signaled that guaranty agencies will not be able to provide services to Direct Loan borrowers. At a time when defaults are on the rise, why would the Department prohibit guaranty agencies from providing cost effective supplementary services to Direct Loan borrowers?

11. Under the Voluntary Flexible Agreement initiative announced by the Department in May, guaranty agencies have been informed that they need to give up their efforts to help already defaulted borrowers in order to be able to help borrowers who are struggling to meet their obligations. Is this true?

12. The Higher Education Opportunity Act established a new set of requirements for how institutions of higher education must interact with student loan lenders. It

appears that at least one aspect of these changes has resulted in an unintended consequence with negative impacts on students and families. There are a number of entities, including those state-chartered non-profit agencies, which provided advisory services to students and families on campus. Even though the HEOA specifically allowed advisory services to continue, a majority of campuses will not allow lenders on their campuses out of fear for being criticized or penalized by the Department. Can you confirm that the HEOA does permit institutions of higher education to allow entities, such as the state-chartered, non-profit lenders, on campus for the limited purpose of providing advisory services to students and families?

REPRESENTATIVE ROBERT ANDREWS (D-NJ)

1. Describe: How the Department (and the Department's subcontractor) independently and empirically verify (i.e., other than a verbal or written statement made by prospective Direct Consolidation Loan applicant) that the prospective Direct Consolidation Loan applicant that intends to pay off a FFELP Consolidation Loan qualifies for such Direct Consolidation Loan pursuant to the Act.

2. Describe: The additional costs to the Federal government, including loan forgiveness costs and foregone interest, resulting from illegally made Direct Consolidation Loans paying off FFELP Consolidation Loans.

3. In a letter to Congressman Andrews on September 19th, James Runcie, COO of the Department Education wrote that the Direct Loan Program does not have to verify whether or not a borrow who already has a consolidation loan qualifies for a Direct Loan consolidation by meeting on the three criteria in the law. Is the DOE mean then it does not have to enforce the law and ignore the specific conditions Congress put into the law regarding whether or not a borrower qualifies for a certain loan?

U.S. CONGRESS,
Washington, DC, November 10, 2011.

MS. NANCY HOOVER, *Director of Financial Aid,*
Denison University, 100 President's Drive, Granville, Ohio 42023.

DEAR MS. HOOVER: Thank you for testifying at the Subcommittee on Higher Education and Workforce Training hearing entitled, "Government-Run Student Loans: Ensuring the Direct Loan Program is Accountable to Students and Taxpayers," on October 25, 2011. I appreciate your participation.

Congressional oversight is critical to ensuring taxpayer dollars are being spent appropriately. To that end, committee members request your response to the enclosed questions. Please provide written responses no later than December 1, 2011 for inclusion in the official hearing record. Responses should be sent to Amy Jones or Mandy Schaumburg of the committee staff who may be contacted at (202) 225-6558. After receiving your responses, committee members will review the answers and pose any additional questions they may have.

Thank you again for your contribution to the work of the committee.

Sincerely,

VIRGINIA FOXX, *Chairwoman,*
Subcommittee on Higher Education and Workforce Training.

REPRESENTATIVE DAVE LOEBSACK (D-IA)

1. I know that ending FFELP freed up $68 billion in funding for college affordability and deficit reduction. Partly due to the transition to direct lending, the Pell Grant Program has been expanded significantly in recent years, increasing the maximum award to $5,550 from $4,050 and increasing the number of Pell grant recipients from 5.2 million to 9.4 million in the last 5 years. Nationally, two thirds of students at 2-year colleges and one third of students at 4-year colleges receive Pell grants. Especially in the current economic downturn, grant aid is essential for making college affordable for many students.

Could you tell me a little bit about the need for federal financial aid, especially Pell grants, and how the transition to direct lending has benefitted low-income students at yours and other colleges that are members of the National Direct Student Loan Coalition?

NATIONAL DIRECT STUDENT LOAN COALITION

November 22, 2011

The Honorable Virginia Foxx
Chairwoman, Subcommittee on Higher Education and Workforce Training
United States House of Representatives
1513 Longworth House Office Building
Washington, DC 20515

Dear Congresswoman Foxx,

Thank you for the opportunity to respond to the question you sent to the National Direct Student Loan Coalition concerning the need for federal aid, especially Pell Grants and the benefits to low income students from the transition of all schools to Direct Lending.

Question:

I know that ending FFELP freed up $68 billion in funding for college affordability and deficit reduction. Partly due to the transition to direct lending, the Pell Grant program has been expanded significantly in recent years, increasing the maximum award to $5,550 from $4,050 and increasing the number of Pell grant recipients from 5.2 million to 9.4 million in the last 5 years. Nationally, two thirds of students at 2 year colleges and one third of students at 4 year colleges receive Pell grants. Especially in the current economic downturn, grant aid is essential for making college affordable for many students.

Could you tell me a little bit about the need for federal financial aid, especially Pell grants, and how the transition to direct lending has benefitted low-income students at yours and other colleges that are members of the National Direct Student Loan Coalition?

Denison University is a private 4 year undergraduate liberal arts college. One of our financial aid initiatives is to actively recruit students with superior academic credentials who are first generation in their respective families to attend college and demonstrate financial need. Denison ensures that 100% of the federal need is met for these students and the Pell Grant is essential in helping us meet their full financial need. Even though Denison's aid contribution is significant, these students need the federal grants and loans to help them afford the other college costs. These students are often afraid to borrow even the subsidized loans, so the Pell Grants become more crucial for students who are often overwhelmed with the costs of college.

As a private institution without state support, federal grants and loans are vital for Denison to continue to enroll the significant number of the academically talented but needy students that we recruit.

In the past three years, almost every school in the nation has seen a dramatic increase in the number of Pell students who are attending our campuses. For example, in Iowa, in the span of three years, the number of Pell Grant eligible students has increased 41% at Iowa State and 70% at Kirkwood Community College. Denison University has had a 64% increase in Pell eligible students. Several other Coalition member schools have provided their Pell Grant statistics to reflect the increase in Pell Grant eligible students at their respective schools and this data is provided separately at the end of this letter. While some of this growth in the Pell Grant program can be attributed to changes in the Pell Grant eligibility formula, much of the growth is a function of the economy. Clemson University, another school in the Coalition, has seen the unmet need of its freshman class jump 44% in that same period of time. These students would not be able to enroll without the support available through the federal financial aid programs.

While it certainly has not solved all of the challenges faced by students from low-income families, there have been some important results from the move to 100% Direct Lending. As you mention, a significant part of the $68 billion was directed into Pell Grants, which of course is a direct benefit for these students. Another important result of the transition is that Direct Lending is much simpler. Students receive their money faster than under the FFEL program and the borrower centric servicer approach assures students that a single loan servicer will work with them for all of their federally held loans. With fewer barriers to school financing, we anticipate a positive effect on retention. And lastly, with a cohort default rate that was much lower in Direct Lending than in FFEL, and more generous repayment terms in DL, (Income Based Repayment for example) we can expect fewer students going into default in a 100% Direct Lending environment.

We appreciate the support given to the students at all of our schools. If either I or the other members of the National Direct Student Loan Coalition can provide any additional information that would be helpful in your efforts to help our nation's neediest students, please do not hesitate to call on us.

Sincerely,

Nancy Hoover

Nancy Hoover
Director of Financial Aid
Denison University
Past Chair – National Direct Student Loan Coalition

Cc: Congressman Ruben Hinojosa

Academic Year	# of PELL receipients	Gross PELL dollars	Average Pell Award
IOWA STATE UNIVERSITY			
2008-09	4,298	$13,437,756	$3,127
2009-10	5,308	$21,607,266	$4,071
2010-11	6,058	$24,570,566	$4,056
KIRKWOOD COMMUNITY COLLEGE			
2008-09	4,923	$13,331,909	$2,708
2009-10	7,250	$23,994,450	$3,310
2010-11	8,371	$28,718,752	$3,431
UNIVERSITY OF MICHIGAN			
2008-09	3,400	$11,145,929	$3,278
2009-10	4,206	$17,343,836	$4,124
2010-11	4,768	$19,734,361	$4,139
UNIVERSITY OF WASHINGTON			
2008-09	7,485	$24,536,049	$3,278
2009-10	9,072	$37,394,206	$4,122
2010-11	10,474	$43,640,717	$4,167
RUTGERS UNIVERSITY			
2008-09	10,798	$37,426,123	$3,466
2009-10	13,083	$56,870,247	$4,346
2010-11	14,611	$62,571,543	$4,283
OREGON STATE UNIVERSITY			
2008-09	4,385	$13,798,603	$3,147
2009-10	5,847	$22,731,404	$3,888
2010-11	7,268	$29,393,109	$4,044
UNIVERSITY OF IDAHO			
2008-09	2,984	$9,835,149	$3,296
2009-10	3,582	$14,396,807	$4,019
2010-11	4,243	$17,275,622	$4,072
UNIVERSITY OF MINNESOTA			
2008-09	6,020	$19,203,800	$3,190
2009-10	7,427	$29,373,785	$3,955
2010-11	8,553	$33,955,410	$3,970
STONEHILL COLLEGE			
2008-09	242	$787,902	$3,255
2009-10	315	$1,151,445	$3,667
2010-11	379	$1,422,932	$3,754
DENISON UNIVERSITY			
2008-09	249	$842,468	$3,383
2009-10	321	$1,257,245	$3,917
2010-11	388	$1,558,414	$4,017

UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF LEGISLATION AND CONGRESSIONAL AFFAIRS

December 20, 2011

The Honorable Virginia Foxx
Chairwoman
Subcommittee on Higher Education and Workforce Training
United States House of Representatives
Washington, DC 20515

Dear Chairwoman Foxx:

Thank you for your Committee's follow up questions from the October 25, 2011, hearing on "*Government-Run Student Loans: Ensuring the Direct Loan Program is Accountable to Students and Taxpayers*." Please see the enclosed document for responses to questions that Members of the Committee submitted.

If you have any issues or questions about our responses, please contact me at 202-401-0020.

Sincerely,

Gabriella Gomez
Assistant Secretary
Office of Legislation and Congressional Affairs

Enclosure

Follow up Questions provided by the Committee on Education and the Workforce

Questions from Rep. Virginia Foxx

1. The FSA strategic plan states that you are in the process of establishing a position of Chief Customer Experience Officer (CCEO) to be the "internal champion" of customers at FSA. At what level are you establishing the CCEO? Will they have staff? How will the CCEO have a different role than the FSA Ombudsman?

Federal Student Aid (FSA) established the Customer Experience Office in 2010, which is responsible for identifying, measuring and reporting customer expectations and improving customer satisfaction with the Federal financial aid programs. The Customer Experience Office is accountable for understanding the customers' perception of service over the entire customer lifecycle and identifying ways to improve the Federal student aid programs. A CCEO who reports directly to FSA's Chief Operating Officer (COO), was hired in November 2010. The Customer Experience team was assembled in part by re-structuring existing FSA staff to pull together programmatic experts from across FSA. Today, the office consists of approximately 87 full-time professionals spread across five groups responsible for different aspects of the Federal student aid programmatic experience:

1. **Student Experience Group**
   This group is responsible for developing a strategy for assisting students and borrowers, and enhancing their experience throughout the financial aid lifecycle. The organization's primary role is to ensure that students and their families are aware of, have access to, and have applied for postsecondary financial assistance and that they are able to manage the financial obligations resulting from that assistance.

2. **Ombudsman Group**
   Section 141(f) of the Higher Education Act of 1965 (HEA) requires the FSA's COO to appoint a Student Loan Ombudsman. The Ombudsman receives, reviews, and attempts to resolve informally complaints from borrowers; compiles and analyzes data on borrower complaints, and makes appropriate recommendations; and prepares and submits an annual report that describes the activities and evaluates the effectiveness of the Ombudsman's activities during the preceding year. The Ombudsman serves as a principal advisor to the CCEO and COO by providing expert findings, advice, and recommendations on matters pertaining to FSA program development and operational effectiveness.

3. **Customer Analytics Group**
   The Customer Analytics Group (CAG) gathers, analyzes and reports on FSA customer behavior and feedback.

4. **Awareness and Outreach Division**
   The Awareness and Outreach Division is responsible for the strategy, end-to-end management, and the formulation and evaluation of products and services that impact student aid awareness and outreach across the student aid life cycle. This group is

responsible for targeting segments of the student population and their families and influencers, providing information and guidance to assist in postsecondary school planning and decision-making and educating aid program recipients.

5. **School Experience**
   The School Experience Group works to identify the unique service needs of all postsecondary education institutions participating in the student aid programs authorized by Title IV of the HEA, including: Historically Black Colleges and Universities (HBCUs), Hispanic Serving Institutions (HSIs), Predominantly Black Institutions (PBIs) and Tribally Controlled Colleges and Universities (TCCUs), and provides the assistance needed to facilitate their continued participation in the Title IV programs. The Group provides program management, oversight, monitoring, and targeted technical assistance to improve Title IV program effectiveness and performance.

2. I have heard from institutions of higher education that they have a much higher default rate on their put loans than on their non-put loans. Have you analyzed the data to determine whether the default rate on put loans is higher than on regular loans? How have you analyzed that data? What notice has been distributed to students to inform them that their loans have been sold to the Department of Education?

The Department conducted an extensive analysis of the portfolio of loans in the FY 2009 cohort that were sold by lenders participating in the Federal Family Education Loan (FFEL) Program to the Department through the loan purchase authority added to the HEA by the Ensuring Continued Access to Student Loans Act and examined the susceptibility of that population of borrowers to default. The FFEL lenders who chose to sell loans to the Department lent to borrowers who were disproportionately in higher risk groups; these borrowers had loans split across multiple servicers; and those loans were transferred among several servicers before being sold to the Department. Combined, these characteristics provided for a somewhat higher risk of default. However, nothing in our analysis indicated that the quality of the Department's servicing, or the absence of a guarantor, contributed to the higher default rate among this population.

In accordance with the Department's program regulations, borrowers whose loans were sold to the Department received notification from both the selling lender and the Department. In the case of the Department, we reached out to each borrower once their loan was transferred to our system to notify them of the loan sale and to provide information on their servicer, how to contact them and where to make payments.

3. Has the Department taken any proactive steps to warn college students about the interest rate increase that will be happening next year as a way to better prepare these students and, hopefully, prevent over-borrowing? What else is the Department doing to help prevent over-borrowing?

The Department has taken steps to provide information to students on the increase in interest rates on Federal Stafford loans beginning July 1, 2012 and about the need for responsible borrowing. Information on the interest rate increase has been available in FSA publications, such as *Your Federal Student Loans: Learn the Basics and Manage Your Debt*[i] since December 2010. The publications are available in PDF online and in hardcopy and also include topics such as "Think About How Much You're Borrowing" which emphasize that students and parents should borrow only the amount the students need. Information has also been provided during outreach events to individuals who counsel and work with students, such as at the National Association for College Admission Counseling conference. In addition, the Department will continue to develop communications for borrowers and postsecondary schools that emphasizes responsible borrowing.

4. I understand that FSA has recently shut down the ability of lenders and servicers to view the loans of any borrower, except those that they service, on the National Student Loan Data System (NSLDS). This is preventing lenders from helping married borrowers that apply for income-based repayment (IBR) unless both borrowers use that lender or servicer. Why is the Department preventing a lender or servicer (including its own direct loan servicers) from helping borrowers and implementing the Department's own regulations?

Due to the ending of new lending in the FFEL Program by the SAFRA Act, we determined that lenders and lender servicers no longer needed access to NSLDS to determine the eligibility of applicants for loans. However, to allow lenders to more easily work with borrowers who are interested in an IBR repayment plan that considers the income and loans of both spouses, we are working on a process to allow the borrowers to permit a specified lender to view his/her loan information on NSLDS. This solution will be available to borrowers on the NSLDS Student Access website on January 1, 2012. It will allow for a spouse of a borrower to provide permission for the lender to access the spouse's student loan record, providing assistance to married borrowers while ensuring student borrower privacy.

5. We heard during the hearing that the quality of the Department's customer service has slowly been deteriorating. Since that time, we have also received a number of complaints that the website and customer service line has been experiencing severe disruptions making it impossible for borrowers to view their payment information. How are you ensuring that borrowers are receiving the same level of customer service touted by many in the FFEL program? Did the Department develop a comprehensive plan to ensure high levels of customer service are maintained? If so, can you give us some details on that plan and how it was implemented?

In general, customer satisfaction with the Department's servicers, (i.e. ACS, our legacy servicer, or any of our four newer servicers) historically has equaled or exceeded that of comparable private sector lenders and servicers. Notably, the Department's servicers are themselves among the largest and most successful servicers of FFEL program loans. The Department's Title IV Additional Servicers (TIVAS) contracts, awarded in June 2009, are structured to leverage competition among the four participating vendors to maintain these levels of satisfaction and drive continuous improvements. New borrower accounts are allocated among the TIVAS based on their scores on a set of performance metrics that include quarterly customer satisfaction scores for borrowers, schools, and Department staff.

As you note, there have recently been some delays and disruption for borrowers related to the early October 2011 transition of one of our five servicers' servicing system onto a new processing platform. These problems primarily resulted from some technical issues related to the new platform and the needed time to reduce backlogs that developed while the system was unavailable during the transition. These issues, and the need for borrowers to re-register on the new platform and learn a new interface, led to a higher-than-anticipated level of calls. The Department moved quickly to minimize the impact of the transition on borrowers by working with the vendor to open an auxiliary call center, increase staffing, and extend service hours to improve service levels during the transition. We continue to monitor this situation closely and observe that all metrics are indicating that service has improved and we believe that there will be no long-term effect on customer service levels or satisfaction.

6. What type of outreach does the Department undertake to inform students about their obligations of repaying their loans, particularly during the post-graduation grace period when borrowers often need to be reminded that they are about to enter into repayment?

As required by statute, all borrowers are required to complete exit counseling, provided by their schools, which includes repayment information on all of their loans. Our loan servicers also inform borrowers of the due date of the first payment on their loans, provide website and phone contact information to facilitate repayment and provide access to additional information about repayment plan options, entitlements such as deferment and forbearance, and statutory loan forgiveness programs. All servicers contact borrowers at least twice during the grace period; some also craft additional specialized contacts for targeted populations prior to entering repayment to provide additional counseling. Once borrowers have entered repayment, servicer contacts meet or exceed all statutory and regulatory requirements.

7. Can you describe how the Department funds all the functions (originations, servicing, collections, personnel costs, other contracts, or administrative expenses) of the Direct Loan program? Please detail from what accounts (student aid administration appropriation, mandatory servicing account, off-budget financing account, etc.) each of these items is funded.

Please see the below chart which responds to this question.

Function	SAA*	Mandatory	Program/Financing
Originations	X		X
Servicing (Non not-for-profit servicers)	X		
Not-For-Profit Servicers		X	
Collections	X		X
Origination of Loan Consolidations			X
Personnel Costs	X		
Other Contracts	X		
Administrative Expenses	X		

*Student Aid Administration

8. What types of regular interaction does the Department have with the four main servicers? How do you oversee the current servicing contracts and how is FSA planning to oversee compliance with the addition of new nonprofit servicer contracts? Furthermore, how do you ensure that the products coming out of each servicer are consistent? Could you articulate which products are consistent across all servicers and what products are different?

The Department regularly interacts with its servicers. The TIVAS are required to provide efficient and effective commercial contract services to manage all types of Title IV student loan obligations, including the servicing of outstanding debt. The FSA Contracting Officer (CO) and/or Contracting Officer's Technical Representative (COTR) participate in all relevant TIVAS oversight and monitoring activities Current oversight and monitoring activities include:

- Monthly TIVAS Steering Committee Meetings, with representatives from each of the TIVAS to discuss overarching management topics, including programmatic and contractual issues.
- Weekly operational meetings, which review and discuss operational issues between FSA and each of the TIVAS. There are also combined operational meetings that include staff from FSA and representatives of all of the TIVAS.
- Periodic process monitoring, which is done based on sample borrower account information to determine the accuracy of servicing transactions.
- Quarterly Customer satisfaction surveys.
- Monthly Reconciliation reports, which compare servicer financial data with that reported to the Department's Financial Management System and to the Department of the Treasury.
- Regular program compliance reviews, to determine if servicing is in compliance with federal requirements and that proper collateral reviews are performed.
- Monthly benchmark reports and ad hoc queries from the National Student Loan Data System to monitor servicer data quality.
- Ongoing and frequent internal meetings to review, update, and clarify operational issues from the servicers and to make decisions and/or assignments on open issues.
- Regular review of management processes to define and validate requirements, and assess if changes to the TIVAS systems and processes are necessary.
- Security reviews to monitor compliance with the Federal Information Security Management Act of 2002 (FISMA), GAO's Federal Information System Control Audit Manual (FISCAM), all relevant National Institute of Standards and Technology (NIST), Office of Management and Budget (OMB), and Department of Education security standards, guidance, and directives.
- Annual past performance reviews of each contractor.

We will establish a similar oversight framework for the Not-For-Profit Servicers.

In order to ensure consistency in products and services, the TIVAS contracts requires compliance with all statutory and regulatory requirements. While the TIVAS all meet these requirements, there is no requirement that they do so in exactly the same way. This structure supports the competitive nature of the contract and leads to continuous improvements in services.

9. Now that the Department of Education is one of the largest banks in the country, what is your office doing to combat any fraud and abuse that may occur within the federal student aid programs?

As with all Federal agencies, we take our responsibility to protect against fraud and abuse seriously. Below are some examples of how we safeguard taxpayer dollars.

<u>Safeguards in Finances</u>
FSA has a control environment and to prevent and detect improper payments which may include fraud, waste, and abuse. These controls and tools include, for example, system balancing, account reconciliation, matching agreements to authenticate data, access and funds control, and reasonability edits in FSA systems. Many of these are documented and assessed for effectiveness in the annual internal control assessment (A-123A) program.

FSA is developing, for FY 2012, a comprehensive improper payment plan that will respond to all the new and existing improper payment requirements under the Improper Payments Information Act of 2002, as amended by the Improper Payments Elimination and Recovery Act of 2010, Executive Order 13520 on Reducing Improper Payments, and Office of Management and Budget implementing guidance. This comprehensive plan will include new methodologies for estimating improper payments for the Federal Pell Grant, Direct Loan, and FFEL programs. These methodologies will include risk analysis and data analytics that will identify high risk areas and potential improper payments, which may include fraud and abuse, and whose results will help FSA better tailor corrective action plans to address the root causes of error in the Federal student aid programs.

With respect to the Federal Pell Grant Program, we continue to implement long term corrective actions to reduce improper payments, such as increased usage of the IRS data retrieval tool (DRT), and expansion of school verification of applicant data. The IRS DRT was implemented in 2009 to allow applicants to access information directly from their U.S. income tax returns electronically (through an automated process with the IRS), and import that information directly into the online Free Application for Federal Student Aid (FAFSA). Beginning with the 2011-2012 academic year, FSA added additional functionality to the IRS DRT to increase usage by making it easier for students and their families to assess their IRS data. The tool was made available on January 30, 2011, for use during the peak of the FAFSA application cycle. FSA also improved the process by which students can make corrections to their data and improved the IRS tax filer authentication process. Starting in the 2012-2013 academic year, the FAFSA tool will direct applicants to use the IRS data retrieval process to populate the FAFSA automatically with required IRS items once their tax return has been filed. Applicants who file their taxes after they have filed their FAFSA will be reminded to update their FAFSAs with IRS data. Finally, most applicants who are selected for verification by colleges will be required to correct their FAFSA with IRS data or provide their school with an official IRS- transcript of their tax data.

Program Compliance

To ensure that the student financial assistance programs comply with statutory and regulatory requirements, and to ensure that taxpayers' interests are protected, FSA has a robust and comprehensive program to monitor program compliance and to enforce program rules. This program includes a 100 percent review of financial statements and compliance audits of all postsecondary institutions that participate in the Title IV student aid programs. This program includes conducting on-site program reviews and reviewing and resolving annual compliance audits, as well as reviewing financial statements for guarantor and lender servicers. FSA also performs on-site program reviews of its loan servicers.

10. Earlier this year, the Department launched its Voluntary Flexible Agreement initiative, which you have stated is a way to preserve the services provided by the nation's guaranty agencies. Under the initiative, guaranty agencies are encouraged to propose new and innovative means of providing services to schools and students. Yet the Department has signaled that guaranty agencies will not be able to provide services to Direct Loan borrowers. At a time when defaults are on the rise, why would the Department prohibit guaranty agencies from providing cost effective supplementary services to Direct Loan borrowers?

The Department continues to work with FFEL guaranty agencies to find an appropriate role for these agencies.

11. Under the Voluntary Flexible Agreement initiative announced by the Department in May, guaranty agencies have been informed that they need to give up their efforts to help already defaulted borrowers in order to be able to help borrowers who are struggling to meet their obligations. Is this true?

Under the VFA structure described in the Federal Register notice, a guaranty agency that is not assigned defaulted loan collections under the new VFA structure would not continue to service defaulted loans (even those in its existing portfolio). However, other guaranty agencies that have been assigned those responsibilities will work with defaulted borrowers, including those from other guaranty agencies, so that all defaulted borrowers continue to receive assistance in enabling them to enter into repayment status.

12. The *Higher Education Opportunity Act* established a new set of requirements for how institutions of higher education must interact with student loan lenders. It appears that at least one aspect of these changes has resulted in an untended consequence with negative impacts on students and families. There are a number of entities, including those state chartered non-profit agencies, which provided advisory services to students and families on campus. Even though the *HEOA* specifically allowed advisory services to continue, a majority of campuses will not allow lenders on their campuses out of fear for being criticized or penalized by the Department. Can you confirm that the *HEOA* does permit institutions of higher education to allow entities, such as the state-chartered, non-profit

lenders, on campus for the limited purpose of providing advisory services to students and families?

The HEOA amended the HEA by adding a new Part E to Title I, which, in part, provided that institutions of higher education with preferred lender arrangements for purposes of the FFEL Program or private education loans must develop and implement a code of conduct. [See 34 CFR 601.21 for the code of conduct regulations.] Further, 34 CFR 668.14, which governs Title IV school program participations agreements, was amended [34 CFR 668.14(b) (27)] to require all schools participating in the Title IV loan programs to develop, publish, and administer a code of conduct with respect to loans made, insured, or guaranteed under Title IV, HEA loan programs in accordance with 34 CFR 601.21. As a result, all schools that participate in the Title IV loan programs are subject to the code of conduct requirement regardless of whether they have a preferred lender arrangement with a lender for private education loans.

The code of conduct provisions in 34 CFR 601.21(c) prohibit gifts from a lender, guaranty agency, or loan servicer to employees of an institution's student financial aid office. However, 34 CFR 601.21(c)(2)(iii) provides that gifts DO NOT include:

- Standard material, activities, or programs on issues related to a loan, default aversion, default prevention, or financial literacy, such as a brochure, a workshop, or training.

- (B) Food, refreshments, training, or informational materials furnished to an [institutional employee] as an integral part of a training session that is designed to improve the service of a lender, guarantor, or servicer of FFEL or private education loans to the institution, if such training contributes to the professional development of the [employee].

  . . .

- (D) Entrance and exit counseling services provided to borrowers to meet the institution's responsibilities for entrance and exit counseling as required under 34 CFR 682.604(f) and (g), as long as the institution's staff are in control of the counseling (whether in person or via electronic capabilities) and such counseling does not promote the products or services of any specific lender.

Staffing assistance to the aid office is also prohibited under 34 CFR 601.21(c)(6) , but again, the institution IS NOT prohibited from requesting or accepting assistance form a lender related to:

- professional development training for financial aid administrators;
- providing educational counseling materials, financial literacy materials, or debt management materials to borrowers, provided that such materials disclose to borrowers the identification of any lender that assisted in preparing or providing such materials.

34 CFR 601.21(c)(6)(i), (ii).

Thus, under the code of conduct requirements, whether or not an institution has a preferred lender arrangement, the institution, its students and their parents, and the aid staff are not prohibited from receiving these materials/services.

Representative Robert Andrews (D-NJ)

1. Describe: How the Department (and the Department's subcontractor) independently and empirically verify (e.g. other than a verbal or written statement made by prospective Direct Consolidation Loan applicant) that the prospective Direct Consolidation Loan applicant that intends to payoff a FFELP Consolidation Loan qualifies for such Direct Consolidation Loan pursuant to the Act.

The Department requires that applicants for a Direct Consolidation Loan certify that they are eligible. The Department then checks with the underlying lenders through the Loan Verification Certificate (LVC) to ensure the loans to be included in the Direct Consolidation Loan are eligible. Applicants who certify falsely are subject to penalties that may include fines, imprisonment, or both. The Department does not independently verify these certifications.

2. Describe: The additional costs to the federal government, including loan forgiveness costs and foregone interest, resulting from illegally made Direct Consolidation Loans paying off FFELP Consolidation Loans.

The Department has determined that these loans are made in accordance with the HEA.

3. In a letter to Congressman Andrews on September 19th, James Runcie, COO of the Department Education wrote that the Direct Loan program does not have to verify whether or not a borrow who already has a consolidation loan qualifies for a Direct Loan consolidation by meeting on the three criteria in the law. Is the DOE mean then it does not have to enforce the law and ignore the specific conditions Congress put into the law regarding whether or not a borrower qualifies for a certain loan?

The Department has determined that these loans are made in accordance with the HEA.

[1] http://studentaid.ed.gov/students/attachments/siteresources/11-12YFSL.pdf

[Whereupon, at 11:56 a.m., the subcommittee was adjourned.]

○