



Written Statement of

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On behalf of the Higher Education Loan Coalition
(HELCO)

Public Hearing
On the
Department of Education's Negotiated Rulemaking

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I write to you today on behalf of the Higher Education Loan Coalition (HELCO), a grass roots organization comprised of schools dedicated to the continuous improvement and strengthening of the student loan programs. Its members are practicing financial aid professionals working at participating institutions.

I would like to thank the Secretary for the opportunity to provide the Department of Education with comments on federal student loan programs that may be addressed in the negotiated rulemaking process, particularly about improvements that might be made to the income-based repayment plans and Public Service Loan Forgiveness.

HELCO looks forward to the implementation of the FUTURE act and hopes the integration of data will significantly simplify the repayment process for borrowers.

Public Service Loan Forgiveness

It is clear that the Public Service Loan Forgiveness (PSLF) plan has been ineffective in incentivizing graduates to enter public service because of administrative hurdles and borrower confusion about eligibility and repayment. . The very small number – only 1.26% as of September 2020 --of PSLF applicants who have successfully had loans forgiven reflects this complicated and confusing process which must be improved for this high-potential program to be more effective for both the department and those in public service.

Significant changes in the tracking and approval of borrowers for forgiveness are needed to get the program working as it should. Individuals should be able to verify upon employment whether their position qualifies as public service for purposes of the program through a public database ED should update regularly based on their approval of Employment Certification Forms. The Department should create a checklist of eligibility requirements needed for PSLF and require all servicers to share this checklist with borrowers regularly. The checklist should make it easier for borrowers to determine their eligibility for PSLF before accepting job offers or enrolling in repayment plans.

Too many borrowers find out late in the process that they have been making payments under a plan that does not qualify for forgiveness under PSLF. Therefore, indications of whether each payment would qualify for PSLF or another income-based plan should be required to be disclosed to the borrower regardless of whether the borrower has applied for PSLF.

ED or its servicers should be required to send PSLF applicants a statement of qualifying payments and progress towards forgiveness at least annually.

Improvements in the servicing side must also be made to support a stronger PSLF program. Standards for loan servicers to provide appropriate detail of loan payment history and plans in a timely way when



transferring loans to the PSLF program for servicing. In addition, the PSLF servicer or servicers must have accountability to process applications in a timely way such to avoid placing loans in administrative forbearance during the transfer. The consequence of a loan consolidation should also be made clear to borrowers, including the effect on forgiveness, prior to a servicer initiating the consolidation.

In addition, we suggest the department consider using its executive powers to extend forgiveness to current borrowers who have made 120 consecutive loan payments but were in an ineligible repayment plan for some or all payments made, or whose employment was originally determined to qualify and later that decision was reversed.

Simplify the Income Based Repayment Plans

Income driven plans offer borrowers the option to stay current with loan repayment while allowing them to make other consumer purchases that support a growing economy or pursue public service professions with more modest salaries. These payment options are good for borrowers, good for the economy and good for taxpayers and it is vital to address concerns from borrowers- who are also our citizens and taxpayers- to economically thrive. However, currently the number of different plans with different qualifications and guidelines is confusing for borrowers and inefficient and expensive for the department to maintain.

As borrowers begin repayment of loans following the emergency temporary loan forbearance, the department should use its executive powers to reduce the number of plans, preferably to one income-based plan that takes the best of the existing plans, one standard plan, and perhaps one extended repayment plan. Borrowers currently in other plans should be assigned to the most similar plan with the option to change. To increase the pool of borrowers who could be eligible for the income based repayment plan we encourage the Secretary to offer loan consolidation to borrowers who may not be able to take advantage of this plan as a result of borrowing in the FFEL program or obtaining a federal direct loan prior to the established date. Expanding loan consolidation options could have the added benefit of reducing the outstanding FFEL portfolio and reducing costs.

In addition, the data sharing with IRS allowed by the FUTURE act should enable borrowers to more easily maintain enrollment in income-based plans, including PSLF eligible plans, and renew enrollment in an easy and timely way. Sharing IRS data for multiple years in order to verify income and household size- and for multiple years- minimizes confusion and burden to the borrower by utilizing available data to assist borrowers in enrolling in or maintaining their enrollment in income-based plans. It is vital that ED work with the IRS to determine options for an auto-enrollment process. They should also proactively remind borrowers to complete their annual certification, and provide clear instructions to those that missed deadlines on how to re-certify their income and family size to get back on track for PSLF.



Incentivize Loan Servicers to Direct Borrowers to the most Advantageous Repayment Plan

As ED moves forward with securing contracts with loan servicers it is critical that those contracts are written with the success of the borrower in mind. The financial incentives in the contract should encourage consistent and borrower-favorable applications of payments and overpayments. In addition, there must be incentives to match borrowers to the most advantageous repayment plan for their circumstances even if that requires more effort, paperwork, or discussion on the part of the servicer. Placing borrowers in forbearance should be strongly discouraged by the contracts as should any unnecessary capitalization of interest.

Simplify the Federally Held Loan Servicing Environment

HELCO applauds the efforts of ED to date to simplify the borrowing environment and move servicers onto a single platform to encourage consistency and equity among borrowers. The current Direct Loan servicing environment is fraught with confusion and frustration for student borrowers. There is an inherent flaw with the current multiple contractor environment — borrowers do not understand who holds their loan.

Contractors are inconsistent in their business processes and communication to borrowers. The multiple contractor system, in the current number and present form, is costly to administer and inefficient. It's time to fix the multiple contractor system to simplify loan repayment for borrowers and reduce default rates.

Initially, the Direct Loan Program had one contractor identified as the US Department of Education to borrowers. Though a private contractor managed the portfolio the contractor's name never appeared on correspondence to the borrower and borrowers understood they were receiving information about their Federal Direct Loan. They never questioned who actually managed their account. It didn't matter.

We believe that environment can be replicated in the current multiple servicer environment. We also believe that it will reduce borrower confusion and defaults. Current technology will support this approach. If borrowers could obtain information and manage their federal loan accounts through a single portal there would be no need for separate identification of the loan servicer by the borrower.

Several changes are needed to restore clarity and simplification for students. Some of these needed changes are listed below.



- Borrowers must have a single point of contact for all loan repayment activities which should be branded as the Department of Education; the identity of the contractor should be invisible to borrowers and servicers should exclusively use the ED logo.
- Borrowers should be given one web portal and phone number for loan servicing, with behind the scene technology routing the borrower to their contractor.
- Service levels, loan terms and borrower benefits must be equal and uniform.
- Consistent processes and forms for common requests like deferment and forbearance should be the same for all contractors and available through electronic means.
- Calculations of interest, fees, interest capitalization, and application of payments to principal and interest should all be standard and consistent among the contractors.
- Performance measures should be relevant and uniformly applied to all contractors.
- Contractor 'branding' and other marketing of the contractor to the borrower should be prohibited.

We support healthy competition among a limited number of contractors-too many contractors increase the complexity of the system and taxpayer cost. Healthy competition can be managed in a way that is invisible to the borrower.

Eliminate Interest Capitalization to Reduce Debt

Regulations allow for, but do not require, interest capitalization each time the borrower changes status beginning with the end of the grace period and under certain circumstances in income driven repayment plans. Interest capitalization increases the principal amount of the loan and the total cost of borrowing since future interest accrues on capitalized interest. Elimination of capitalization will help borrowers reduce their cumulative debt which could affect the amount of their monthly payment and their ability to participate in other economic activities such as home purchases or retirement investments. These borrowers are also our citizens and taxpayers and we want them to contribute to our economy.



Capitalization is not required in federal law. It is a holdover from the previous Federal Family Education Loan program. It is not necessary to charge borrowers additional interest and we urge the Secretary to consider elimination of this practice in the federal student loan programs.

In closing, I would like to thank you again for the opportunity to present this testimony on behalf of the Higher Education Loan Coalition. Many of our members were the first schools to implement the Direct Loan program over 20 years ago and have years of expertise in operational and policy issues as well as compliance with the regulations for the program. The Coalition looks forward to participating in the negotiated rulemaking process.