

Senate Health, Education, Labor, and Pensions Committee

TESTIMONY: Strengthening the Federal Student Loan Program for Borrowers

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March 27, 2014

Chairman Harkin, Ranking Member Alexander, and members of the Committee: thank you for inviting me to testify today at this hearing regarding federal student loans. My name is Roberta Johnson and I am the Director of Student Financial Aid at Iowa State University in Ames, IA. Iowa State University is the public land-grant institution in Iowa, enrolling 33,241 students. Last year, 84% of our total student body received some type of financial aid and 53% of all students received a student loan. Average indebtedness at graduation has hovered near \$30,000 for the last five years, although the percent of students graduating with debt has dropped from 71.2% to 61.8% over the same period.

My tenure in the financial aid office at Iowa State University spans 31 years, including 29 years involved in some capacity with the administration of the student loan programs on our campus. I was involved in Iowa State University's transition to the Federal Direct Loan Program as one of the original 104 schools that entered the program in 1994 and have remained fully committed to this program in the ensuing years, working both locally and nationally to strengthen and streamline the program.

To help you better understand the experience of borrowers of federal student loans, I would like to start at the beginning of the financial aid process. Regardless of the type of federal loan, all borrowers must complete the Free Application for Federal Student Aid (FAFSA). Because the FAFSA cannot be completed until January 1 for the year in which the student seeks enrollment, information regarding how to finance educational costs is often the last piece of information a student and their family receives prior to deciding whether to matriculate. Many institutions, including Iowa State University, have a priority financial aid filing deadline of March 1 to be considered for aid from campus-based allocations and institutional sources. Because the tax filing deadline occurs six weeks later, estimating errors are common and require significant follow-up by both students/parents and financial aid personnel. Recent studies on prior-year tax information are promising. Not only would the possibility for estimating errors be virtually eliminated, but students and their families would have information regarding college costs and available resources much earlier. This additional time would allow more time for saving, additional incentive to apply for non-institutional scholarships, and the opportunity to make decisions regarding enrollment before the student is so emotionally invested in the institution that they are willing to incur whatever debt is available to matriculate.

In the short time between when a family files the FAFSA form and the official financial aid award letter is sent, many families must participate in a process known as verification. For most institutions, approximately 30% of their FAFSA filing population will be selected for additional review, requiring them to submit extra forms and/or obtain copies of the Tax Return Transcript from the IRS. While Iowa State

University, along with 142 other institutions of higher education, participates in the Quality Assurance Program which enables us to determine our own selection criteria for verification, we are still verifying a sizeable number of FAFSA applications. Schools have the option to delay release of the financial aid award letter until verification is completed or send an award that may change due to the fact it is based on estimated data. Our institution has chosen the latter option since the time between receipt of the FAFSA and when a family should hear something about financial aid is short. But it means that we see some changes and have difficult conversations with students when the initial financial aid award changes after they've already committed to our institution. Use of prior-prior year would mitigate these situations.

Due to the requirement that military students covered by the Principles of Excellence Executive Order 13607 receive a Financial Aid Shopping Sheet prior to enrollment, Iowa State University transitioned to utilizing the Shopping Sheet as our official financial aid award letter. Incoming students receive this document both via a hard-copy sent via mail and a link directing them to an electronic version within our secure student portal. Continuing students receive only the electronic version. While originally skeptical that the Financial Aid Shopping Sheet would provide families with the details necessary to fully understand their financial aid award, we provided supplemental information that met this need. Feedback from incoming families indicated they found the information clear to understand and provided them with a definite picture of what their costs would be prior to borrowing any loans. However, the Shopping Sheet does not work well for graduate and professional students as the metrics are all tied to undergraduate performance indicators. The number of consumer-information required disclosures, College Navigator, Shopping Sheet, and Score Card need to be consistent, utilizing the same measurement points so that they are truly helping families to compare school choices rather than add to their confusion.

Once the decision has been made to borrow, students are directed to a Department of Education website, www.studentloans.gov, to complete the master promissory note, entrance loan counseling, and ultimately will utilize this site for exit counseling. The Department worked with their contractor to develop a Financial Awareness Counseling Tool to provide additional information regarding student loans, repayment options and obligations, and budgeting. The Financial Awareness Counseling Tool is very robust and our office uses it when working with students to develop their own budgets, to help explain the repayment plans, and to assist them in realizing what their repayment amounts will be once they complete their degree program.

The up-front processing of students loans, known as origination, works very well via an electronic transmission of specific information such as loan period, grade level, and accepted loan amount being part of the transmission. Beginning this academic year, schools are also required to submit additional information regarding the program in which the student is enrolled so the Department can calculate when a student has reached 150% of the published length of their program and the expiration of subsidy for any future Stafford Loans. The vast majority of students would probably have reached the cumulative maximum in their subsidized Stafford Loan of \$23,000 or have been identified via a school's Satisfactory Academic Progress policies without this requirement. While supportive of the desire to encourage students to graduate as quickly as possible and be good stewards of taxpayer resources, the requirement currently feels like additional regulatory burden.

After the loan is disbursed, things get more challenging for borrowers. When the Direct Loan program was first implemented, there was a single servicer and all correspondence with the borrowers was identified only as the William D. Ford Federal Direct Loan Program. The servicer was invisible to the borrower for this federal loan. Understanding that the Department needed to have greater capacity in the servicing arena when we moved to 100% Direct Lending, initial utilization of servicers who had experience with student loans through the FFEL program was probably the most expedient option. However, servicers have been permitted to co-brand correspondence with the Department, often times with the Servicer's logo appearing so much larger that the Department's logo is almost unnoticeable. Borrowers are confused why they are receiving correspondence, whether via letter or e-mail, from an agency they've not heard from previously. In conversations I have had with servicers, it has been reported that the percentage of their e-mails that are opened is very low. This indicates to me that borrowers believe the correspondence to be junk mail or spam. These comments are concerning as it would indicate the potential for delinquency and default is greater when borrowers don't heed their correspondence.

From a school perspective, counseling borrowers whether in-school or during repayment is also difficult. Rather than providing a single telephone number or web site for borrowers to make contact with their servicer, we must now go to the National Student Loan Data System, locate the servicer and contact information, and then share that with the borrower. It would be far more expedient to utilize www.studentloans.gov as the single portal through which the borrower accesses loan information. Technology is sophisticated enough that students should be able to log in on www.studentloans.gov and be routed directly to the company servicing their loan(s) and/or dial a single toll-free telephone number which will route them to their servicer after supplying appropriate identifiers. Borrowers need not know who their servicer is. Borrowers and schools should be confident that payments, deferments, forbearances, etc. are all being handled identically across servicers. Servicers should not advertise for private loan products on the sign-in page for a federal loan as is currently the case with at least one Federal Student Loan servicer. And servicers should cease offering training on topics that have nothing to do with student loans to garner more favorable responses from financial aid personnel when the Department conducts quarterly surveys. I contend that the most important respondent in the surveys should be the borrowers and their feedback would be even more meaningful if they were not aware of which entity is providing the service. Other agencies in the federal government, such as the IRS or the Social Security Administration, contract with other agencies to service the work and student loans should be no different.

Because the contract for loan servicers is up for renewal later this year, the Department has the opportunity to rethink how contracts are awarded. Does a loan servicer need to come from the previous FFEL environment or can superior service be achieved by contracting with entities from other financial sectors, such as credit card processors? How should servicers be compensated and are contracts equitable and "right priced"? Surpluses, if any, should be reclaimed to enhance the Federal Pell Grant rather than being used at the discretion of the servicer only for a subset of the borrowing population.

Another area of confusion is the plethora of repayment plans from which borrowers can choose. While it is good that options exist, understanding the intricacies of Income-Based Repayment, Pay as You Earn, Income Contingent, and Income Sensitive plans besides the Standard, Extended, and Graduated repayment plans is overwhelming. Servicing contracts should be set up to help borrowers understand

their options and guiding them into a payment plan that best meets their needs should be rewarded more than placing a borrower in forbearance to minimize the telephone time required for the transaction. Better yet, the opportunity to consider a repayment plan such as H.R. 1716, the Earnings Contingent Education Loans (ExCEL) Act, introduced by Representatives Petri and Polis, which ties repayments amounts to a borrower's income is an idea worth serious review. While I would advocate that assisting borrowers to repay their loans quickly is always the most desirable option, collecting loans by linking repayments to the borrower's income could completely eliminate defaults and assist recent borrowers seeking employment in a still weakened economy to tie their payments to their income without the additional hassle of submitting significant paperwork annually.

There is no doubt federal budget scoring rules are complicated and I am no expert on them, but it seems that potentially substantial revenue is raised for the federal government in its student loan programs. Loans are clearly an investment in the future and a good investment by government, but I think the return should be in improved human capital, better earnings, increased participation in civic life and general well-being. I would encourage the Committee to support these long term benefits and reduce the immediate revenue that may accrue from the loan programs and raise the expense of borrowing for students. An example of what should be reviewed is the existence of an origination fee. It is difficult to explain to the student or parent why the federal government must keep a portion of their loan funds. And with the advent of sequestration, the origination fee adjustments became even more difficult for schools. A second area that should be reviewed is interest capitalization whenever there is a change in a borrower's status. Legislatively, student loan interest capitalization doesn't seem to be prescribed so why does this practice exist? Eliminating capitalization (not interest accrual) seems an area that could minimize burgeoning indebtedness.

In conclusion, let me state that the Direct Student Loan program works extremely well but like any program that has existed 20 years, some areas need fine tuning to enhance efficacy for all – borrowers, schools, and taxpayers. Thank you for the opportunity to provide insights as one who has been in the trenches for years and I look forward to the changes you will enact to improve the program for years to come.