The U.S. Department of Education's Administration of Student Loan Debt and Repayment

FINAL AUDIT REPORT

ED-OIG/A09N0011
December 2014

Our mission is to promote the efficiency, effectiveness, and integrity of the Department's programs and operations.

U.S Department of Education
Office of Inspector General
Washington, D.C.

NOTICE

Statements that managerial practices need improvements, as well as other conclusions and recommendations in this report, represent the opinions of the Office of Inspector General. Determinations of corrective action to be taken will be made by the appropriate Department of Education officials.

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UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL

December 11, 2014

Memorandum

TO: Dr. Ted Mitchell
Under Secretary
Office of the Under Secretary
Lead Action Official

James W. Runcie
Chief Operating Officer
Federal Student Aid

FROM: Patrick J. Howard /s/
Assistant Inspector General for Audit

SUBJECT: Final Audit Report: "The U.S. Department of Education's Administration of Student Loan Debt and Repayment,"
Control Number ED-OIG/A09N0011

Attached is the subject final audit report that covers the results of our review of the U.S. Department of Education's Administration of Student Loan Debt and Repayment during Federal fiscal years 2011 through 2014. An electronic copy has been provided to your Audit Liaison Officers. We received your comments concurring with the recommendations in our draft report.

Corrective actions proposed (resolution phase) and implemented (closure phase) by your offices will be monitored and tracked through the Department's Audit Accountability and Resolution Tracking System (AARTS). The Department's policy requires that you develop a final corrective action plan (CAP) for our review in the automated system within 30 calendar days of the issuance of this report. The CAP should set forth the specific action items, and targeted completion dates, necessary to implement final corrective actions on the findings and recommendations contained in this final audit report.

In accordance with the Inspector General Act of 1978, as amended, the Office of Inspector General is required to report to Congress twice a year on the audits that remain unresolved after six months from the date of issuance.

We appreciate the cooperation given us during this review. If you have any questions, please call Ray Hendren, Regional Inspector General for Audit, at (916) 930-2399.

Enclosure

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Abbreviations, Acronyms, and Short Forms Used in this Report

2014 Modifications	Modifications that FSA made to the TIVAS servicing contracts to adjust the performance metrics and other financial incentives, effective September 1, 2014.
Autodialed Calls	Automatically dialed telephone calls placed to borrowers using a loan servicer's computer system.
C.F.R.	Code of Federal Regulations
Department	U.S. Department of Education
Department-held loans	Loans that are owned by the Department (Direct Loans and purchased FFEL Program loans)
Direct Loan Program	William D. Ford Federal Direct Loan Program
FFEL Program	Federal Family Education Loan Program
FIOS	FSA's Financial Institution Oversight Service Group
FSA	Federal Student Aid
FY	Fiscal Year
Great Lakes	Great Lakes Educational Loan Services, Inc.
Nelnet	Nelnet Servicing, LLC
NSLDS	Department's National Student Loan Data System
OPE	Office of Postsecondary Education
OPEPD	Office of Planning, Evaluation and Policy Development
OUS	Office of the Under Secretary
PPMS	FSA's Portfolio Performance Management Services Group
Privately held FFEL loans	FFEL Program loans that are owned by external lenders, but guaranteed by the Department.
TCPA	Telephone Consumer Protection Act of 1991, as amended
Title IV	Title IV of the Higher Education Act of 1965, as amended
TIVAS	Title IV Additional Servicers

EXECUTIVE SUMMARY

The objective of our audit was to determine what actions the U.S. Department of Education (Department) has taken to prevent borrowers from defaulting on their student loans. We revised the original objective to expand the audit scope from Federal Student Aid (FSA) and its servicers to all Department offices that have a role in the development, administration, or monitoring of student loan default prevention strategies and activities, including the Office of Postsecondary Education (OPE); the Office of Planning, Evaluation and Policy Development (OPEPD); and the Office of the Under Secretary (OUS). We reviewed the default prevention activities performed by the Department and two Title IV Additional Servicers (TIVAS), as well as FSA's monitoring of servicers' default prevention efforts. We generally limited our review to the default prevention initiatives and tools that the Department developed and implemented during Federal fiscal years (FY) 2011 through 2014 and the default prevention activities that the two TIVAS performed from January 2013 through January 2014 for student loans originated through the William D. Ford Federal Direct Loan (Direct Loan) Program and the Federal Family Education Loan (FFEL) Program.

The Department's outstanding student loan debt portfolio more than doubled in the last 6 years, from $516 billion at the end of FY 2007 to $1.04 trillion at the end of FY 2013. Based on the most recent official cohort default rate information published by the Department, 1 in 10 borrowers who were required to begin repaying their loans in FY 2011 defaulted on their student loans within 2 years and about 1 in 7 borrowers defaulted within 3 years.[1] Under Federal regulations, student loan default is generally defined as the failure of a borrower to make monthly payments when due, provided that such failure persists for 270 days.[2] Students that default will likely be unable to secure credit for large purchases and may find it more difficult to obtain employment because the default damages their credit.

The Department does not have a comprehensive plan or strategy to prevent student loan defaults and thus cannot ensure that efforts by various offices involved in default prevention activities are coordinated and consistent. Without a coordinated plan or strategy, Department management may not be in a position to make strategic, informed decisions about the effectiveness of default prevention initiatives and activities. The Department has recently developed and implemented new tools and initiatives to increase borrowers' financial literacy and inform them about ways to effectively manage their student loan debt. Although individual activities may have involved interaction among various Department offices, these activities were not coordinated under an overall default prevention plan or strategy. The lack of a comprehensive plan or strategy may have caused the Department to miss opportunities to communicate and coordinate across

[1] The Department also publishes budget lifetime and cumulative lifetime default rates, which measure projected and actual defaults, respectively, over the life of a student loan. These rates, which include student loan defaults that occur or are projected to occur after the first 3 years of repayment, are higher than the official cohort default rates used to assess continued eligibility of schools participating in the Federal student aid programs.

[2] The Department generally identifies a loan in default as one that is 360 days past due, which includes the 270-day period a borrower does not make a payment plus 90 days for a servicer to transfer a Direct Loan to FSA's Default Resolution Group or 90 days for a FFEL lender to file a default claim with a guaranty agency.

Department offices, identify and rank risks, streamline activities, communicate with servicers, use data to manage and innovate, respond to changes, and provide greater transparency.

FSA's Portfolio Performance Management Services group (PPMS) — the group responsible for analyzing the Federal student loan portfolio and sharing the results of its analysis with FSA executives — has access to extensive loan and borrower information. However, PPMS generally has not used this information to identify trends in the Federal student loan portfolio.

The servicing contracts that FSA executed with the TIVAS in June 2009 did not explicitly establish minimum required default prevention activities that TIVAS must perform for borrowers with delinquent Department-held loans. As a result, one of the two TIVAS included in our review did not perform the same amount of telephone outreach for all delinquent borrowers of Department-held loans (Direct Loans and FFEL loans that the Department purchased). Some delinquent borrowers had extended periods when they did not receive any calls from one of the TIVAS. In December 2013, FSA amended its servicing contracts with TIVAS to include minimum required default prevention activities that TIVAS must perform for delinquent borrowers of Department-held loans. In addition, FSA did not monitor calls between borrowers and a subcontractor used by one of the TIVAS included in our review even though the subcontractor placed the majority of telephone calls to delinquent Department-held loan borrowers. As a result, FSA could not ensure the technical accuracy of the information provided to a large portion of the delinquent borrowers or ensure that the customer service provided by the subcontractor was appropriate or adequate.

We recommend that the Under Secretary require the Chief Operating Officer for FSA to work with the Acting Assistant Secretary for OPE to develop a comprehensive default prevention plan that describes the Department's default prevention strategy, defines the roles and responsibilities of key Department offices and personnel, and establishes performance measures that can be used to assess the effectiveness of the default prevention initiatives and activities identified in the plan. We also recommend that the Under Secretary require the Chief Operating Officer for FSA to (1) direct PPMS to immediately use existing student loan information to identify trends and issues in the Federal student loan portfolio and share its observations with Department executives, (2) confirm that all TIVAS are conducting required minimum telephone outreach activities with delinquent borrowers in accordance with contract requirements, (3) develop and implement a process to monitor the default prevention activities of TIVAS subcontractors, including phone calls to delinquent borrowers, and (4) determine whether borrowers were harmed during the period when FSA did not require TIVAS to perform minimum default prevention activities on delinquent Department-held loans.

Our Other Matter highlights the impact that Federal and State calling restrictions may have on the ability of TIVAS to effectively perform their loan servicing activities, including attempts to collect from delinquent borrowers. These restrictions impose certain limits on who TIVAS can call using automatic dialing, as well as the number and frequency of calls that can be made to delinquent borrowers. We did not make any suggestions to the Department on these calling restrictions because changes would require amendments to Federal or State consumer protection laws.

A draft of this report was provided to the Department for review and comment. In its comments, the Department concurred with Finding No. 1 and the two associated recommendations. The

Department did not explicitly state whether it concurred with Finding No. 2; however, the Department concurred with the three associated recommendations. The Department also provided technical comments to the draft report. Where appropriate, we made changes to the report based on the technical comments provided by the Department. We have summarized the Department's comments at the end of each finding and included the full text of its comments as Enclosure 2 to this report.

BACKGROUND

Title IV of the Higher Education Act of 1965, as amended (Title IV), authorizes various programs that provide financial aid, typically in the form of grants or loans, to eligible students enrolled in eligible programs at postsecondary schools.[3] The FFEL Program provided federally guaranteed loans to students and their parents made by commercial and nonprofit lenders. The SAFRA Act, part of the Health Care and Education Reconciliation Act (Public Law 111-152) ended the origination of new FFEL Program loans after June 30, 2010. Beginning July 1, 2010, all Federal Stafford, PLUS, and consolidation loans originate through the Direct Loan Program. In addition, from September 2008 through September 2010, the Department purchased a portion of the outstanding FFEL Program loans, as authorized under the Ensuring Continued Access to Student Loans Act of 2008 (Public Law 110-227). In this report, we refer to Direct Loans and purchased FFEL loans as Department-held loans. FFEL loans still held by external lenders are referred to as privately held FFEL loans.

The Department's outstanding student loan debt portfolio more than doubled in the last 6 years, from $516 billion at the end of FY 2007 to $1.04 trillion at the end of FY 2013.[4] In award year 2012-2013, the Department disbursed about $104 billion in new loans to students and their parents.[5] As of June 30, 2014, nearly 40 million borrowers had outstanding student loans totaling about $1.1 trillion that were either held or guaranteed by the Department.

Student borrowing to finance postsecondary education is increasing in both the amount borrowed and percentage of students borrowing. Based on information contained in the Department's FY 2015 Budget Proposal, graduating seniors with student loans held an average of $29,384 in combined private[6] and Federal student loan debt in award year 2011-2012, 27 percent more than the average combined debt of $23,118 in award year 2007-2008. Over the same period, the percentage of students graduating from 4-year colleges who borrowed a Federal student loan to help finance their education increased from slightly above 60 percent to 66 percent. Total private and Federal student loan debt is currently the second largest form of debt in the nation, behind only home mortgages.

Federal Student Loan Defaults

Borrowers are defaulting on their Federal student loans at the highest rate since 1995. Under Federal regulations, student loan default is generally defined as the failure of a borrower to make monthly payments when due, provided that such failure persists for 270 days (34 Code of Federal Regulations (C.F.R.) §§ 682.200 and 685.102).[7] The Department generally identifies a

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[3] Parents can borrow Federal PLUS loans to help pay for a child's tuition and school-related expenses. Although PLUS loans benefit the student, parents are ultimately responsible for repaying the loans.

[4] "Federal Student Aid Portfolio Summary" report, obtained from the Department's studentaid.ed.gov Web site.

[5] An award year, which runs from July 1 – June 30, refers to the period when Title IV funds are awarded to eligible students.

[6] Private student loans are generally made by commercial banks and other financial institutions and are not guaranteed or subsidized by the Federal government.

[7] All regulatory citations are to the July 1, 2013, volume unless otherwise noted.

loan in default as one that is 360 days past due, which includes the 270-day period a borrower does not make a payment plus 90 days for a servicer to transfer a Direct Loan to FSA's Default Resolution Group or 90 days for a FFEL lender to file a default claim with a guaranty agency. Based on the most recent official cohort default rate information published by the Department, 1 in 10 borrowers who were required to begin repaying their student loans in FY 2011 defaulted within 2 years and about 1 in 7 borrowers defaulted within 3 years.[8] In addition to the losses that the Federal government may incur as a result of defaulted student loans,[9] the impact on borrowers can be severe. Students that default will likely be unable to secure credit for large purchases and may find it more difficult to obtain employment because the default damages their credit. It can take several years for borrowers to repair their credit and recover from default. In addition, borrowers cannot discharge their defaulted student loan balances through bankruptcy unless they can demonstrate to the court that repayment of the debt will impose undue hardship. The Federal government can collect on defaulted student loans indefinitely by pursuing collection activities through private collection agencies, garnishing wages, withholding tax refunds or other Federal payments such as Social Security, or pursuing litigation.

Loan Repayment Options

As shown in Table 1, borrowers have several options for repaying their Federal student loans, including standard, graduated, extended, and income-driven repayment plans.[10] The Department generally relies on servicers to inform individual borrowers about these options and to work with borrowers to find the most suitable repayment plan given their circumstances. The features of the various repayment plans can help borrowers ensure their student loan payments are affordable, which can help prevent loan delinquencies and defaults.

Table 1: Federal Student Loan Repayment Options

Repayment Plan	Description
Standard (available since 1965)	Monthly payments are a fixed amount of at least $50 and are made for up to 10 years (10-30 years for consolidation loans depending on the initial loan balance). Unless a borrower is eligible for and actively selects a different plan, he/she will be assigned the standard repayment plan.
Graduated (available since 1998)	Monthly payments start low and typically increase every 2 years, are made for up to 10 years (10-30 years for consolidation loans depending on the initial loan balance), will never be less than the amount of interest that accrues between payments, and will not be more than three times greater than the maximum payment under any other repayment plan.

[8] The Department also publishes budget lifetime and cumulative lifetime default rates, which measure projected and actual defaults, respectively, over the life of a student loan. These rates, which include student loan defaults that occur or are projected to occur after the first 3 years of repayment, are higher than the official cohort default rates used to monitor schools' default prevention efforts.

[9] According to estimates contained in the Department's FY 2015 Budget Proposal, the Federal government will not be able to recover between $0.04 - $0.13 of every loan dollar (calculated on a cash basis and excluding collection costs) that goes into default.

[10] There are specific eligibility requirements that a borrower must meet to qualify for the extended, Pay As You Earn, income-based, and income-contingent repayment plans.

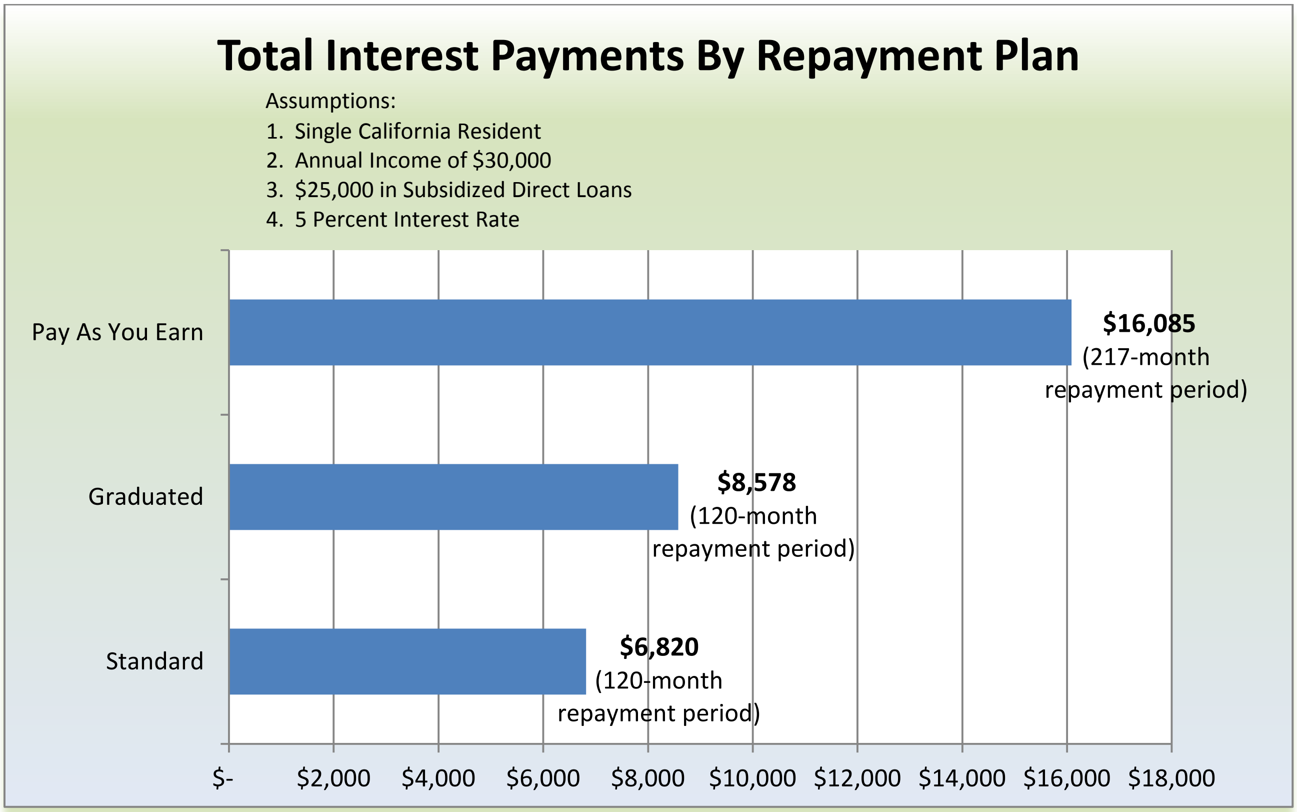
Repayment Plan	Description
Extended (available since 1998)	Monthly payments are a fixed or graduated amount, made for up to 25 years, and are generally lower than payments made under the standard and graduated repayment plans. To be eligible, the borrower must have at least $30,000 in outstanding student loans.
Pay As You Earn* (available since 2012)	Monthly payments are capped at 10 percent of a borrower's discretionary income and made for up to 20 years. Any remaining loan balance after 20 years of qualifying repayment may be forgiven.
Income-Based* (available since 2009)	Monthly payments are capped at 15 percent of a borrower's discretionary income and made for up to 25 years. Any remaining loan balance after 25 years of qualifying repayment may be forgiven.**
Income-Contingent* (available since 1994)	Monthly payments are capped at 20 percent of a borrower's monthly discretionary income and made for up to 25 years. Any remaining loan balance after 25 years of qualifying repayment may be forgiven.

*Although the last three repayment plans in Table 1 have slightly different features, they are each designed to make the repayment of student loans more manageable for borrowers with lower incomes. For the remaining balance to be forgiven, the borrower must make each payment on-time and for the full amount that is due each month.
** Beginning July 1, 2014, the monthly payment cap and repayment term for new borrowers repaying their student loans under the income-based repayment plan mirrors that of the Pay As You Earn repayment plan.

The repayment period, monthly payment amount, and total interest amount that will accrue over the life of the loan varies by repayment plan. Borrowers will typically pay the lowest amount of interest over the life of their loans under the standard repayment plan. Borrowers typically pay more interest over the life of their loans when making smaller monthly payments over a longer period, which is common under the income-driven repayment plans, such as Pay As You Earn.[11] As shown in Figure 1, we used FSA's repayment estimator to illustrate the total interest payments that a fictitious borrower would make over the life of the loan under three different repayment plans.

[11] Borrowers who have loan balances forgiven after a specified period of qualifying repayment may not be required to pay the entire amount of interest that accrued over the life of the loan.

Figure 1: Comparison of Total Interest Payments under the Pay As You Earn, Graduated, and Standard Repayment Plans



Source: FSA Repayment Estimator

Based on the assumptions in Figure 1, a borrower using the Pay As You Earn plan would initially pay $104 per month, and the payment would increase over time until it matched the standard repayment plan payment of $265 per month.[12] Under the graduated plan, the borrower's payment would initially be $150 per month, and would increase every 2 years, reaching $450 in the final 2 years of repayment. Under the standard plan, the borrower would have a fixed payment of $265 per month throughout the 10-year repayment period.

Deferment and Forbearance

In cases where a repayment plan may not be the best short-term option for a borrower, servicers are authorized to offer an eligible borrower a deferment or forbearance as a temporary solution to help prevent a delinquency or default. A deferment is a period when repayment of the loan principal and interest is temporarily delayed. Deferments may be granted to eligible borrowers for various reasons, including periods of unemployment or underemployment, or other financial hardships.[13] If a borrower is not eligible for deferment and cannot make the scheduled loan payments, the servicer may grant the borrower a forbearance for various reasons, including a

[12] For the Pay As You Earn plan, the FSA repayment estimator assumed a 5 percent annual increase in the borrower's income and a 3.3 percent annual increase in the poverty level. Maximum monthly payments under this plan cannot exceed the payment that would have been required under the standard repayment plan.

[13] An otherwise eligible borrower generally may have his/her student loans deferred during periods that, collectively, do not exceed three years.

high student loan debt-to-income ratio or other financial hardship. A forbearance may allow a borrower to stop making payments or reduce his/her monthly payment for up to 12 months. The Federal government may pay the interest on subsidized student loans during periods of deferment but does not pay any interest during periods of forbearance.[14] Although deferments and forbearances can temporarily prevent borrowers from becoming delinquent or defaulting on their student loans, they are not considered long-term solutions for borrowers.

Performance-Based Servicing Contracts

On June 17, 2009, FSA executed performance-based contracts with four entities to service Department-held loans: Great Lakes Educational Loan Services, Inc. (Great Lakes); Nelnet Servicing, LLC (Nelnet); Pennsylvania Higher Education Assistance Agency (PHEAA); and SLM Corporation (Sallie Mae). These four servicers are referred to as "Title IV Additional Servicers" (TIVAS). The contracts were set to expire on June 16, 2014, but FSA exercised its renewal option, allowing it to contract out work to all four TIVAS for up to 5 additional years. Effective September 1, 2014, FSA modified its contracts (the 2014 modifications) with the TIVAS to adjust the performance metrics and financial incentives (discussed below). As of January 31, 2014, the Department-held loan portfolio totaled more than $701 billion, about 90 percent of which was serviced by the four TIVAS. The remaining 10 percent was serviced by seven not-for-profit servicers: Missouri Higher Education Loan Authority; ESA/Edfinancial; Aspire Resources, Inc.; Cornerstone; New Hampshire Higher Education Corporation; Oklahoma Student Loan Authority; and Vermont Student Assistance Corporation.[15]

Through FSA's performance-based servicing contracts, the Department relies heavily on the TIVAS to prevent student loan borrower defaults. Common default prevention activities that servicers perform include contacting delinquent borrowers by telephone and written correspondence to resolve delinquencies and performing skip-tracing activities to obtain valid contact information for borrowers when such information is not otherwise available. Skip tracing activities include, but are not limited to, requesting directory assistance and national change of address search services from skip tracing companies and contacting a borrower's references, employers, and other individuals listed in the borrower's loan records. FSA incorporated and later adjusted performance metrics in the TIVAS contracts to guide servicer priorities by providing incentives to enhance customer service and keep borrowers current on their student loans.

Prior to the 2014 modifications, FSA used five equally weighted metrics, as shown below, to measure TIVAS performance and allocate the distribution of new borrower accounts. FSA assigned the performance metric weights so that 60 percent of a TIVAS' overall score was based on customer satisfaction survey results and 40 percent was based on the success of its default prevention activities.[16]

[14] Subsidized loans are available to eligible undergraduate students who demonstrate financial need. The Federal government pays the interest that accrues on these loans while the student attends school and, if the loans were first disbursed before July 1, 2012, during the student's grace period.

[15] FSA also awarded servicing contracts to qualified not-for-profit servicers, as required under the SAFRA Act. According to FSA Business Operations officials, FSA typically allocated 100,000 borrower accounts to each not-for-profit servicer.

[16] In its December 2011 report, "Title IV Additional Servicers Capacity Assessment," which was prepared on behalf of OIG (ED-OIG/S15L0001), Ernst & Young, LLP expressed concerns that all metrics used by FSA for the ongoing

1. Borrower Survey. Measured borrower satisfaction with the servicer.
2. Postsecondary School Survey. Measured school official satisfaction with the servicer.
3. FSA Survey. Measured FSA and other Federal personnel satisfaction with the servicer.
4. Defaulted Borrowers Metric. Measured the success of the servicer's default prevention efforts as reflected by the percentage of borrowers in the servicer's portfolio who defaulted.
5. Defaulted Dollars Metric. Measured the success of the servicer's default prevention efforts as reflected by the percentage of dollars in the servicer's portfolio that went into default.

Under the 2014 modifications, FSA eliminated the school survey and defaulted dollars metrics (metrics 2 and 5, respectively) that were included in the original contract (shown above) and added two new metrics. One of the new metrics measures the percentage of borrowers in current repayment status (current repayment metric), and the other measures the percentage of borrowers that are more than 90 days delinquent but have not defaulted (delinquency metric). In addition to changing some of the metrics, FSA also adjusted the weighting of the three retained metrics: (1) borrower survey metric was increased from 20 percent to 35 percent (metric one above), (2) FSA survey metric was reduced from 20 percent to 5 percent (metric three above), and (3) defaulted borrowers metric was reduced from 20 percent to 15 percent (metric four above). The new current repayment and delinquency metrics are weighted 30 percent and 15 percent, respectively. FSA's contract modifications adjusted the overall weighting of the performance metrics so that 60 percent of the score of a TIVAS is now based on the success of its default prevention activities and 40 percent is based on customer satisfaction survey results.

Under the original contract, FSA compared the TIVAS scores for each metric and ranked them based on overall performance. FSA allocated a specific portion of new loans based on the ranking each year of a TIVAS: the highest ranked servicer received the largest allocation of new loans and the remaining TIVAS received a proportionate new loan allocation based on their relative rank. The lowest performing TIVAS was guaranteed to receive at least 10 percent of the new loan allocation. Under the 2014 modifications, FSA will rank servicers and allocate new loans every 6 months instead of annually, and FSA has discretion to not allocate new loans to one or more TIVAS.

According to FSA Business Operations officials, FSA's process for allocating new loans serves as a way to motivate the TIVAS to service their loans in a way that yields high performing portfolios and high levels of customer satisfaction. These officials also stated that the pricing schedule built into the contracts was structured to motivate the TIVAS to keep borrowers current on their loans. Under the original and modified contracts, FSA pays the TIVAS the highest servicing rate for borrowers who are in repayment and current on their student loans, less for borrowers who are in deferment status, and even less for borrowers who are delinquent or that have defaulted.

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allocation methodology were weighted equally for calculation of the final score for servicers even though not all metrics appeared to be equally important. Ernst &Young recommended that FSA weight metrics based on their relative importance.

FSA's Oversight and Monitoring of Servicers

Servicer Reviews. There are two groups within FSA that oversee and monitor the default prevention activities performed by the TIVAS: Operations Services and Financial Institution Oversight Service (FIOS). Both groups formally review TIVAS servicing activities, including their default prevention activities, to ensure that TIVAS are servicing loans in accordance with applicable requirements.[17] Operations Services performs quarterly reviews, whereas FIOS performs annual reviews. According to their review guides, Operations Services and FIOS perform testing for a sample of defaulted borrowers to determine whether the TIVAS performed, at a minimum, the due diligence activities specified in the regulations at 34 C.F.R. §682.411 that are applicable to FFEL Program loans. These regulations, in part, specify the type and frequency of communication that FFEL Program lenders must have or attempt to have with delinquent borrowers. The review guides also state that Operations Services and FIOS should perform testing to determine whether the TIVAS granted deferments and forbearances to borrowers in accordance with applicable requirements.

Other Monitoring Activities. In addition to servicer reviews, Operations Services performs other monitoring activities of TIVAS servicing and default prevention practices. For example, personnel listen almost daily to live and recorded telephone calls between the TIVAS and borrowers to observe telephone representative interactions with borrowers, track observation results, and provide feedback on matters needing improvement or correction. The call monitoring focuses on the TIVAS performance in categories such as phone etiquette, counseling efforts, and accuracy of information provided to borrowers. FSA also meets weekly with each TIVAS to discuss its existing default prevention strategies and any new strategies or initiatives under consideration. During the weekly meetings, FSA and the TIVAS discuss any observations or issues that FSA noted during its call monitoring. According to FSA's Deputy Chief Business Operations Officer, Operations Services also uses reports to identify significant differences in data across the TIVAS. For example, one report breaks down the TIVAS Department-held loan portfolio by repayment status. The official stated that FSA can use this report to compare the percentage of borrowers who are in deferment, forbearance, delinquency, or active repayment across TIVAS. If FSA identifies significant differences in the data for one of the TIVAS, it will follow up with that TIVAS to identify the underlying cause.

Roles of Department Offices Involved in Default Prevention Matters

The Department has several offices that are involved in default prevention matters. OPE and OPEPD's Policy and Program Studies Service group are generally responsible for analyzing, evaluating, and formulating various policy initiatives related to student loan debt and default prevention. According to an OPEPD Senior Policy Advisor, OPE and OPEPD frequently work together on policy matters. OPEPD's Budget Services division performs analytical and budgetary work that focuses mainly on the financial impacts that student loan defaults have on the Department. OPE and OPEPD generally do not have any direct interaction with student loan borrowers or their servicers. In contrast, FSA interacts directly with borrowers and their servicers. For example, FSA has used social media and email campaigns to educate borrowers about student loan debt and it meets weekly with TIVAS to discuss their existing and future default prevention strategies. FSA has also developed and implemented other tools and

[17] Throughout this report, the term *default prevention activities* includes the due diligence activities specified in the regulations applicable to the FFEL Program at 34 C.F.R. § 682.411.

initiatives to increase borrowers' financial literacy, inform borrowers about ways to manage their debt, and reduce borrowers' delinquencies and defaults; established and modified the terms of its performance-based contracts to guide servicer priorities (see Performance-Based Servicing Contracts section above); and monitored servicer activities to ensure compliance with applicable requirements (see FSA's Oversight and Monitoring of Servicers section above). In addition, FSA's PPMS group is responsible for analyzing the Federal student loan portfolio and sharing the resulting analysis with FSA executives.

AUDIT RESULTS

The Department does not have a comprehensive plan or strategy to prevent student loan defaults and thus cannot ensure that default prevention efforts conducted by various offices are coordinated and consistent. The roles and responsibilities of the key offices and personnel tasked with preventing defaults or managing key default-related activities and performance measures to assess the effectiveness of the various default prevention activities are not well-defined. Without a coordinated plan or strategy, Department management may not be in a position to make strategic, informed decisions about the effectiveness of default prevention initiatives and activities now and in the future. In recent years, the Department has developed and implemented new tools and initiatives to increase borrowers' financial literacy and inform them about ways to effectively manage their student loan debt. Although individual activities may have involved interaction among various Department offices, these activities were not coordinated under an overall default prevention plan or strategy.

FSA did not explicitly establish minimum required default prevention activities in its June 2009 TIVAS contracts and did not adequately monitor calls to delinquent borrowers made by a TIVAS subcontractor. FSA assumed that TIVAS would, at a minimum, perform the default prevention activities specified in the FFEL Program regulations (34 C.F.R. § 682.411) for borrowers of Department-held loans. Because the contract did not specify the volume or frequency of telephone calls to delinquent borrowers of Department-held loans, Nelnet was able to make a business decision to forgo calling borrowers that could not be autodialed without violating the terms of the contract. As a result, Nelnet did not perform the same amount of telephone outreach for all delinquent borrowers, and some delinquent borrowers had extended periods when they did not receive any telephone calls from Nelnet representatives. FSA also did not monitor telephone calls between borrowers and a subcontractor used by Great Lakes even though the subcontractor placed the majority of telephone calls to Great Lakes' delinquent Department-held loan borrowers. As a result, FSA could not ensure the technical accuracy of the information provided to a large portion of Great Lakes' delinquent borrowers or ensure that the customer service that the subcontractor provided was appropriate or adequate.

With the exception of the telephone contacts that Nelnet did not make to some delinquent borrowers, both servicers in our review performed at least the minimum FFEL default prevention activities for borrowers of Department-held loans and privately held FFEL loans. Both servicers also performed default prevention activities beyond the minimum FFEL activities, such as using text messages, social media, and emails to contact delinquent borrowers. One servicer designated specific representatives to carry out intensive contact with severely delinquent borrowers of Department-held loans. Although we identified some differences in the way that Nelnet and Great Lakes serviced Department-held loans and privately held FFEL loans, they generally did not treat either loan portfolio more favorably than the other. Enclosure 1 provides additional information about the default prevention activities that Nelnet and Great Lakes performed for borrowers of Department-held loans and privately held FFEL loans.

Our review of 10 deferments and 10 forbearances at both Nelnet and Great Lakes showed that, without exception, each servicer obtained sufficient documentation to verify borrower eligibility for deferments and forbearances. The results presented in this report from detailed testing (defaulted borrower, deferment, and forbearance testing) pertain only to the sampled borrowers and cannot be projected to the entire universe of borrowers.

FINDING NO. 1 – The Department Does Not Have a Comprehensive Default Prevention Plan or Strategy

The Department does not have a comprehensive plan or strategy to prevent student loan defaults. As a result, the Department cannot ensure that default prevention efforts conducted by various offices are coordinated and consistent. The roles and responsibilities of the key offices and personnel tasked with preventing defaults or managing key default-related activities and performance measures to assess the effectiveness of the various default prevention activities are not well-defined. A comprehensive plan should identify the office or individual responsible for maintaining, monitoring, and updating the plan, describe each default prevention initiative and activity that is being developed or that already has been implemented, and specify methods for reporting on default prevention outcomes. The plan should be coordinated across every office within the Department that plays a role in preventing student loan defaults to ensure it is comprehensive. Without a coordinated plan or strategy, Department management may not be in a position to make strategic, informed decisions about the effectiveness of default prevention initiatives and activities now and in the future. In recent years, the Department has developed and implemented new tools and initiatives to increase borrowers' financial literacy and inform them about ways to effectively manage their student loan debt. Although individual activities may have involved interaction among various Department offices, these activities were not coordinated under an overall default prevention plan or strategy.

The lack of a comprehensive plan or strategy may have caused the Department to miss opportunities to:

Communicate and coordinate across Department offices. A plan would help the Department's offices better communicate and coordinate default prevention activities, including sharing key data, results, and best practices. Our interviews with FSA and OPE personnel demonstrated that although many officials and staff are familiar with the default prevention activities performed within their immediate work unit, they are not familiar with how their unit's efforts are linked with other Department activities related to preventing student loan defaults.

Identify and rank risks. A plan would help ensure that the Department identifies and ranks risk areas so that it can take necessary actions to mitigate the identified risks.

Streamline activities. A plan would help the Department identify and eliminate redundant activities and duplication of effort both within the Department and between the Department and servicers. For example, an OPEPD Senior Policy Advisor told us that the policy efforts of OPE and OPEPD often overlap.

Communicate with servicers. By communicating its strategy in a default prevention plan and incorporating that strategy into the contracts, the Department could ensure that servicers better align their efforts to the Department's priorities and implement activities to assist borrowers in avoiding default.

Use data to manage and innovate. By comparing actual performance on key benchmarks and indicators related to loan portfolio performance, trends in outcomes, and other measures to planned or expected results contained in its plan, the Department could hold responsible offices and personnel accountable for results, identify effective and ineffective initiatives, and use the information to adjust current initiatives and develop or deploy innovative approaches in the future.

Respond to changes. By ensuring that its plan remains current, the Department would be in a better position to respond to changes in postsecondary education borrowing, repayment, and default trends.

Provide greater transparency. By publishing a comprehensive plan, the Department could open channels of communication with a wider range of stakeholders including Congress, postsecondary schools, and the public, which could lead to improvements to the plan.

GAO's "Standards for Internal Control in the Federal Government (1999)" states that an agency's control activities should be effective and efficient in accomplishing agency objectives and should help ensure that management's directives are carried out. The standards define control activities as the policies, procedures, techniques, and mechanisms that enforce management's directives. Examples of control activities include establishing and reviewing performance measures, conducting management reviews by activity, and preparing appropriate documentation of transactions and internal control. Control activities, which are an integral part of an agency's stewardship of government resources, should also help ensure that actions are taken to address risks. A comprehensive plan or strategy for default prevention would help ensure that agency objectives are accomplished, management directives are addressed, appropriate performance measures are established and reviewed, and risks are addressed.

FSA's Portfolio Performance Management Services group (PPMS) is responsible for analyzing the Federal student loan portfolio and sharing the results of its analysis with FSA executives. In recent years, PPMS has analyzed the student loan portfolio only on an ad-hoc basis when requested by FSA executives. FSA Risk Management provided us with an interim report, "Federal Student Aid Overview of FSA Loan Portfolio Statistics," that contained summary statistics about the student loan portfolio as of February 2014. This report, which was prepared by PPMS after the start of our audit, was provided to FSA executives.[18] In its interim report, PPMS stated that as data are gathered over time, it "will be able to identify trends and issues in the portfolio…, highlight areas of interest in alignment with leadership input, … recommend areas of potential inquiry and identify resources needed to pursue." However, PPMS should not have to wait for data to be gathered over time to identify trends and issues in the portfolio and recommend actions to FSA executives. PPMS can obtain extensive loan and borrower information from the Department's National Student Loan Data System, which has been storing data since 1994, as well as from borrowers' Free Application for Federal Student Aid (FAFSA), which contains borrower's demographic and income data. Because extensive data are already available, PPMS could immediately begin using existing information for purposes of identifying trends and issues in the Federal student loan portfolio and identifying potential recommendations for improvements or enhancements to current default prevention activities. PPMS is an example

[18] PPMS plans to provide FSA executives with a more comprehensive report toward the end of 2014.

of a key FSA group whose roles and responsibilities, such as analyzing the student loan portfolio and recommending actions based on trends, should be defined in a comprehensive default prevention plan or strategy.

Despite not having a comprehensive default prevention plan or strategy, the Department has taken a more active role in recent years by developing and implementing new tools and initiatives intended to increase borrowers' financial literacy, inform borrowers about ways to manage their debt, and reduce delinquencies and defaults. FSA's Business Operations and Customer Experience groups were responsible for most of the new tools and initiatives described below.

- *Financial Literacy Tools.*
  - **Interactive Loan Counseling Tool.** This tool provides information to student borrowers to help them manage their finances. Borrowers can view their current loan balance, access their loan history, and estimate their student loan balance at graduation. The tool includes five interactive tutorials covering topics ranging from managing a budget to avoiding loan default.
  - **Repayment Estimator.** The repayment estimator is designed to help student borrowers manage their financial obligations and reduce the potential for delinquency or default. The repayment estimator allows borrowers to compare repayment plans by monthly payment amounts, total amount paid, and total interest paid under each plan.
- *Default Prevention Initiatives.*[19]
  - **Pay As You Earn Repayment Plan.** Under a Presidential initiative, the Department implemented the Pay As You Earn repayment plan in December 2012. This plan caps student loan payments for qualified borrowers at no more than 10 percent of discretionary income. Under this plan, a borrower's loans may be forgiven after 20 years of qualifying repayment. Like other income-driven repayment plans, this plan ties a borrower's student loan payment to his or her ability to pay based on available discretionary income. However, this plan's payment cap is lower than the caps of 15 and 20 percent under the income-based and income contingent repayment plans, respectively. In addition, outstanding loan balances may be forgiven 5 years earlier than the 25 years provided for under the income-based and income contingent repayment plans.[20]
  - **Email Campaigns.** In 2012 and 2013, FSA conducted targeted email campaigns designed to educate student borrowers about the various income-driven repayment plans offered by the Department. According to an FSA Customer Experience official, as of January 2014, FSA could attribute 66,942 income-driven repayment plan applications to the second email campaign, which ran from November through December 2013.

[19] In addition to the initiatives described in this section, FSA also used public service announcements and social media to educate borrowers about student loan debt and ways borrowers can manage this debt.

[20] Beginning July 1, 2014, the monthly payment cap and repayment term for new borrowers repaying their student loans under the income-based repayment plan mirrors that of the Pay As You Earn repayment plan.

- **Experimental Sites Initiative.** Postsecondary institutions were invited by the Secretary to participate in one or more experiments to test whether proposed changes to current statutory or regulatory requirements might improve the administration of the Title IV programs. One experiment allows an institution to establish a written policy where it can either reduce the amount of an unsubsidized Direct Loan that an otherwise eligible student would receive or eliminate the unsubsidized Direct Loan completely. This initiative would apply to students enrolled in a particular educational program or could be implemented on some other categorical basis, such as students living at home or first-time freshmen. According to policy officials at FSA and OPEPD, the Department believes that preventing students from borrowing more than is needed may help prevent some students from defaulting on their student loans.

- **Cohort Default Rate Calculation.** Under a statutory change, the cohort default rate calculation timeframe for postsecondary institutions was extended from 2 years to 3 years. According to an FSA Risk Management official, about half of all borrowers that ultimately default on Federal student loans will default within 3 years of entering repayment. The expanded timeframe means that schools are now accountable for their students' loan defaults for 3 years instead of 2.

- **New Web Sites.** FSA developed new Web sites for borrowers (studentaid.ed.gov) and counselors, mentors, and community organizations (financialaidtoolkit.ed.gov) that contain information that could be used to better prepare borrowers for the acceptance and repayment of student loan debt. Studentaid.ed.gov provides prospective and existing borrowers with financial aid information covering the entire life cycle of a student loan, from preparing for college through debt repayment. Financialaidtoolkit.ed.gov provides counselors, mentors, and community organizations with presentations, how-to guides, and publications that they can use when customizing their own college access and outreach strategies.

The Department also used FSA's performance-based servicing contracts with TIVAS as a way to help reduce borrower delinquencies and defaults. The original contracts included the following incentives for TIVAS to prevent defaults and keep borrowers current on their student loans:

- Two of the five metrics (defaulted borrowers and defaulted dollars metrics) used to measure TIVAS' performance were directly related to the TIVAS' success at preventing defaults. These two metrics comprised 40 percent of the TIVAS' overall servicer performance score and had a direct bearing on the amount of new loans a servicer was allocated in the subsequent year. [21]

- FSA paid TIVAS more for keeping borrowers current on their student loans. Specifically, FSA paid TIVAS the highest servicing rate for borrowers who were in repayment and current on their student loans, slightly less for borrowers who were in

[21] Under FSA's 2014 modifications, three of the five metrics are now related to TIVAS success at preventing defaults and comprise 60 percent of the overall performance score for a TIVAS. The newly added current repayment metric represents 30 percent of the TIVAS overall score; whereas, the new delinquency metric and the retained default metric (see Metric 4 in Background, percentage of borrowers in the servicer's portfolio who defaulted) each represent 15 percent.

deferment or forbearance, and even less for borrowers who were delinquent or that had defaulted.[22]

- During calendar years 2012 and 2013, FSA provided TIVAS with additional incentives for keeping borrowers current on their student loans. TIVAS could earn an additional $300,000 per quarter based on their success at keeping borrowers current on their loans, minimizing the number of borrowers who were more than 90 days delinquent, and resolving delinquencies for borrowers who were 180 or more days delinquent.[23]

Department officials believe that the tools and initiatives described above will reduce borrower defaults. However, these activities were not coordinated under an overall default prevention plan or strategy. New default prevention initiatives may originate from external sources (such as the Administration or Congress) or internal sources (such as FSA or the Office of the Under Secretary) and different groups within FSA may be responsible for implementing these new initiatives. Therefore, it is critical that the Department develop a comprehensive default prevention plan that is centrally managed, clearly communicates the roles and responsibilities of offices and personnel responsible for executing the various components of the plan, and establishes realistic performance measures that can be used to assess the effectiveness of the default prevention initiatives and activities contained in the plan. When monitoring default prevention initiatives and activities, the Department should evaluate the performance metrics of the TIVAS contracts periodically to ensure that the TIVAS have the proper incentives to provide high quality customer service and keep borrowers current on their student loans.

RECOMMENDATIONS

We recommend that the Under Secretary —

1.1 Require the Chief Operating Officer for FSA to work with the Acting Assistant Secretary for OPE to develop a comprehensive default prevention plan that describes the Department's default prevention strategy; defines the roles and responsibilities of the Department offices and personnel responsible for developing, implementing, and monitoring default prevention initiatives and activities; identifies the Department's default prevention initiatives and activities; and establishes performance measures that can be used to assess the effectiveness of the default prevention initiatives and activities.

[22] FSA's 2014 modifications increased the amount a TIVAS can receive for borrowers that are in repayment and current on their student loans. Under this modified pricing schedule, FSA will pay a TIVAS from 35 to 50 percent more (depending on loan volume) on these borrower accounts than they would have under the original pricing schedule. In contrast, FSA will now pay a TIVAS 10 percent less for a borrower account in default.

[23] FSA's 2014 modifications added an incentive program that offers a maximum of $500,000 per quarter if a TIVAS meets certain performance thresholds related to the percentage of delinquent borrowers in its portfolio (delinquency percentage). To qualify for the Level 1 incentive payment ($200,000 per quarter), a TIVAS delinquency percentage must be less than 23 percent. To qualify for the Level 2 or Level 3 incentive payments ($300,000 or $500,000 per quarter), a TIVAS delinquency percentage must be less than 23 or 21 percent, respectively, and the TIVAS must also improve upon its prior quarter's delinquency percentage. FSA can unilaterally restructure this program or remove it on an annual basis.

1.2 Require the Chief Operating Officer for FSA to direct PPMS to immediately use existing student loan information to identify trends and issues in the Federal student loan portfolio and share its observations and recommendations with Department executives.

Department Comments

The Department concurred with our finding and recommendations. The Department stated that the Office of the Under Secretary will coordinate the development of a comprehensive plan with input from all Department offices involved in default prevention activities. The Department also stated that FSA has made a number of organizational and process changes over the past few months to improve the Department's analytic capabilities, while FSA and other Department offices have worked closely with officials from other Federal agencies to review student loan data and identify areas for further research, analysis, and policy development.

FINDING NO. 2 – FSA Did Not Explicitly Establish Default Prevention Activities in the 2009 TIVAS Contracts or Adequately Monitor Calls to Delinquent Borrowers

The Department, through FSA's performance-based servicing contracts, relies heavily on servicers to keep borrowers from defaulting on their student loans. However, the June 2009 contracts that FSA executed with TIVAS did not explicitly establish minimum required default prevention activities that TIVAS must perform for borrowers with delinquent Department-held loans. FSA incorporated these requirements into the contracts in December 2013. FSA also did not monitor telephone calls between delinquent borrowers of Department-held loans and one TIVAS subcontractor, even though the subcontractor placed the majority of the telephone calls to delinquent borrowers serviced by that TIVAS.

The Departmental Directive, "Contract Monitoring for Program Officials," states that a major portion of a contract is the statement of work and that it is essential that the statement of work identifies in clear, specific, and complete terms the Department's expectations and desired results. The Directive also states that the policy of the Department is to monitor every contract to provide assurance that the contractor performs the work called for in the contract.[24] Contract monitoring is performed by the Department to ensure that the contractor performs according to the specific promises and agreements that make up the contract.

FSA Did Not Explicitly Establish Minimum Required Default Prevention Activities in the 2009 TIVAS Contracts

The initial TIVAS contracts, executed in June 2009, did not explicitly establish minimum required default prevention activities that TIVAS must perform for borrowers with delinquent Department-held loans. The contracts included a provision that TIVAS must have the ability to perform collection and due diligence activities as required by Federal regulation, but they did not include a provision requiring TIVAS to perform specific kinds of activities in these areas. FSA

[24] Departmental Directive OCFO: 2-108, August 6, 2009, and revised April 23, 2013.

assumed that TIVAS would, at a minimum, perform for borrowers of Department-held loans the activities outlined in 34 C.F.R. § 682.411 even though these regulations prescribe activities that FFEL lenders are required to perform for borrowers of privately held FFEL loans. Because the regulations at 34 C.F.R. § 682.411 apply only to lenders servicing privately held FFEL loans, those FFEL loans that the Department purchased from lenders as a result of the Ensuring Continued Access to Student Loans Act of 2008 were not required to be serviced in accordance with these regulations. The regulations applicable to Direct Loans at 34 C.F.R. Part 685 do not specify the default prevention activities that must be performed for borrowers of Direct Loans. Thus, there were no explicit requirements that specified the default prevention activities that TIVAS were required to perform when servicing Direct Loans or Department-held FFEL Program loans.

FSA Business Operations officials stated that although FSA assumed that TIVAS would perform at least the activities specified in the due diligence regulations applicable to FFEL Program loans and FSA used these regulations as criteria during its quarterly and annual monitoring of TIVAS default prevention activities, the regulations represented guidelines for TIVAS rather than requirements. TIVAS officials acknowledged that although the activities specified in the FFEL Program's regulations were not required, there was an understanding that TIVAS would generally perform at least the minimum default prevention activities contained therein. In December 2013, FSA modified its servicing contracts with TIVAS to explicitly specify the FFEL Program's due diligence regulations at 34 C.F.R. § 682.411 as the minimum required standard when performing default prevention activities for delinquent borrowers of Department-held loans. TIVAS were expected to comply with this requirement effective February 28, 2014, after the start of our audit.

Because FSA did not initially establish minimum default prevention activities in the TIVAS contracts, the contract did not prohibit Nelnet from suspending telephone contacts for those borrowers of Department-held loans that it could not automatically dial (autodial) using its computer system—a business decision that Nelnet made in 2013. As a result, Nelnet did not perform the same amount of telephone outreach for all delinquent borrowers, and some delinquent borrowers had extended periods when they did not receive any telephone calls from Nelnet representatives. Nelnet officials explained that when manual dialing is used to contact delinquent borrowers instead of autodialing, the number of calls made to borrowers decreases by about 50 percent. We calculated the longest gap in telephone contact[25] for each of the 10 defaulted borrowers with Department-held loans in our Nelnet sample. As shown in Figure 2, the longest gap in telephone contact for the three borrowers who could be autodialed was 20 days. In contrast, the gaps in telephone contact for the seven borrowers who could not be autodialed ranged from 165 to 328 days.[26] For five of the seven borrowers who could not be autodialed, Nelnet did not perform the minimum telephone outreach specified in the due diligence regulations at 34 C.F.R. § 682.411. These regulations require lenders of privately held FFEL loans to engage in at least four diligent efforts to contact a delinquent borrower by

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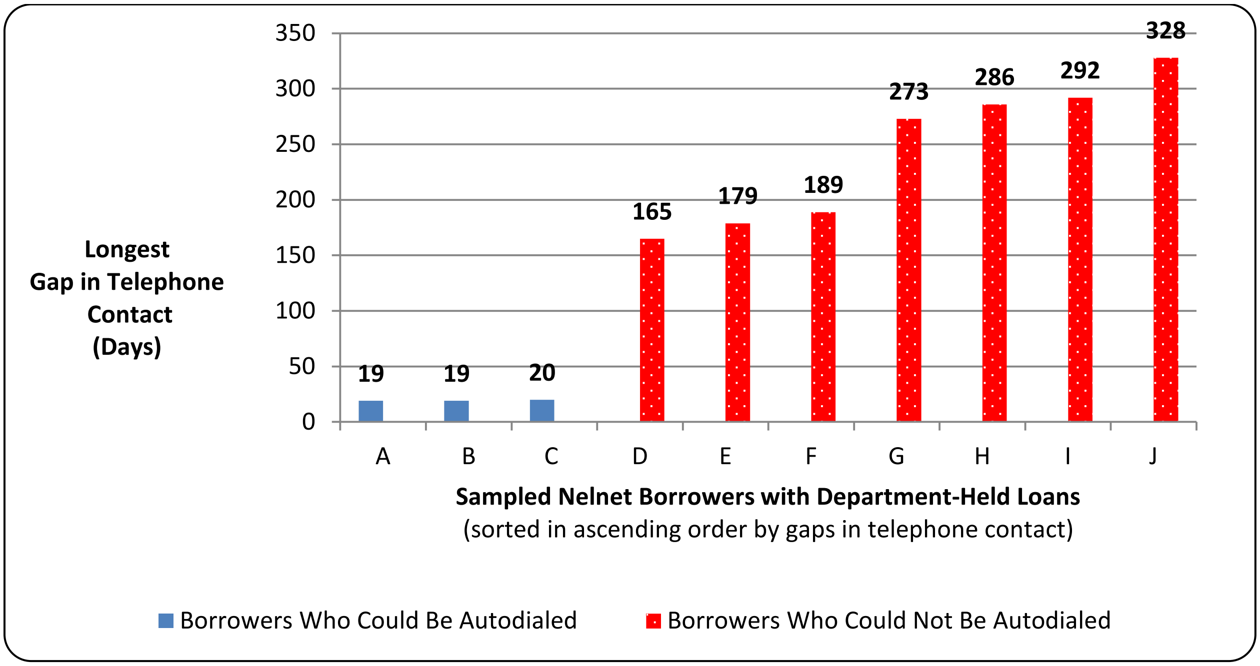
[25] We defined a "gap in telephone contact" as the count of consecutive days during which a borrower was delinquent and could have received a default prevention telephone call according to Nelnet policy but did not. According to Nelnet policy, borrowers may begin receiving telephone calls on day 31 of delinquency, so we excluded the first 30 days of delinquency from the calculation of each borrower's gap in telephone contact.

[26] Nelnet continued to perform other default prevention activities, including sending delinquency letters, emails, and text messages, for these seven borrowers during the period it suspended telephone outreach.

telephone before the borrower is more than 180 days delinquent, with at least one call made on or before and another call made after the 90th day of delinquency (34 C.F.R. § 682.411).[27] The results of our sample testing cannot be projected to the entire population of Nelnet borrowers with Department-held loans.

Figure 2: Gap in Telephone Contact for 10 Sampled Nelnet Borrowers with Department-Held Loans



The Telephone Consumer Protection Act of 1991 (Public Law 102-243), as amended, prohibits loan servicers (such as TIVAS) or other debt collectors from placing autodialed calls to a borrower's cellular telephone without borrower consent. TIVAS can still place manually dialed calls to cellular telephones, but according to officials at the two TIVAS in our review, about twice as many telephone calls can be placed to borrowers when autodialing is used. According to company officials, Nelnet decided to limit the telephone calls it made to borrowers of Department-held loans who could not be autodialed during the 10-month period from January to October 2013.[28] They added that although Nelnet resumed placing manually dialed calls to some borrowers of Department-held loans in October 2013, it had a backlog to work through and needed to add staff before it could resume placing manually dialed calls to all affected borrowers. According to Nelnet officials, the seven borrowers with substantial telephone contact gaps could not be autodialed because the borrowers had not provided consent to receive autodialed calls. According to a Nelnet official, the servicer could not place autodialed calls to about 23 percent of its delinquent borrowers of Department-held loans as of June 2014.

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[27] According to 34 C.F.R. § 682.411(m), a *diligent effort* to contact a borrower by telephone is defined as: (i) a successful effort to contact the borrower by telephone; (ii) at least two unsuccessful attempts to contact the borrower by telephone; or (iii) an unsuccessful effort to ascertain the correct telephone number of a borrower.

[28] Nelnet continued to make default prevention telephone calls to borrowers with privately held FFEL loans in accordance with the FFEL Program's due diligence requirements during this period regardless of whether they could be autodialed.

FSA Did Not Monitor Calls Between a TIVAS Subcontractor and Borrowers

FSA did not monitor telephone calls between delinquent borrowers of Department-held loans and the Great Lakes subcontractor, Performant Financial Corporation, because FSA was not aware that a subcontractor was being used for these activities. According to its "Operation Services Monitoring Activities" guide (September 2013), FSA Operations Services is responsible for monitoring calls between borrowers and each of the four TIVAS, typically on a daily basis, to observe servicer interactions with borrowers, track observation results, and provide feedback to servicers for improvement or correction. However, the group's call monitoring efforts did not include reviews of the subcontractor's phone calls with borrowers. The Great Lakes call center representatives generally made default prevention calls to borrowers of Department-held loans who were less than 50 days delinquent, whereas Performant Financial Corporation generally made calls to borrowers who were 50 or more days delinquent. Based on our review, the majority of telephone calls made to Great Lakes borrowers of Department-held loans occurred when borrowers were 50 or more days delinquent. As a result, FSA could not ensure the technical accuracy of the information provided to a large portion of Great Lakes delinquent borrowers nor could it ensure that the customer service that was provided was appropriate or adequate. According to FSA's Deputy Chief Business Operations Officer, FSA planned to begin monitoring phone calls between borrowers and TIVAS subcontractors. Great Lakes officials informed us that they planned to phase out the contract with Performant Financial Corporation by the end of 2014 and that all telephone outreach with borrowers would be conducted by Great Lakes thereafter.

RECOMMENDATIONS

We recommend that the Chief Operating Officer for FSA —

2.1 Confirm that all TIVAS are conducting required minimum telephone outreach activities with delinquent borrowers in accordance with contract requirements.

2.2 Develop and implement a process to monitor TIVAS subcontractor default prevention activities, including telephone calls to delinquent borrowers.

2.3 For all TIVAS, analyze and compare available data on borrowers that had delinquent Department-held loans during the period before FSA established minimum default prevention activities with available data on borrowers that had delinquent privately held FFEL loans during the same period to determine whether borrowers in the first group were adversely harmed. The analysis should identify whether there are statistically valid differences in outcomes (such as the rate of default) between the two borrower groups.

Department Comments

The Department did not explicitly state whether it concurred with the finding. However, the Department stated that it concurred with the recommendations. The Department stated that FSA has already made changes to its monitoring and oversight processes to ensure that servicers are conducting required telephone outreach activities; FSA began monitoring subcontractor calls in

May 2014 and will ensure that servicers submit samples of all telephone calls for review, regardless of whether the calls are conducted by the servicer or a subcontractor; and the Department will analyze and compare data on borrowers who were delinquent on Department-held loans and privately held FFEL loans.

OTHER MATTER

Nelnet and Great Lakes officials identified Federal and State restrictions on telephone communications with borrowers as significant barriers that impact the servicers' ability to effectively contact borrowers and collect on Federal student loans. Department officials and officials at the two TIVAS acknowledged that reaching a delinquent borrower by telephone is a critical element of default prevention outreach that increases the chances that the borrower will resolve his/her delinquency and avoid default. We did not make any suggestions to the Department on these calling restrictions because changes would require amendments to Federal or State consumer protection laws.

Federal Calling Restrictions. Nelnet and Great Lakes officials specifically identified the Telephone Consumer Protection Act of 1991 (Public Law 102-243), as amended, (TCPA) as a significant barrier to contacting borrowers and carrying out their default prevention activities. The TCPA prohibits autodialing or leaving automated voice messages on a cellular phone without consent. According to Nelnet and Great Lakes officials, the TCPA is outdated because many borrowers now use cellular phones as their primary communication method, not landline telephones. Nelnet and Great Lakes primarily use automated dialing systems to perform their telephone outreach activities with delinquent borrowers. Nelnet and Great Lakes officials believe that about twice as many telephone calls can be placed to borrowers when autodialing, rather than manual dialing, is used.

The Department supports changes that would allow Federal student loan servicers to autodial a borrower's cellular telephone without the borrower's consent. In May 2010, Department officials from the Office of the General Counsel and FSA met with officials from the Federal Communications Commission to discuss proposed changes to the Commission's rules and regulations implementing the TCPA. Department officials provided information to the Commission to show how restrictions on autodialing cellular telephones make student loan servicing more difficult and costly. The Department presented options for the Commission's consideration to address this issue, including exempting Federal student loans, exempting all entities that have a business relationship with the person they are calling, or allowing the Department to obtain a borrower's consent during the loan origination process. The three most recent President's budgets (FYs 2013–2015) have proposed to Congress that the use of automatic dialing systems and prerecorded voice messages be allowed when contacting wireless phones to collect debts owed to or granted by the United States. In addition, in February 2014, the Office of Management and Budget approved a revised Master Promissory Note for the Direct Loan Program that included borrower consent for automatic dialing to cellular telephones; this consent only applies to those loans that the borrower receives under the revised Master Promissory Note.

State Calling Restrictions. Nelnet and Great Lakes officials stated that State calling restrictions also create barriers for the servicers when contacting borrowers and carrying out their default prevention activities. The frequency, type, and content of allowable communications between servicers and borrowers are not consistent across the States. For example, Massachusetts prohibits loan servicers from calling or texting a borrower's primary telephone number more than twice over a 7-day period and from calling borrowers' other telephone numbers more than twice during a 30-day period; other States do not impose these restrictions. In addition, many States restrict communications between servicers and third parties, including prohibiting servicers from communicating with a borrower’s employer or from disclosing the existence of a debt to a third party. Several States require servicers to explicitly disclose to borrowers that they are creditors attempting to collect debts and that any information provided will be used for that purpose. State laws also vary in terms of what information can be left on a voice mail message. The lack of consistency across States generally makes it more difficult for the servicers to carry out their default prevention telephone outreach in the most efficient and cost-effective manner.

OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of our audit was to determine what actions the Department has taken to prevent borrowers from defaulting on their student loans. We revised the original objective to expand the audit scope from FSA and its servicers to all Department offices that have a role in the development, administration, or monitoring of student loan default prevention strategies and activities, including OPE, OPEPD, and OUS. During the audit, we reviewed the default prevention activities performed by the Department and two servicers, as well as FSA's monitoring of servicers' default prevention efforts. We generally limited our review to the default prevention initiatives and tools that the Department developed and implemented during fiscal years 2011 through 2014 and the default prevention activities that two TIVAS performed from January 2013 through January 2014 for student loans originated through the Direct Loan Program and the FFEL Program.

To obtain background information about the Department, servicers, and Federal student loans, we reviewed—

- Organizational charts and Web site information for the Department, Nelnet, and Great Lakes.
- 2012 and 2013 compliance audit reports and 2013 annual report for Great Lakes.
- 2011 and 2012 compliance audit reports and 2013 annual report for Nelnet.
- Reports issued by the Department's Office of Inspector General that focused on issues related to the TIVAS contracts.
- Student loan debt and funding reports from Department Web sites, including "AY 2012-2013 Funding Data Summary" (pcnet.ed.gov), "Federal Student Aid Portfolio Summary" with information through June 30, 2014 (studentaid.ed.gov), and January 2014 "Invoice Reasonability Summary Report" for TIVAS and not-for-profit servicers (fp.ed.gov/dmart). We also reviewed additional student loan information generated by FSA personnel. We did not assess the reliability of this information because it was generally used only for background purposes to show recent trends in student loan debt and latest funding data.
- Information about student loan debt and the potential impacts that high student debt levels may have on borrowers and the greater economy, as presented in the Federal Reserve Bank of New York's "Quarterly Report on Household Debt and Credit" (May 2014), the Department's FY 2015 Budget Proposal, and the Consumer Financial Protection Bureau's report, "Student Loan Affordability: Analysis of Public Input on Impact and Solutions" (May 2013).

To achieve our audit objective, we interviewed officials from Nelnet, Great Lakes, and various Department offices, including OUS, OPE, OPEPD, and FSA. We gained an understanding of the internal analyses that Department offices, including OPEPD and FSA, perform for the student loan debt portfolio. In addition, we reviewed—

- Performance-based servicing contracts, and applicable contract modifications, between FSA and two TIVAS: Nelnet and Great Lakes, which specify the requirements that TIVAS must follow when servicing Department-held loans.

- FSA's TIVAS Contract Monitoring Plan, Operation Services Monitoring Activities guide (September 2013), and FIOS's FY 2013 Review Program Methodology and Risk Analysis for TIVAS and privately held FFEL servicers, which describe the extent and frequency of FSA's monitoring of servicer activities.
- 2012 and 2013 program review reports prepared by FSA FIOS for Nelnet and Great Lakes, which document the results of FSA's review of servicing activities.
- Monitoring reports prepared by FSA Operations Services for Nelnet and Great Lakes, which document the results of FSA's review of servicing activities performed by Nelnet (November 2012 – January 2013 and March 2013 – October 2013) and Great Lakes (December 2012 – February 2013 and April 2013 – September 2013).
- Due diligence regulations applicable to the FFEL Program (34 C.F.R. § 682.411), which contain the minimum default prevention activities that FFEL lenders are required to perform for borrowers of privately held FFEL loans.
- Selected provisions of the FFEL Program (34 C.F.R. §§ 682.210 and 682.211) and Direct Loan Program regulations (34 C.F.R. §§ 685.204 and 685.205), which require servicers to disclose certain information to borrowers and obtain sufficient documentation before granting financial-related deferments and forbearances.
- GAO's "Standards for Internal Control in the Federal Government" (1999), which defines and provides examples of internal control activities that can help ensure that management directives and agency objectives are carried out in an effective and efficient manner.
- Departmental Directive OCFO: 2-108, "Contract Monitoring for Program Officials," August 6, 2009, and revised April 23, 2013, which describes, in part, the Department's policy for monitoring contracts and purpose of such monitoring.
- The Department's Strategic Plan for FYs 2014-2018, FY 2015 Budget Proposal, and statements and memoranda released by the Administration, which describe key policy and operational priorities for the Department.
- FSA's Strategic Plan for FYs 2012-2016, which describes FSA's strategy for meeting specific goals and objectives during this period.
- An internal report prepared by PPMS for FSA executives that provides interim information and summary statistics about the Federal student loan portfolio as of February 2014.

Through interviews with Department officials and reviews of Department records, documents, and written policies and procedures, we gained an understanding of the Department's default prevention efforts, including recently developed tools and initiatives designed to help prevent student loan delinquencies and defaults. We also gained an understanding of the extent and frequency of FSA's monitoring of servicer activities and what default prevention activities FSA expected servicers to perform under the TIVAS contracts. We gained an understanding of the Department's internal controls over default prevention. As described in Finding No. 1, we found that the Department did not have a comprehensive plan or strategy to manage student loan defaults, reflecting a weakness in the Department's control activities.

In addition to our work at the Department, we performed audit work at two of the four TIVAS. As of January 2014, the four TIVAS collectively serviced about $632 billion (90 percent) of the

$701 billion Department-held loan portfolio.[29] The two TIVAS included in our review, Nelnet and Great Lakes, serviced about $291 billion (46 percent) of the $632 billion. We selected Nelnet and Great Lakes for review because they were the highest and lowest performing TIVAS at default prevention, respectively, during award years 2012 and 2013.[30] We did not include not-for-profit servicers in our review because they serviced only 10 percent of the Department-held loan portfolio as of January 2014, their servicing contracts with FSA were different from the contracts that FSA had with the four TIVAS, and they are not guaranteed to receive future loan allocations from the Department.[31]

To gain an understanding of the default prevention activities that Nelnet and Great Lakes performed for its borrowers of Department-held and privately held FFEL loans, we interviewed servicer officials, listened to live and recorded telephone calls between borrowers and servicer representatives, and reviewed written policies and procedures and other relevant documentation. We also performed detailed testing for samples of borrowers that had defaulted on at least one loan or that had been granted a deferment or forbearance for at least one loan.

Testing of Default Prevention Activities for Borrowers with Defaulted Loans

For the defaulted borrower samples, we reviewed borrower account activity to determine whether Nelnet and Great Lakes performed the default prevention activities specified in their internal policies and procedures, and at a minimum, the default prevention activities specified in the FFEL due diligence regulations (34 C.F.R. § 682.411). We also compared loan servicing activities (1) across Nelnet and Great Lakes to identify any significant differences in how they serviced delinquent borrowers, and (2) across loan portfolios to identify any significant differences in how the servicers managed their Department-held and privately held FFEL loan portfolios. Although we gained a general understanding of the default prevention activities that Nelnet and Great Lakes performed for borrowers before they entered repayment (that is, outreach for in-school and in-grace borrowers), our sample testing focused on the default prevention activities that servicers performed when borrowers were delinquent on their student loans; that is, from the time a borrower initially became delinquent through the time the borrower defaulted (defined as 360 days delinquent for testing purposes).

We first defined two universes for each servicer, using data stored in the Department's National Student Loan Data System (NSLDS). The two universes were defined as follows: (1) borrowers who had at least one Department-held loan default in January 2014 and (2) borrowers who had at least one privately held FFEL loan default in January 2014. We selected only one month of defaulted loans to minimize computer processing time and limit the total universe selected. Once we defined the universes, we randomly selected 10 borrowers from each universe for

[29] Collectively, the four TIVAS serviced about $88 billion (28 percent) of the $310 billion privately held FFEL loan portfolio as of November 2013. Nelnet and Great Lakes serviced about $36 billion (41 percent) of the $88 billion.

[30] The two default metrics built into the TIVAS contracts (defaulted borrowers and defaulted dollars) were used to identify the highest and lowest performing TIVAS at default prevention during award years 2012 and 2013.

[31] The performance metrics incorporated into the initial TIVAS contracts consisted of two default metrics (default borrowers and defaulted dollars metrics) and three survey metrics (borrower, school, and FSA surveys). In contrast, the performance metrics incorporated into the not-for-profit servicer contracts consisted of three delinquency metrics (percentage of borrowers that are 30 or fewer days delinquent, that are more than 90 days delinquent, and for whom a delinquency of more than 180 days was resolved) and two survey metrics (borrower and FSA surveys).

testing. The universes and sample sizes of borrowers with defaulted loans are shown in Table 2. The results presented in this report from detailed testing pertain only to the sampled borrowers and cannot be projected to the entire universe of borrowers with defaulted loans.

Table 2: Universes and Sample Sizes for Default Prevention Activity Testing[32]

Servicer	Universe	Universe Size	Sample Size
Great Lakes	Borrowers who had at least one Department-held loan default in January 2014	11,359	10
Great Lakes	Borrowers who had at least one privately held FFEL loan default in January 2014	14	10
Nelnet	Borrowers who had at least one Department-held loan default in January 2014	8,660	10
Nelnet	Borrowers who had at least one privately held FFEL loan default in January 2014	750	10

Testing of Documentation for Borrowers with Loans Placed in Deferment or Forbearance

To gain an understanding of each servicer's approach to granting deferments and forbearances, we reviewed written procedures, interviewed personnel, and listened to live and recorded telephone calls between servicers and borrowers. For samples of borrowers, we performed testing to determine whether Nelnet and Great Lakes obtained sufficient documentation from the borrowers to support their eligibility for the following financial-related deferments and forbearances: unemployment or underemployment deferment, economic hardship deferment, financial hardship forbearance, and student loan debt burden forbearance. Supporting documentation generally included the applications, evidence of eligibility, borrower contact logs, and approval letters. We did not perform work to determine whether the deferments and forbearances were in the best interest of the sampled borrowers.

We first defined four universes for each servicer, using data stored in NSLDS. The four universes were defined as follows: (1) borrowers of Department-held loans who were granted an economic hardship or unemployment/underemployment deferment in January 2014, (2) borrowers of privately held FFEL loans who were granted an economic hardship or unemployment/underemployment deferment in January 2014, (3) borrowers of Department-held loans who were granted a financial hardship or student loan debt burden forbearance in January 2014, and (4) borrowers of privately held FFEL loans who were granted a financial hardship or student loan debt burden forbearance in January 2014 (Nelnet) or between January 2013 and January 2014 (Great Lakes).[33] We also required that the deferment or forbearance have at least a 90-day duration, and the servicer had to maintain responsibility for the loan for at least 1 year prior to the date of the deferment or forbearance. Once we defined our universes, we randomly

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[32] The differences in universe sizes between Department-held loans and privately held FFEL loans are a result of the increasing Direct Loan portfolio and shrinking privately held FFEL portfolio (effective July 1, 2010, all new loans must originate through the Direct Loan Program) and the relative maturities of these portfolios.

[33] For Great Lakes, we needed to expand the time frame from January 2014 to between January 2013 and January 2014 to ensure that we had at least five financial hardship or student loan debt burden forbearances to test.

selected 5 borrowers from each universe for testing. The universes and sample sizes of borrowers with loans that entered deferment or forbearance are shown in Table 3. The results presented in this report from detailed testing pertain only to the sampled borrowers and cannot be projected to the entire universe of borrowers with loans entering deferment or forbearance.

Table 3: Universes and Sample Sizes for Deferment and Forbearance Documentation Testing

Servicer	Universe	Universe Size	Sample Size
Great Lakes	Borrowers of Department-held loans who were granted an economic hardship or unemployment/ underemployment deferment in January 2014	15,027	5
Great Lakes	Borrowers of privately held FFEL loans who were granted an economic hardship or unemployment/underemployment deferment in January 2014	1,556	5
Great Lakes	Borrowers of Department-held loans who were granted a financial hardship or student loan debt burden forbearance in January 2014	47,054	5
Great Lakes	Borrowers of privately held FFEL loans who were granted a financial hardship or student loan debt burden forbearance between January 2013 and January 2014.	21	5
Nelnet	Borrowers of Department-held loans who were granted an economic hardship or unemployment/ underemployment deferment in January 2014	12,960	5
Nelnet	Borrowers of privately held FFEL loans who were granted an economic hardship or unemployment/underemployment deferment in January 2014	3,106	5
Nelnet	Borrowers of Department-held loans who were granted a financial hardship or student loan debt burden forbearance in January 2014	26,748	5
Nelnet	Borrowers of privately held FFEL loans who were granted a financial hardship or student loan debt burden forbearance in January 2014	5	5

Data Reliability

We relied on information contained in NSLDS to define the universes of borrowers from which random samples could be drawn. To provide consistency between servicers and between privately held FFEL and Department-held loans, we used the same logic to select universes where possible. We also met with FSA's NSLDS Group to gain an understanding of data elements that could be used to select the universes. The information contained in NSLDS for the borrowers included in our review generally matched the borrower information contained in the servicers' systems of records. We concluded that the information in NSLDS was sufficiently reliable for the purpose of our audit.

We also relied on computer-processed data provided by Nelnet and Great Lakes when we performed detailed testing for our defaulted borrower, deferment, and forbearance samples. To evaluate the reliability of these data, we gained an understanding of the design and implementation of the servicers' internal controls, including information systems controls, through interviews with servicer officials, detailed testing of their policies and procedures, reviews of prior audit reports conducted by independent auditors, and inspection of other relevant documents and records. We concluded that the computer-processed data provided by Nelnet and Great Lakes were sufficiently reliable for the purpose of our audit.

We held an entrance conference with FSA officials and performed initial audit work at FSA's offices in Washington, D.C., in September 2013. We performed additional audit work at Department offices in Washington, D.C., in December 2013. We also performed servicer-level audit work at Nelnet's offices in Lincoln, NE, in March 2014; and Great Lakes' offices in Madison, WI, in April 2014. We held an exit briefing with Department officials from FSA, OPE, OPEPD, and OUS on September 8, 2014.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Enclosure 1: Default Prevention Activities for Borrowers of Department-Held and Privately Held FFEL Loans

The table below summarizes the default prevention activities that Nelnet and Great Lakes performed based on our review of their written policies and the servicing records for 10 defaulted borrowers with Department-held loans and 10 defaulted borrowers with privately held FFEL loans at each servicer.

Nelnet	
Borrowers of Department-Held Loans	**Borrowers of Privately Held FFEL Loans**
Delinquency Letters and Notices • 11 letters from day 10 to around day 270 of delinquency Telephone Calls (a) • 2 or more telephone attempts each month from day 31-210 of delinquency • Telephone attempts almost daily from day 211-360 of delinquency Additional Activities (b) • Emails, texts, and/or contacts via social media	Delinquency Letters and Notices • 11 letters from day 10 to around day 270 of delinquency Telephone Calls • 2 or more telephone attempts per month from day 31-240 of delinquency. • 7 or more additional telephone attempts during days 31-90 of delinquency for select borrowers chosen to receive "targeted efforts" Additional Activities (b) • Texts
Great Lakes	
Borrowers of Department-Held Loans	**Borrowers of Privately Held FFEL Loans**
Delinquency Letters and Notices • 7 letters from day 12- 241 of delinquency • 3 letters from day 295-345 of delinquency Telephone Calls • Initial telephone attempt at around day 41 of delinquency • 3 or more telephone attempts per week from day 50-360 of delinquency Additional Activities (b) • 9 delinquency emails	Delinquency Letters and Notices • 7 letters from day 12-241 of delinquency Telephone Calls • Initial telephone attempt at around day 41 of delinquency • 4 or more diligent telephone efforts by day 180 of delinquency • 1 or more additional telephone attempts from day 181-270 of delinquency Additional Activities (b) • 8 delinquency emails
(a) The specified activities apply only to borrowers who could be autodialed (see Finding No. 2). (b) Nelnet policy did not specify how many emails and texts it would send to delinquent borrowers. Great Lakes policy specified that it would send emails to borrowers at specific points in delinquency.	

Enclosure 2: Department's Comments to the Draft Report

UNITED STATES DEPARTMENT OF EDUCATION

November 7, 2014

Mr. Raymond Hendren
Regional Inspector General for Audit
U.S. Department of Education
Office of the Inspector General
501 I Street, Suite 9-200
Sacramento, CA 95814

RE: Response to Draft Audit Report, "The U.S. Department of Education's Administration of Student Loan Debt and Repayment," (Control Number ED-OIG/A09N0011)

Dear Mr. Hendren:

Thank you for providing us with an opportunity to review and respond to the Office of Inspector General's (OIG) draft audit report, "The U.S. Department of Education's Administration of Student Loan Debt and Repayment" (ED-OIG/A09N0011). The draft audit report concluded that the U.S. Department of Education (Department) does not have a comprehensive plan or strategy to prevent student loan defaults to ensure that efforts by various offices involved in default prevention activities are coordinated and consistent. The Department appreciates the OIG's review of this important and timely issue. As your report notes, the Department has recently developed and implemented new tools and initiatives to increase borrowers' financial literacy and awareness of ways to effectively manage their student loan debt. With nearly 30 million borrowers with Department-held loans and a portfolio approaching $1 trillion, we are always looking for new opportunities to prevent and reduce defaults and have done so by pursuing policy, process, and system improvements to more effectively share information and streamline and simplify our interactions with borrowers.

Department offices responsible for student financial aid policy development and implementation have a close and productive working relationship that has been integral to our work to help borrowers avoid default. Successful examples of the results of this collaboration include Pay as You Earn and other income-driven repayment plans; the Special Direct Consolidation Loan initiative; innovative data interfaces to simplify the process of submitting borrower income data; improved counseling tools, on-line loan calculators, and social media outreach; and targeted communications to at-risk borrowers. We believe these efforts have contributed to the recent decline in cohort default rates, as well as to improvement in default-related performance metrics in our loan servicing contracts over the past few years.

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As noted in your draft report, however, these efforts have been undertaken without a comprehensive plan that clearly outlines roles and responsibilities related to preventing defaults or managing key default-related activities. While each office's high-level responsibilities are defined in the Department's functional statements, we agree that a formal plan will increase transparency regarding how the offices' respective efforts support our overall default prevention strategy.

We have already taken action consistent with some of your recommendations and plan further improvements to our processes to strengthen oversight and aggregate, analyze, and use program data to improve default prevention efforts. The Department's response to the recommendations follows.

Recommendation 1.1: *Require the Chief Operating Officer for FSA to work with the Acting Assistant Secretary for OPE to develop a comprehensive default prevention plan that describes the Department's default prevention strategy; defines the roles and responsibilities of the Department offices and personnel responsible for developing, implementing, and monitoring default prevention initiatives and activities; identifies the Department's default prevention initiatives and activities; and establishes performance measures that can be used to assess the effectiveness of the default prevention initiatives and activities.*

Response: We concur with this recommendation. The Office of the Under Secretary will coordinate the development of a comprehensive plan with input from all offices involved in default prevention activities. This plan will build on and formalize the current process through which FSA. OPE, and OPEPD, as well other offices, have successfully collaborated on a broad range of default prevention activities.

Recommendation 1.2: *Require the Chief Operating Officer for FSA to direct PPMS to immediately use existing student loan information to identify trends and issues in the Federal student loan portfolio and share its observations and recommendations with Department executives.*

Response: We concur with this recommendation. Over the past few months Federal Student Aid (FSA) has made a number of organizational and process changes to enhance and better focus the organization's analytic capabilities, including the development of an Enterprise Data Warehouse that will provide a strong foundation for portfolio analytics to inform and target future default prevention activities. At the same time, FSA and other offices have been working closely with officials from the Department of the Treasury, the Office of Management and Budget, and the Domestic Policy Council to review student loan data and identify areas for further research, analysis, and policy development. These efforts are expected to produce critical trend and other data that will be shared with Department executives.

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Recommendation 2.1: *Confirm that all TIVAS are conducting required minimum telephone outreach activities with delinquent borrowers in accordance with contract requirements.*

We concur with this recommendation. FSA has already made changes to its monitoring and oversight processes to ensure that servicers are conducting required telephone outreach activities. These processes include reviews of samples of outgoing and incoming calls.

Recommendation 2.2: *Develop and implement a process to monitor TIVAS subcontractors' default prevention activities, including phone calls to delinquent borrowers.*

We concur with this recommendation. On May 9, 2014, FSA began monitoring calls from the subcontractor noted in your draft report, which was the only current instance where a subcontractor was making calls on behalf of a TIVAS. Moving forward, FSA is in the process of clarifying guidance to ensure all loan servicers submit samples of all outgoing and incoming telephone calls, regardless of whether they are conducted by the prime contractor or by subcontractors.

Recommendation 2.3: *For all TIVAS, analyze and compare available data on borrowers that had delinquent Department-held loans during the period before FSA established minimum default prevention activities with available data on borrowers that had delinquent privately held FFEL loans during the same period to determine if borrowers in the first group were adversely harmed. The analysis should identify whether there are statistically valid differences in outcomes (such as the rate of default) between the two borrower groups.*

We concur with this recommendation and will undertake an analysis and comparison. We should note that, given broad variation in default prevention approaches in the FFEL industry and the fact that the TIVAS frequently used the Federal Family Education Loan (FFEL) due diligence requirements to guide their default prevention activities even before they were a formal contract requirement, it may be difficult to draw statistically valid conclusions regarding the reasons for outcome differences between the two borrower groups.

Thank you for the opportunity to review and comment on this draft report.

Sincerely,

/s/

Ted Mitchell
Under Secretary