May 10, 2021

The Honorable Elizabeth Warren
Chair
Subcommittee on Economic Policy
Committee on Banking, Housing, and Urban Affairs
United States Senate
Washington, DC 20510

Dear Chair Warren:

On April 13, 2021, the Committee on Banking, Housing and Urban Affairs, Subcommittee on Economic Policy, held a hearing titled "The Student Debt Burden and Its Impact on Racial Justice, Borrowers, & The Economy." Witnesses testifying at the hearing included James H. Steeley, President and CEO of the Pennsylvania Higher Education Assistance Agency (PHEAA), and John F. Remondi, President and CEO of Navient.

PHEAA, which operates FedLoan Servicing, contracts with the U.S. Department of Education to service federal student loans, including the Public Service Loan Forgiveness (PSLF) and Temporary Expanded Public Service Loan Forgiveness (TEPSLF) programs. The Department wishes to clarify certain statements made by Mr. Steeley during the hearing about the administration of these programs.

The Department performs robust, comprehensive, regular, and ongoing quality assurance activities to determine whether our loan servicers are providing world class customer service and are complying with statutory, regulatory, and contractual requirements.

For example, the Department regularly monitors how our servicers deal with borrowers over the telephone. Department call monitors use a detailed checklist to compare how servicer representatives perform against standards that have been developed to ensure accuracy, thoroughness, professionalism, and compliance with applicable laws, regulations, and contractual requirements. The Department also conducts "secret shopping" by calling loan servicers, asking their representatives frequently asked questions, and scoring their responses. Any inaccurate information or other compliance issues noted during our monitoring (or during any of our day-to-day processing functions) are communicated to the servicers for remediation. If we identify potential issues, we may choose to conduct focused reviews of larger borrower samples and additional subjects.

In addition to this regular oversight, the Department conducts a variety of other oversight activities, such as validating processes, conducting financial oversight, and engaging in joint examinations with the Consumer Financial Protection Bureau. If we identify areas of concern, the servicer oversight team notes these observations in a written report and gives the servicer an opportunity to address them. If warranted, the Department may require a vendor to submit a written Corrective Action Plan (CAP) to remediate any outstanding servicing issues and resolve their root causes. Federal Student Aid (FSA) communicates these measures in writing through its Acquisitions Office, including a series of required steps to bring the servicer into compliance in accordance with a timeline established to complete the necessary steps.

Failure to comply with statutory, regulatory, or contractual requirements may result in various financial assessments against a servicer, such as withholding payments for "improper loan servicing," reimbursing borrowers or taxpayers for damages they have suffered, reducing current or future loan volumes, or terminating the servicer's contract. The Acquisitions Office takes a variety of factors into account to determine what remedies are appropriate, including the severity of the noncompliance and/or whether it reflects a pattern of behavior over time.

In its efforts to achieve quality assurance, the Department has conducted nine PSLF/TEPSLF monitoring events since 2016, focused primarily on qualifying payment counters. These monitoring events led the Department to issue several CAPs to FedLoan for its administration of the PSLF and TEPSLF programs and related student loan servicing processes that affect PSLF/TEPSLF program eligibility. They include the following:

- In February, April, and October 2016, the Department conducted three PSLF reviews with a focus on qualifying payment counters. The February and April reviews resulted in error rates of 28%; the October review had a much lower error rate of 3%. This reduction in errors reflected implementation of the Department's recommendations and FedLoan's automation of qualifying payment counts.

- In July and October 2017, the Department conducted two PSLF reviews with a focus on employer certification and qualifying payment counters. Both reviews highlighted discrepancies in consolidation loans (subsidies), as well as incorrect evaluations for accounts in which the borrower paid more than was required. As a result of the October review, the Department assessed a work plan (similar to a CAP) due to inaccurate counting of qualifying payments. This work plan did not include a financial remedy, but it did require FedLoan to correct the accounts.

- In 2020, the Department conducted three PSLF reviews. The first was on TEPSLF denials and resulted in the Department issuing a CAP and requiring FedLoan to repay $108,000 to the Department in June 2020. The second review, on PSLF CARES Act denials in June 2020, had a 20% error rate, and resulted in the Department issuing a

Change Request to FedLoan. The third review, conducted in September 2020, focused on qualifying payments for consolidation loans; based on the high number of borrowers affected (approximately 38,500), the Department will be reviewing these matters for potential work plans and/or CAPs.

- In October 2020, the Department issued a CAP and required FedLoan to repay approximately $136,000 due to failure to properly apply automatic forbearance for income-driven repayment plan (IDR) applications, affecting over 65,000 borrowers. Improper application of forbearance produced rolling delinquencies and potentially affected PSLF eligibility.

- In March 2021, the Department conducted a PSLF review of military PSLF applications, finding a 20% error rate, and we expect to address this in the improvements as noted below.

- The Department is also monitoring the implementation of CAPs related to a lawsuit brought against PHEAA by the Massachusetts Attorney General, including the remediation of a backlog of IDR applications that affected over 200,000 borrowers, including PSLF/TEPSLF borrowers.

- Lastly, the Department is in the process of drafting additional CAPs related to our most recent oversight reviews outlined above (e.g., CARES Act and PSLF denials and military borrowers).

The Department of Education takes seriously its responsibility to ensure accurate processing of PSLF applications, as demonstrated by the actions listed above. We thus share your concerns and will continue to work to improve access and continue to make other improvements in Public Service Loan Forgiveness. We welcome any further input from you and your colleagues on these important issues. If you have any questions about this information, please have your staff contact Molly Petersen in the Office of Legislation and Congressional Affairs by email at Molly.Petersen@ed.gov or by phone at (202) 763-8035.

Sincerely,

Richard

Richard Cordray
Chief Operating Officer
Federal Student Aid