Student Loan Servicing: Background and Opportunities for States

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December 2019

Background on SLSA

- SLSA is a non-profit trade association (501(c)(6)) that is the only association representing the perspetive exclusively of student loan servicers
- >20 servicer members, all of whom service FFELP (federally guaranteed) and private loans, and 9 of whom also service federal Direct Loans
- Many affiliate members who represent technology service providers, law firms, and guarantors who support servicing operations
- SLSA members service over 95% of student loans for over 40 million different borrowers

Servicer Background

- Size of the >20 servicers ranges from large to very small
  - Four largest servicers made up of 1 State Agency, 1 non-profit company, 2 publicly traded companies
  - Handful of members with less than 100 employees
  - Most of the rest have a few hundred employees, though some are much larger
- SLSA members may be for-profit companies (some publicly held), not-for-profit entities, state-chartered organizations, and state agencies
- Many of the non-profit and State-chartered members were created in order to support higher education in a particular State and are limited in who they can make loans to (state nexus required)
  - Administer the federal student loan program in the State
  - Make State student loans (which are considered to be private education loans)
  - Run State higher education grant programs
  - Conduct consumer financial literacy activities

The Role of the Servicer

What servicers do:

- Send statements, provide call center and online customer service
- Apply payments, answer questions
- Offer the options available under law or loan contract
- Provide calculators, financial literacy programs, and other support

What servicers do not do:

- Originate or disburse federal student loans
- Determine how much a student can or should borrow
- Set the interest rate on loans or receive interest proceeds
- Determine the repayment plans that are available
- Set the rules or make final determinations on federal loan forgiveness, discharge, or other terms
- Own or hold federal loans

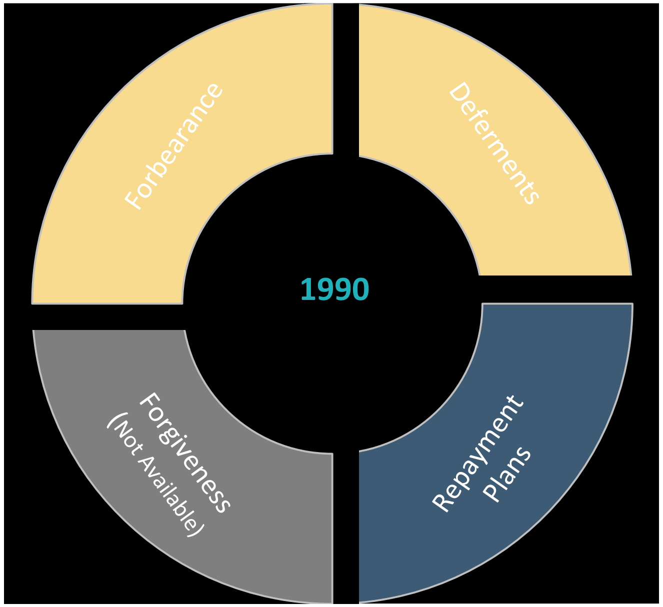
Federal Student Loans

- Account for more than 90% of all student loans in the country
- Are made, owned, and held by the United States government, and are subject to federal oversight, statute, and regulations after Congress took over federal student lending in order to provide loan revenue to offset costs of the Affordable Care Act
- Have evolved since 1965 to be the largest component of federal assistance in higher education and grown to around $1.4 trillion in outstanding loans that the government holds or guarantees
- Are originated by the US Department of Education and disbursed to schools directly after borrower signs and agrees to the government's master promissory note
- Are not made based upon credit-worthiness or ability to pay considerations
- Receive both interest subsidies and specialized benefits paid by the taxpayer
- Reflect the terms and conditions set by Congress

In 1990, There Were Two Repayment Plans And The Most Complex Area Was Deferment

Forbearance

Discretionary Forbearance
- Hardship Forbearance



Repayment Plans
- Standard
- Graduated

Deferment
- School Full-Time
- School Half-Time
- Graduate Fellowship
- Unemployment Deferment – 2 years
- Rehabilitation Training Program
- Teacher Shortage
- Internship/Residency Training
- Temporary Total Disability
- Armed Forces or Public Health Services
- National Oceanic and Atmospheric Administration Corps
- Peace Corps, ACTION Program, and Tax-Exempt Organization Volunteer
- Parental Leave
- Mother Entering/Re-entering Work Force

In 1990, the most complex aspect of student loan repayment centered around the eligibility criteria for deferment, there were just two repayment plans, one type of forbearance, and loan forgiveness programs did not exist.

There Are Now 16 Repayment Options and Multiple Types of Forbearance & Forgiveness Options

Forbearance

Discretionary Forbearance

- Hardship Forbearance

Mandatory Forbearance

- Medical or Dental Internship Residency
- Department of Defense Student Loan Repayment Programs
- National Service
- Active Military State Duty
- Student Loan Debt Burden
- Teacher Loan Forgiveness

Mandatory Administrative Forbearance

- Local or National Emergency
- Military Mobilization
- Designated Disaster Area
- Repayment Accommodation
- Death
- Teacher Loan Forgiveness

Forgiveness

- Teacher Loan Forgiveness
- Loan Forgiveness for Service in Areas of National Ne
- Civil Legal Assistance Attorney Student Loan Repayn
- Income Contingent Repayment Plan Forgiveness
- Income Based Repayment Plan Forgiveness
- Pay As You Earn Repayment Plan Forgiveness
- Income Based 2014 Repayment Plan Forgiveness
- REPAYE Repayment Plan Forgiveness
- Public Service Loan Forgiveness

Deferment

- School (1)
- School Full-Time (2)
- School Half-Time (2)
- Post Enrollment (1)
- Graduate Fellowship (3)
- Unemployment Deferment – 2 years (2)
- Unemployment Deferment – 3 years (1)
- Economic Hardship (1)
- Rehabilitation Training Program (3)
- Military Service (3)
- Post-Active Duty Student (3)
- Teacher Shortage(2)
- Internship/Residency Training (2)
- Temporary Total Disability (2)
- Armed Forces or Public Health Services (2)
- National Oceanic and Atmospheric Administration Corps (2)
- Peace Corps, ACTION Program, and Tax-Exempt Organization Volunteer (2)
- Parental Leave (2)
- Mother Entering/Re-entering Work Force (2)

Repayment Plans

- DL Standard Pre-HERA
- FFELP/DL Standard Post-HERA (4)
- DL Graduated Pre-HERA
- FFELP/DL Graduated Post –HERA (4)
- DL Extended Pre-HERA
- FFELP/DL Extended Post-HERA (4)
- Income-Sensitive
- Income-Contingent Ver. 1 (5)
- Income-Contingent Ver. 2 (5)
- Income-Contingent Ver. 3
- Forced Income-Driven
- Income-Based
- Pay As You Earn
- Income-Based 2014
- Alternative (6)
- REPAYE

Effective Date Details

(1) Limited to FFELP borrowers with all new loans made on or after July 1, 1993; All DL are eligible.
(2) Limited to FFELP borrowers with all loans made on or after July 1, 1987 and prior to July 1, 1993; DL eligible if borrower has FFELP loan made during this period.
(3) All FFELP and DL loans eligible regardless of disbursement date
(4) HERA aligned FFELP and DL repayment plans for loans first entering repayment on or after July 1, 2006.
(5) Pre July 1, 1996, ICR plans, the DL borrower can choose between ICR1 - the Formula Amount, or ICR2 – the Capped Amount.
(6) The DL borrower can request from 5 alternative repayment plans: Fixed Payment Amount, Fixed Term, Graduated Repayment, Negative Amortization, or Post REPAYE.

Private Education Loans

- >$120 Billion in outstanding private loans
- Private loans often referred to as supplemental loans -- they provide additional funds when the student's cost to attend a college or university exceeds the amount that can be borrowed under the federal student loan programs
- No government subsidy, and rates are set by markets
- Borrower must be credit-worthy or have a credit-worthy co-signer
- Subject to all of the federal laws that other consumer loans are subject to (TILA, ECOA, FCRA, EFTA, MLA, etc.)
- Subject to state banking regulations

Private Education Loans

Measure One data shows that private loans have returned to pre-recession levels of stability:

- Early stage delinquency rate (30-89 days delinquent) = 2.59% of total loans in repayment
- Late stage delinquency rate (90+ days delinquent) = 1.59% of total loans in repayment
- Annualized charge-offs = 2.04% of total loans in repayment

Key Opportunities for States

- College Costs – this is the key driver for not only family expense, but also student loans, and a large component of this is set by state legislatures directly or indirectly through funding
- Counseling and Financial Awareness – knowing the consequences and total costs of borrowing is critical well before a student or family borrows, and states should ensure schools and others are engaged in educating families
- Transparency – state higher education agencies or even ombudsman offices can focus on being an independent third-party that helps validate, but also reinforce servicer communications
- Advocate – since the program terms for nearly all student loans are set by Congress, states should be a resource to advocate for changes to the federal student loan program that reflect the unique needs of their states and colleges
- State banking and lending laws – states should continue to ensure that these statutes are current, reflect the unique nature of the student loan market, and are effectively serving consumers