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STUDENT LOAN SERVICING ALLIANCE

Good intentions, bad policy: Illinois student loan bill misguided fix for broken system

With $1.4 trillion in outstanding student loan debt in the United States, state lawmakers are rightly exploring effective ways to improve the higher education financing system. Unfortunately for Illinois borrowers, the Student Loan Servicing Rights Act (SB 1351), currently on its way to the Governor's desk, is misguided. Despite the proposal's good intentions, it fails to address underlying issues driving student loan frustration and adds unnecessary layers of complexity to a system is already so complex that, at times, it seems to require a Ph.D. to understand.

The U.S. Department of Education (ED) issues or holds the lion's share of all student loans, more than $1 trillion of the $1.4 trillion total. Understandably, ED wants to ensure borrowers successfully repay, and it contracts with servicers to help administer the accounts of tens of millions of borrowers. These servicers are already held to ED's high performance standards and allocation metrics for new volume based on borrower repayment status, as well as strict regulations on how they can operate and interact with borrowers. If SB 1351 becomes law, it would create contradictory state and federal directives for student loan servicers, diminishing their ability to serve Illinois borrowers clearly and effectively.

Adding another layer of bureaucracy will not improve outcomes. Federal student loan servicers are already working hard to help borrowers repay; under the ED contracts, servicers are incentivized to keep borrowers in repayment and out of default. And they have successfully driven down serious delinquency rates on federal student loans by 24 percent in three years. Servicers have supported the enrollment of 1 in 4 borrowers in income-driven repayment (IDR) programs. Servicers know from experience that guiding borrowers, each with unique financial situations, through the dizzying maze of federal repayment plans requires more than SB 1351's 'one-size-fits-all' approach.

That doesn't mean that there isn't a role for Illinois lawmakers to play in helping borrowers. Better borrowing begins long before entering repayment and before servicers assume the management of loans. In fact, efforts to improve the student loan system need to start even before a borrower signs a promissory note taking out a loan.

In neighboring Indiana, the state government mandated that public colleges send students an annual letter detailing the cumulative amount they have borrowed for their education. This simple practice has decreased the amount students decide to borrow. We must all work together – colleges, policymakers, servicers, and families – to ensure borrowers understand the full responsibilities that accompany taking out a student loan on the front-end of their college experience and prevent problems before they start.

The 21 servicers that make up my organization are committed to collaborating with policymakers at the state and federal level, including ombudsmen, to ensure borrowers can successfully manage their student loans. It is not in the interest, financial or otherwise, of anyone – not servicers, policymakers, taxpayers, and certainly not borrowers themselves – to default or become delinquent. Illinois borrowers deserve legislation that tackles the underlying issues pervading student loan debt and helps borrowers avoid negative outcomes from the beginning.

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