ACCT ASSOCIATION OF COMMUNITY COLLEGE TRUSTEES

The Voice of Community College Leaders

June 9, 2017

The Honorable Betsy DeVos
Secretary of Education
U.S. Department of Education
400 Maryland Avenue, SW
Washington, DC 20202

Dear Secretary DeVos:

On behalf of the Association of Community College Trustees (ACCT) I write to you to express concern regarding the U.S. Department of Education's ("Department") plans for the procurement of a new federal student loan servicing contract. In May, ACCT sent a letter to the Department alongside the American Association of Community Colleges commenting on this procurement in response to the Department's decision to rescind previous guidance governing the overhaul of federal student loan servicing. ACCT would like to provide further comment in light of the recent announcement that the Department will be selecting a single servicer for all federally-managed student loans, and particularly the Direct Loan portfolio.

We are troubled by the Department's decision to move to a single servicer given community colleges' past history with such an arrangement. ACCT has produced several policy reports examining student borrowing at community colleges, including the role of loan servicing. In a 2015 report, *A Closer Look at the Trillion,* ACCT utilized data from all 16 community colleges in Iowa to examine the characteristics of borrowers and defaulters. The report found that servicer performance varies substantially and has a dramatic impact on the success of borrowers. It also displayed the risk in utilizing a single servicer, as was the case when ACS Education Services ("ACS"), a subsidiary of Xerox Education Services, LLC, operated as the sole servicer for Direct Loans. At that time ACS's portfolio of Direct Loans represented one-quarter of federal student loan portfolio. Following the *Ensuring Continued Access to Student Loans Act of 2008,* the Department dramatically increased ACS's loan portfolio to service Federal Family Education Loan (FFEL) Program loans that were "put" to the Department by lenders looking to offload parts of their portfolio.

Our report revealed that, of the nearly 4,600 borrowers serviced by ACS in Iowa, 73 percent of them ended up in default in fiscal year 2011. Based on ACCT's research and numerous conversations with Department officials, we know that the ACS contract was eventually pulled due to poor performance. The Department was not immediately able to rectify this situation for borrowers, as it took as long as three years to extract and redistribute many of the borrowers in ACS's portfolio to other servicers. Many community colleges are still impacted to this day by the outsized levels of default from ACS-serviced loans reflected in their cohort default rates, and far too many borrowers and their families have had their financial lives damaged by this poor customer service experience.

ACCT has significant reservations in going down the same path of relying on a sole servicer, particularly if this servicer will acquire an even larger portfolio of loans. We encourage the Department to reconsider this decision and pursue a path that incorporates transparency, strong oversight, uniform standards, and competition amongst servicers or customer service providers. Under the scenario proposed by the Department, repercussions for poor performance are diminished and the authority to oversee subcontractors is weakened. Creating a monolithic system with fewer points of oversight could become a detriment to students and institutions, as it is unclear how the Department could swiftly correct inadequate performance. Ultimately, we believe relying on a sole servicer with fewer consumer protections in place may impact the Department's ability to meaningfully enforce servicing standards.

One potential way to mitigate issues created by a single servicer would be to make clear that the Department will retain full and independent oversight of all subcontractors associated with the main servicer, including being able to conduct methodologically-sound monitoring of both inbound and outbound calls, request detailed loan servicing records, and obtain a history of any written or electronic communications with individual borrowers that were accessed or modified by subcontractors. The issue of monitoring the activities of subcontractors has been repeatedly highlighted by the Government Accountability Office.[1]

Additionally, we remain concerned about the roll-back of several proposed changes to the levels of customer service and transparency of the process for borrowers. For example, we are troubled by new changes to remove requirements that servicers engage in "high touch" servicing with borrowers on the verge of delinquency; proactively reach out to borrowers to help them with income-driven repayment; and ensuring bi-lingual (English and Spanish) phone support to schools, students, parents, and borrowers about their accounts. Such changes could put students at increased risk of default and delinquency, and result in an increase in the cohort default rates of community colleges. We request that you reconsider these requirements or other ways to interpret the new procurement requirements as you move forward with the procurement process.

Thank you for the opportunity to share these thoughts regarding the recompete of federal loan servicing contracts. If you have further questions, please feel free to contact Jee Hang Lee, ACCT Vice President for Public Policy and External Relations at (202) 775-4450 or jhlee@acct.org.

Sincerely,

J. Noah Brown

J. Noah Brown
ACCT President and CEO

[1] Emrey-Arras, Melissa. "GAO-16-196T: Key Weaknesses Limit Education's Management of Contractors." Government Accountability Office. November 18, 2015.