S·L·S·A

STUDENT LOAN SERVICING ALLIANCE

Testimony of Winfield Crigler
Executive Director
Student Loan Servicing Alliance (SLSA)
Before the Illinois General Assembly House Executive Committee
May 24, 2017

Good morning, Chairman Burke and members of the Committee. My name is Winfield Crigler, and I am the Executive Director of the Student Loan Servicing Alliance, known as SLSA. SLSA is the non-profit trade association that represents student loan servicers. My 21 servicer members are the major servicers for both federal and private student loans. There is currently $1.4 trillion in outstanding student loan debt, and the lion's share of it ($1.3 trillion) is federal loans, with more than $1 trillion owned by the U.S. Department of Education. The Department has entered into contracts with nine of my members to service all of its loans.

The current Department of Education compensation structure encourages servicers to do the right thing. The Department's servicers are paid on a sliding scale depending on the status of the borrower's loans. They can earn up to $2.85 per month per borrower (without regard to the number or type of loans the borrower has) if the borrower is current under his repayment plan. Their compensation decreases dramatically when a borrower becomes delinquent -- the monthly fee for a severely delinquent borrower is only 45 cents (not even enough to cover the cost of mailing a letter). There is also no financial incentive for servicers to put borrowers into forbearance, which pays them only $1.05 per month; however, for a temporary period of financial hardship, forbearance is most often a borrower's simplest and best alternative. The contract clearly incentivizes student loan servicers to keep borrowers in repayment and current. Unlike in mortgage servicing, there are no additional fees that the servicers can charge a delinquent borrower, so there is no incentive to push a borrower into delinquency and default. And to get new loan volume from the Department, the servicer must meet a set of performance metrics, 60 percent of which are determined by the servicer's ability to keep borrowers current and out of delinquency, while 35 percent is based on borrower satisfaction surveys conducted by the Department of Education. The concerns expressed by Attorney General Madigan simply don't make sense when considered within the context of the servicers' compensation structure. My members have every incentive to keep borrowers in current repayment, and not to put them in forbearance, or to let them slide into delinquency.

SLSA opposes SB 1351. While well-intentioned, the bill does nothing to address the issue of student loan debt that many of Attorney General Madigan's talking points decry. We agree that something needs to be done, but the issue of student loan debt must be solved by better counseling before the student borrows. Servicers only come into the picture after the borrower has chosen a school, and already borrowed the money to attend. We are federal contractors, hired by the U.S. Department of Education and already subject to a raft of requirements, including federal statute, almost 300 pages of regulation, and thousands of contract requirements.

Attorney General Madigan's bill would prescribe servicing practices, including in what order we discuss a borrower's options, and would require servicers to counsel borrowers and to assess their long-term and short-term financial situation and needs. The bill would require servicers to push borrowers toward income-driven repayment plans. The enrollment rate on income-driven repayment plans has increased dramatically, from 1.58 million borrowers in June 2013, to almost 6 million borrowers today.[1] But income-driven repayment plans involve negative amortization and are partially responsible for the increase in both the growth rate and the amount of outstanding student loan debt. Borrowers in income driven repayment plans get relief today by having lower payment amounts (as low as $0), but many pay for it in the end by paying more in interest over the life of the loan. Income driven repayment is not the panacea that this bill would have you believe. And a one-size-fits-all solution is doing a disservice to borrowers. It is the only way that some borrowers can deal with the fact that they may have borrowed too much to attend college, but a better solution would be to find ways to encourage borrowers not to borrow so heavily to begin with.

The National Federation of Credit Counselors opposes this bill as well, recognizing that it places "unrealistic and inappropriate expectations" on servicers to deliver specialized assistance and counseling without any additional compensation. Counselors during the mortgage crisis were paid $125 (the HUD-approved rate) per counseling session. At an average rate of $2 per borrower per month, it would take more than 5 years of servicing fees to pay for one borrower counseling session.

Student loan servicers help millions of consumers repay their education loans, and avoid the negative consequences of default. Servicers help ensure student loan borrowers, many of whom have limited financial experience, know about and can take advantage of the various repayment options available to them. Borrowers rely upon the consistent, even application of federal regulations by student loan servicers to navigate the ocean of benefits and requirements that surround student loans. Servicers work tirelessly on behalf of borrowers to enroll them into the right payment plan for their individual circumstance, while helping them avoid delinquency and default.

Imposing conflicting information, or additional procedural requirements, on borrowers who can immediately obtain assistance with their student loans directly from their servicer is bound to cause confusion for borrowers. They may then fail to seek help from their servicer and delay a satisfactory resolution to their concerns.

Bottom line: there are better solutions to address the real problem of student loan debt. Congress is expected to reauthorize the Higher Education Act during this Congress, and SLSA is working hard to urge legislators to simplify the federal student loan programs,

---

[1] FSA Data Center, "Direct Loan Portfolio By Repayment Plan"

including the number of repayment plans, and the complex rules governing their terms and conditions. In addition, the counseling provisions must be strengthened, and more counseling needs to take place before the borrower takes out a loan.

On the state level, some legislatures have adopted or are considering legislation that requires colleges and universities to provide the borrower with better information about the loans they are about to take out, including the monthly payment amount that the borrower can be expected to pay, and the cumulative cost of borrowing for the next several years. In Indiana, for example, the legislature required public colleges and universities to send borrowers an annual letter with information on the amount they have borrowed to date; as a result of these letters, students in Indiana are borrowing less.

Several states are considering the creation of a new position of student loan ombudsman to work with borrowers in the state to answer their questions and deal with their complaints. We already work closely with the Office of the Ombudsman at the U.S. Department of Education. Servicers would be more than happy to work with ombudsmen financed and operated by the state, and to share our knowledge of the complexities of federal student loans, to help them better serve borrowers in the state. We think that having a neutral and trusted third party deliver the same facts as the servicer would be helpful to borrowers.

The vast majority of complaints from student loan borrowers tend to arise from a misunderstanding of the terms of their loans, which are statutory or regulatory, and cannot be waived or changed by a loan servicer. Ensuring that student loans are treated the same for borrowers across the country ensures that borrowers can be confident in their understanding of their opportunities to succeed in repayment and maintain a healthy financial history.

I would be more than happy to take questions and to provide additional information about student loan servicing.