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STUDENT LOAN SERVICING ALLIANCE

Testimony of Winfield Crigler
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Before the Joint Consumer Protection and Professional Licensure Committee
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Thank you, Chairs L'Italien and Chan, Vice Chair Hunt, and Members of the Committee, for allowing me to testify today. I am Winfield Crigler, Executive Director of the Student Loan Servicing Alliance (SLSA). SLSA is a non-profit trade association in Washington, D.C. that focuses exclusively on student loan servicing issues. My 21 servicer members are responsible for servicing more than 95 percent of all federal student loans, and the vast majority of private loans as well.

Some very brief background on the student loan programs. There is currently more than $1.4 trillion in total outstanding student loans, and more than $1.3 trillion of that is federal loans. In other words, federal loans make up more than 92 percent of all student loans. To break down the federal number a bit more, approximately $1.1 trillion of all federal loans (82%) are owned by the United States Department of Education (the Department) and is currently serviced by nine contractors to the Department, all of whom are SLSA members. These nine contractors include a state agency, six not-for-profit agencies (small, mid-size, and one large), and two for-profit companies. Most of these loans are Direct Loans, made by the Department using funds from the U.S. Treasury. Approximately $190 billion are loans in the FFELP Program (made by banks and guaranteed by the federal government), which has been winding down since 2010. These loans are serviced by the 21 SLSA members. A little more than $100 billion (less than 8%) are private loans, made by banks and other private lenders, with no federal backing. Most of these are also serviced by SLSA members.

SLSA opposes S129 and H2173. While well-intentioned, the bill does nothing to address the issue of student loan debt that many state legislators are concerned about. We agree that something needs to be done, but the issue of student loan debt must be solved **before** the student borrows and ensuring that students who borrow complete their degree. Borrowers who do not complete are three times as likely to default and generally on balances that are not very high. President Obama's Council of Economic Advisors released a report last year on student debt that is a must read for any policymaker interested in making a difference. They found that two thirds of those who defaulted within three years of entering repayment in 2011 had balances less than $10,000. Over one-third had balances less than $5,000. These are borrowers who dropped out from school and dropped out from servicing.

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 the federal statute, almost 300 pages of regulation, and thousands of contract requirements. The challenge is not insufficient regulation—the challenge is working together to help borrowers complete and, even if they don't, reaching out to their servicer to access the assistance they need. Several servicers have found that more than 90 percent of those who default have never responded to their extensive outreach campaigns.

Federal Loans are already extensively regulated. Federal student loans are already subject to extensive statutory, regulatory and contractual servicing requirements. Student loans are very complex and SLSA is concerned that imposing multiple state licensing and regulatory requirements will create a patchwork of conflicting rules that will cause borrower confusion. In addition, the servicing of federal student loans is in the midst of a truly momentous sea change, initiated in 2016 and continuing today. The Department is currently negotiating the future servicing of the $1.1 trillion in loans that it holds. A new servicing contract is expected to be signed with a single servicer by the end of this year, and the new requirements will be implemented over the coming two years. If Massachusetts were to revoke the federal servicer's license, that would mean that **none** of the federal student loans in Massachusetts could be serviced. That result is simply unimaginable and would severely harm both borrowers and the taxpayers who fund the federal loan program.

Most federal loan borrowers are successfully repaying their student loans. Recent statistics from the Department of Education show that the serious delinquency rate for federal loans has dropped by 24 percent over the last three years, and now stands at approximately 12 percent for borrowers and 10 percent for loan volume. In addition, new direct loan defaults have decreased as a percentage of borrowers in repayment for the 5th consecutive quarter. At the end of 2016, 1.5 percent of borrowers who were in repayment the prior quarter defaulted. The media's statistics about the growing number of borrowers in default can be very misleading, as the Department almost never writes off a defaulted loan. Since the loans are never written off, the total number of defaults will continue to grow. Some of the loans in default are decades old.

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 (they are paid more for a delinquent borrower than a borrower in forbearance, until the last stage of delinquency); 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. 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.

Private loans have very low delinquency and default rates. As indicated above, the private loan market is much smaller than the federal loan program, and very different in that loans are only made to credit-worthy individuals. The delinquency and default rates for these loans have returned to their pre-recession low levels. MeasureOne publishes a semi-annual report on the private loan market, based on data covering approximately two-thirds of this market. Their latest report indicates that the late stage delinquency (more than 90 days delinquent) rate for private loans has stabilized at 1.9 percent, and the annualized charge-off (default) rate is only 2.2 percent of loans in repayment. Private loans are subject to several federal consumer laws, including the Truth-in-Lending Act, the Fair Credit Reporting Act, the Equal Opportunity Credit Act, the Electronic Funds Transfer Act, as well as the supervisory authority of the Consumer Financial Protection Bureau.

Small servicers will be harmed. I am also concerned about the effect of this legislation on my smaller members. More than half of SLSA servicers are non-profit, state-based agencies created by state legislatures to make loans to residents in their states. Most of these organizations have between 50 and a couple of hundred total employees. They may only have a hundred or so borrowers living in Massachusetts. The expense of these proposed licensing regimes, with audits, examinations, and annual licensing fees, may cause some of them to decide to stop servicing, or at least to transfer all of their Massachusetts loans to another servicer. These are not empty threats. Two of the Direct Loan servicers have dropped out of their contract with the U.S, Department of Education, because the contract was uneconomical. Two of my members have recently notified me that they are no longer planning to service their own FFELP and private loans because of the growing costs. And at least one servicer has transferred all of its Connecticut loans to another servicer. Adding the costs of licensure to private student loans will mean that those costs are passed onto consumers, which means less consumer choice and higher interest rates for Massachusetts borrowers.

Could the federal student loan program be improved? Yes, it is far too complex, and SLSA is working hard to ensure that the next reauthorization of the Higher Education Act simplifies the number of repayment programs, and allows an automatic renewal process for borrowers in income driven repayment plans. The program must also hold down borrowing by providing better counseling for students **before** they borrow. But solutions to the issue of student loan debt are inherently federal, because it is almost entirely a federal program. SLSA believes that licensing and regulation by the states will only add to the current complexity and borrower confusion, and will take scarce resources away from customer service.

I am happy to take questions from the Committee members.