UNITED STATES DEPARTMENT OF EDUCATION

THE UNDER SECRETARY

March 20, 2024

The Honorable Elizabeth Warren
United States Senate
Washington, DC 20510

Dear Senator Warren:

Thank you for your letter dated December 1, 2023, to the U.S. Department of Education (Department) regarding the restart of student loan payments and loan servicer oversight. I am pleased to provide an update on behalf of the Secretary regarding the work of the Department and our loan servicers to transition borrowers back into repayment. We are sending an identical response to the co-signers of your letter.

Servicer Contracts and Metrics
In October 2021, the Department announced extensions of the loan servicers' contracts. These extensions included new terms to strengthen performance standards, improve servicer accountability, and increase transparency of servicer activity to Federal Student Aid (FSA) and the public, including, for the first time, basic service level agreements (SLAs). These SLAs included minimum call center hours and increased reporting and transparency, among other terms.

However, due to budget constraints, FSA implemented a modification to the contracts reducing monthly loan-status-based compensation rates for loan servicers beginning in April 2023. The modification also reduced the servicers' minimum call center hours (including eliminating the requirement for weekend hours) and increased the SLA for the abandon rate metric from 4 percent to 8 percent. Your letter requested specific data regarding current SLA metrics, which is enclosed.

In the President's FY 2025 budget request, additional resources have been requested that are essential to further FSA's efforts to support borrowers and ensure servicers have enough funding to continue transitioning borrowers to repayment. We will continue to do everything we can to better serve students and borrowers within the constraints of our current budget. However, we respectfully request that the Congress fully fund the President's FY 2025 budget request for the Student Aid Administration account to provide the resources needed for FSA to continue implementing the transition to repayment.

On-Ramp
As the Department returned borrowers to repayment, we created a temporary "on-ramp" period designed to protect borrowers from the harshest consequences of late, missed, or partial payments, such as delinquency or default, for up to 12 months. During this period, payments are due, and interest is accruing. However, borrowers will not be reported as delinquent or in default

to credit bureaus or referred to collection agencies. Future monthly bills for borrowers not enrolled in income-driven repayment plans will automatically be adjusted to waive the accrued interest during these periods. The Department recognizes that bringing student loan payments back into a borrower's budget may not be easy, but we have worked diligently to make the process easier and provide protections for borrowers.

During the on-ramp period, a borrower's loans will be placed into a retroactive forbearance after a 90-day period of missed payments. The Department chose the 90-day timeframe for several reasons. Under a standard repayment plan, borrowers who miss payments do not experience consequences of delinquency and default until 90 days of late, missed, or partial payments. Many borrowers make payments in the days following their due dates, and it may have caused confusion to place borrowers into a forbearance due to payments that were only temporarily missed or insufficient.

Credit Reporting

On December 13, 2023, the Department sent a letter to the major credit scoring companies and credit reporting agencies urging them to revisit how they treat federal student loan obligations for the purposes of credit reporting and scoring during the initial return to repayment period.[1] In this letter, the Department highlighted the uniqueness of the return to repayment period and factors impacting payment behavior that are outside of a borrower's control.

The letter asked these companies to abstain from making negative assumptions about missed student loan payments, including those based on periods of forbearance and the corresponding tradeline information. As discussed in more detail below, there have been several servicer errors that resulted in borrowers being temporarily placed into an administrative forbearance, and these periods should not have an impact on a borrower's credit score. Marginal increases in loan balances, periods of forbearance, monthly payment amounts, or other indicators of reduced or missed payments should not have an outsized impact on a borrower's credit score and future ability to obtain credit. The Department continues to meet with these companies and agencies to ensure borrowers are not harmed.

Servicer Accountability

The Department takes its oversight role very seriously. Over the last few months, we have taken actions that send a strong message to all student loan servicers that we will not allow borrowers to suffer the consequences of gross servicing failures. On October 30, 2023, we announced we would withhold $7.2 million in payments from the Missouri Higher Education Loan Authority (MOHELA) after the Department found that MOHELA failed to meet its basic contractual obligation by not sending billing statements on time to more than 2.5 million borrowers.[2] After discovering the billing statement errors made by MOHELA, the Department worked with the other loan servicers to investigate whether these errors had occurred elsewhere. Through these efforts, we discovered that Aidvantage, EdFinancial, and Nelnet each had a smaller portion of borrowers who received late or no billing statements. Consistent with our actions taken

[1] Creditor Letter, December 8, 2023 (PDF)

[2] https://www.ed.gov/news/press-releases/us-department-education-announces-withholding-payment-student-loan-servicer-part-accountability-measures-harmed-borrowers

against MOHELA, the Department withheld payments from the servicers calculated at the rate paid per borrower.[3]

As an added layer of protection for borrowers, the Department has provided remedies to borrowers impacted by these errors. At the time an error was detected, impacted borrowers were placed in administrative forbearance by their servicers until the issues were resolved. Any months spent in this forbearance count as credit toward loan forgiveness through Public Service Loan Forgiveness or income-driven repayment. Any interest that accrues during this time in forbearance will be adjusted to zero.

In light of these errors, the Department also released its servicer accountability framework that detailed how it is increasing protections for borrowers. The Department's oversight strategy provides several pathways for identifying in real time problems that may harm borrowers. Our oversight focuses on the borrower experience, which includes monitoring servicers, tracking complaints, and examining results-based outcomes to conduct a comprehensive review of service performance.[4]

Monitoring tools such as secret shopper calls, partnerships with federal and state regulators, and leveraging borrower complaints have been used successfully by FSA in the past and will continue to be used going forward to provide borrowers the best possible experience.

Should the Department again detect significant servicing errors, we have several methods to hold servicers accountable, including withholding payments, suspending the allocation of additional loans to the servicer, or re-allocating loans to other loan servicers. In spring 2024, the Department will be transitioning to a new loan servicing environment known as the Unified Servicing and Data Solution (USDS). Contracts awarded under USDS include performance-based metrics that incentivize servicers to keep at-risk borrowers in a current repayment status. These incentives will drive servicers to further invest in innovative strategies to reach borrowers at risk of delinquency and default.

Thank you for writing the Department regarding this important matter. I appreciate your ongoing leadership and efforts to protect student loan borrowers. Should you have further questions, your staff may contact our Office of Legislation and Congressional Affairs at (202) 401-0020.

Sincerely,

James Kvaal

Enclosure

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[3] https://www.ed.gov/news/press-releases/biden-harris-administration-takes-additional-action-hold-student-loan-servicers-accountable-failing-meet-contractual-obligations
[4] https://www.ed.gov/news/press-releases/biden-harris-administration-announces-framework-student-loan-servicer-accountability-protect-borrowers-nationwide

What is the current SLA metric regarding customer satisfaction that governs Edfinancial, MOHELA, Aidvantage, Nelnet?

The current SLA metric governing customer satisfaction for all loan servicers provides for a minimum threshold of 70 percent.

a. What are the customer service rate outcomes for Q1-Q3 of 2023 for Edfinancial, MOHELA, Aidvantage, Nelnet?

For Q1-Q3 of 2023, customer service SLA outcomes were as follows:

	Q1 (Jan.-March 2023)	Q2 (April-June 2023)	Q3 (July-Sept. 2023)
Aidvantage	56	55	58
Edfinancial	70	65	60
MOHELA	60	61	63
Nelnet	65	63	57

What is the current SLA metric regarding abandonment rate that governs Edfinancial, MOHELA, Aidvantage, Nelnet?

Effective April 1, 2023, the SLA for the abandon rate metric increased from 4 percent to 8 percent. The April 2023 modification also provided that from July 1, 2023, through December 31, 2023, servicers would not have their abandon rate service level ranking reduced as a result of their abandon rate performance during this period.

a. What are the abandonment rate outcomes for Q1-Q3 of 2023 for Edfinancial, MOHELA, Aidvantage, Nelnet?

For Q1-Q3 of 2023, abandon rate SLA outcomes were as follows:

	Q1 (Jan.-March 2023)	Q2 (April-June 2023)	Q3 (July-Sept. 2023)
Aidvantage	0.40%	0.70%	34.30%
Edfinancial	0.30%	2.45%	24.40%
MOHELA	2.70%	1.50%	24.40%
Nelnet	0.04%	4.22%	41.20%

What is the current SLA metric regarding interaction quality monitoring that governs Edfinancial, MOHELA, Aidvantage, Nelnet?

The current SLA metric governing interaction quality monitoring for all loan servicers provides for a minimum threshold of 95 percent.

a. What are the interaction quality monitoring outcomes for Q1-Q3 of 2023 for Edfinancial, MOHELA, Aidvantage, Nelnet?

Monitoring of this SLA began in Q2 of 2023. For Q2-Q3 of 2023, interaction quality monitoring SLA outcomes were as follows:

	Q2 (April-June 2023)	Q3 (July-Sept. 2023)
Aidvantage	96.5%	98.0%
Edfinancial	98.7%	99.4%
MOHELA	98.4%	98.4%
Nelnet	97.2%	98.8%

What is the current SLA metric regarding accuracy rates that governs Edfinancial, MOHELA, Aidvantage, Nelnet?

The current SLA metric governing accuracy rates for all loan servicers provides for a minimum threshold of 95 percent.

a. What are the accuracy rate outcomes for Q1-Q3 of 2023 for Edfinancial, MOHELA, Aidvantage, Nelnet?

Monitoring of this SLA began in Q2 of 2023. For Q2-Q3 of 2023, accuracy rate monitoring SLA outcomes were as follows:

	Q2 (April-June 2023)	Q3 (July-Sept. 2023)
Aidvantage	100%	99.6%
Edfinancial	100%	100%
MOHELA	97.3%	95.4%
Nelnet	100%	100%