THE PEW CHARITABLE TRUSTS

2005 Market Street, Suite 2800
Philadelphia, PA 19103-7077
215.575.9050 Phone

901 E Street NW
Washington, DC 20004
202.552.2000 Phone

www.pewtrusts.org

Federal legislation directs the office of Federal Student Aid (FSA), the unit within the U.S. Department of Education (ED) that oversees the federal loan program, to create a strategic plan every five years. In September, FSA released a draft of its Fiscal Year 2020-2024 Strategic Plan and invited public comments.

The Pew Charitable Trusts' project on student borrower success submitted the following comments in response to FSA's request.

TRENDS IN THE FEDERAL STUDENT AID ENVIRONMENT

Trend 1: The size and performance of FSA's portfolio of loans has direct implications for taxpayers.

As FSA notes, income-driven repayment (IDR) plan usage has grown recently as ED and Congress have expanded program eligibility. However, recent Pew research indicates that additional borrowers might benefit, including those who pause payments repeatedly or for long periods, spend long periods in delinquency, or default. Additionally, the confusing enrollment and annual recertification processes can be barriers for borrowers.

We understand FSA's concerns over the cost of a growing IDR population. However, it is difficult for researchers and policymakers to weigh the costs and benefits to borrowers and taxpayers without more public information. We encourage FSA to release additional data on IDR plans, including the characteristics of enrollees, how balances change over time, and the monthly payments borrowers make while in these plans.

Trend 2: Students are making high-impact financial decisions without the benefit of adequate financial knowledge.

We appreciate FSA's desire to make more and better information available to students and borrowers. However, as FSA explores potential benefits of financial literacy programs, it should be careful not to build on concepts that have not proven effective. As FSA notes, despite a growing number of such programs, "a direct correlation to reduced delinquency and default has not yet been established."

FSA also notes that recent research, "suggests that financial literacy training leads to a decline in the likelihood of having outstanding debt, as well as a small decline in delinquency." However, the cited paper examines "the effects of exposure to financial training on debt outcomes in early adulthood," which increasingly is not the makeup of students or borrowers. (And the paper notes that "all but the student debt effects tend to fade out with age.") The authors do find that, the "exposure to math and financial literacy education modestly decreases the incidence of adverse outcomes—such as delinquency and collections—and…reduces the likelihood of youth carrying non-student debt." However, they also find that this training increases reliance on student debt. In addition, the paper indicates that, "economic education leads to an increase in the likelihood of adverse debt outcomes…[which are] observed to accumulate as the borrower ages."

THE PEW CHARITABLE TRUSTS

2005 Market Street, Suite 2800 215.575.9050 Phone
Philadelphia, PA 19103-7077

901 E Street NW 202.552.2000 Phone
Washington, DC 20004
www.pewtrusts.org

Additional research (as cited in this paper) on the effectiveness of financial literacy programs suggests that delivering general information is often not enough and that offering too much complex material all at once can be overwhelming. On the other hand, studies have shown that targeting pertinent information to specific populations when they need it can be effective: People tend to retain information that they find applicable to their current circumstances, and advice is less likely to "stick" when it is not immediately relevant.

Trend 3: Digital fluency and mobile ubiquity are driving new service expectations among customers.

As FSA notes, the growing availability of consumer technology will help many manage their repayment obligations. We encourage FSA to use these tools to help borrowers avoid delinquency in two key ways: First, FSA should provide borrowers with targeted, timely, and personalized information about affordable repayment plans. (We discuss this more in a later section.) Second, we encourage FSA to use technology—through its own app and other interfaces it oversees and manages—to reduce barriers to enrolling in those plans, such as ensuring all borrowers have easy access to the ability to upload loan paperwork through pictures (which are more mobile device-friendly) and sign documents electronically.

Importantly, many borrowers still prefer non-digital forms of communication. For example, Pew research indicates that, while older Americans—the fastest growing segment of borrowers—are using new technology, they are often not making full use of their devices and have privacy-related concerns. In addition, others lack access to technology that facilitates engagement with the repayment system. Thus, as FSA develops more and better mobile interfaces, it should ensure that access to alternate ways to pay and manage loans remain available and intuitive.

STRATEGIC GOALS

Strategic Goal 2: Provide World-Class Customer Experience to the Students, Parents, and Borrowers We Serve

Strategic Objective 2.1: Ensure that all students can easily access information on federal student aid, apply for federal student aid, and have information on repayment options and Strategic Objective 2.2: Provide seamless, easy, personalized digital interactions equal with top financial institutions in the delivery of financial aid products and services

The digital tools created by FSA will make the repayment system easier to understand and access for many. As these tools are deployed, we encourage FSA to better connect how they can help borrowers most at risk of delinquency and default. For example, FSA should use data on borrowers' preliminary interactions to determine which types of borrowers are accessing the tools for specific purposes. (Are there opportunities to provide targeted, timely information about affordable plans or other means of avoiding delinquency and default? Are these tools being primarily utilized to answer quick questions or to solve more complex problems? Are borrowers' issues being successfully resolved?) As a part of this effort, FSA should detail how it will monitor and adjust to direct more staff and resources to help borrowers if desired outcomes are not achieved.

THE PEW CHARITABLE TRUSTS

2005 Market Street, Suite 2800
Philadelphia, PA 19103-7077
215.575.9050 Phone

901 E Street NW
Washington, DC 20004
202.552.2000 Phone

www.pewtrusts.org

Strategic Objective 2.3: Streamline contact center and back-office operations to improve our customers' integrated experience

Streamlining contact center operations under a single brand can provide benefits to borrowers seeking assistance. But this structure also presents challenges that FSA should consider. For example, when the servicing component of the Next Gen initiative (as currently designed) is fully operational, and companies awarded contracts through Business Process Operations (BPO) solicitation are held accountable for discrete tasks, how will FSA manage complaints and monitor and ensure that those tasks lead to positive borrower outcomes?

FSA indicates that these accountability measures include average speed to answer (ASA) calls and average call abandon rate (AR). However, these metrics are not necessarily directly related to successful repayment outcomes. FSA should also consider metrics that signal points where additional intervention might be helpful, such as speed of processing IDR applications, percent of IDR applications that remain incomplete, and percent of borrowers recertifying for IDR on time.

Strategic Goal 5: Enhance the Management and Transparency of the Portfolio

Strategic Objective 5.1: Improve the management and transparency of FSA's student loan portfolio performance

Beyond increasing the frequency of existing updates to the Data Center, FSA should expand the metrics it reports publicly, particularly those that can be used to better understand how the repayment system is working for borrowers. For example, FSA could publish new statistics on IDR plan enrollment, including annual recertification rates that include how many borrowers lost their partial financial hardship status, and rates of negative amortization over time. New servicing metrics could include the number of IDR applications submitted and processed, the volume of inbound/outbound communication, and the most commonly asked questions or issues raised by borrowers. FSA should also establish a publicly-facing data warehouse where researchers can run queries on samples of anonymized data, going beyond the snap-shot reports available in the Data Center.

Strategic Objective 5.2: Provide analytics and operational support for a customer-centric, data-driven, performance-based organization

We agree that full implementation of the Fostering Undergraduate Talent by Unlocking Resources for Education (FUTURE) Act will take planning, time, and resources. FSA should provide more detail on its implementation plan, which should ensure that borrowers have multiple opportunities to agree to have their data shared and the repayment process remains manageable for those who do not give approval. (Those borrowers must still be allowed to access IDR plans by using tools that currently exist, such as the IRS Data Retrieval Tool, or submit alternative documentation of their incomes.)

THE PEW CHARITABLE TRUSTS

2005 Market Street, Suite 2800
Philadelphia, PA 19103-7077
215.575.9050 Phone

901 E Street NW
Washington, DC 20004
202.552.2000 Phone

www.pewtrusts.org

Strategic Objectives 5.3: Leverage portfolio analytics and consumer-facing technology to drive improved outcomes for customers and taxpayers and Strategic Objective 5.4: Increase vendor performance through quality management activities centered on customer service and product delivery

Pew research supports FSA's approach to track and respond to early warning signs that borrowers are struggling to repay, intervene to offer a range of options to improve the borrower's likelihood of repaying, and increase vendor performance. (We outline additional opportunities below.)

Within the current environment, clear standards and improved oversight for servicing could help policymakers implement policies and procedures based on borrower behavior. Standards should include a focus on borrower outcomes—such as reducing rates of delinquency and default—and require

targeted outreach to borrowers in periods of transition. As part of Next Gen, FSA plans and is working to centralize some of the responsibilities currently held by servicers. In such a new environment, it will be equally important for FSA to be held accountable for borrower outcomes.

PERFORMANCE MEASURES FOR STRATEGIC GOALS

Performance Measures for Goal 2: Provide World-Class Customer Experience to the Students, Parents, and Borrowers We Serve

FSA identifies several metrics that track increased traffic to digital tools and borrower engagement. Additionally, FSA notes several metrics around digital outreach and communications tied to volume. While inputs can provide valuable information, they alone cannot measure the effectiveness of the tools. We encourage FSA to identify additional metrics that can assess the outcomes of these interactions, particularly whether they help distressed borrowers avoid delinquency and default or get them back on track.

FSA should also expand its approach to establishing baseline measurements for repayment metrics. While accounting for COVID is important, email campaigns, customer service surveys, borrowers submitting payments, and other metrics will be heavily distorted by the current and on-going payment pause (as FSA notes). FSA should also set metrics and track its performance independent of changing consumer engagement related to the pandemic.

Performance Measures for Goal 5: Enhance the Management and Transparency of the Portfolio

FSA plans to track and respond to early warning signs and intervene to offer a range of options to improve borrowers' likelihood of repaying. Pew research highlights additional indicators that can help identify at-risk borrowers before they are in distress, such as those who miss payments early, repeatedly suspend payments, or who have previously defaulted.

THE PEW CHARITABLE TRUSTS

2005 Market Street, Suite 2800 215.575.9050 Phone
Philadelphia, PA 19103-7077

901 E Street NW 202.552.2000 Phone
Washington, DC 20004
www.pewtrusts.org

In addition, in recent focus groups conducted by Pew, borrowers said they often experienced confusion managing the repayment process and were likely to fall off track—especially around transition points, such as entering repayment, exiting periods of paused payments, and enrolling in IDR plans.

Several large-scale transitions are on the horizon: After the current coronavirus-related period of paused payments ends, tens of millions of borrowers will transition back into repayment at the same time. And as part of Next Gen, FSA recently announced that it is planning to transition loans from current servicers to vendors selected as part of an Interim Servicing Solution (and later, presumably to an end-state servicing solution).

As part of these large-scale changes, the department and its contractors could use existing data and personalized information about a borrower's repayment situation to provide targeted outreach to borrowers who showed signs of distress before periods of transition and seek to quickly identify borrowers who fall off track immediately after a change is made. These borrowers may need additional assistance enrolling in, recertifying for, or modifying their payments within IDR plans. This should include borrowers who:

- Were delinquent before the transition;
- Missed payments within their first three months in repayment (if they recently entered repayment);
- Experienced hardship as evidenced by enrolling in a non-administrative forbearance or an economic hardship deferment, making partial payments, or being in default;
- Paused payments repeatedly and for long periods;
- Paused, missed, or made partial payments while enrolled in an IDR plan; or
- Need to take action soon as part of the existing repayment cycle, including those who have loans that entered repayment recently or have an approaching recertification date for an IDR plan.

In addition, FSA's plan includes metrics to track the percentage of borrowers who did not make their first 3 payments and the percentage of borrowers who are greater than 90 days delinquent. We recommend FSA change these metrics to target borrowers who miss their first 2 payments and those who are 60 days past due to provide interventions before credit reporting consequences occur for borrowers at the 90-day mark.

Finally, while FSA mentions it is rolling out a default prevention program, this strategic plan does not include information about assisting borrowers who are already in default, including helping them access tools to exit default and successfully reenter repayment. This is a critical oversight when approximately 1 in 5 borrowers is currently in default.