Congress of the United States
House of Representatives
Washington, D.C. 20515

August 1, 2017

The Honorable Betsy DeVos
Secretary of Education
U.S. Department of Education
400 Maryland Avenue, S.W.
Washington, D.C. 20202

Dear Secretary DeVos:

We write to express our concern over the Department of Education's (the Department's) move to consolidate federal student loans under a single servicer. While the upcoming procurement has the potential to improve servicing of Federal student loans, the decisions to both award one contract to a single servicer and also reduce the servicing standards required under this contract threaten harm to both student loan borrowers and taxpayers. Given the concerns that Members of Congress of both parties in both chambers have raised over these changes, we request that you defer any further action on this procurement until Congress has the opportunity to review this as part of the Higher Education Act.

The move to a single loan servicer has the potential to make loan servicing both more costly to government and less helpful to student borrowers. Currently, multiple servicers compete for loan volume based on performance metrics, providing an incentive to offer quality loan servicing. Awarding a contract to a single loan servicer would entirely eliminate this incentive. Furthermore, awarding this contract to a single entity would create a monopoly that may not be responsive to the needs of borrowers or the Department. Regardless of the level and quality of oversight the Department provides, the Department would have limited ability to demand improvements in the event of poor performance. Overreliance on a single incumbent servicer could also provide the contractor significant pricing power in future procurements, to the detriment of taxpayers.

These concerns are far from hypothetical. Previously, the Department contracted all Direct Loan servicing to a single firm. The result was a troubled and inflexible relationship with an entity that struggled to provide quality serving. The Department's former deputy undersecretary has publicly stated that under this arrangement, the Department had little leverage with a contractor it found to be unresponsive.[1] It is far from clear that returning to this approach would yield better results this time. What is clear, given the growth of the federal student loan portfolio, is that if

[1] https://www.washingtonpost.com/news/grade-point/wp/2017/05/19/betsy-devos-hits-hard-reset-on-student-loan-servicing-contracts

the mistakes of past sole servicers were repeated, the scale of the problem would be much greater.

Since 2010, Congress has repeatedly emphasized the importance of competition to ensure borrowers can rely on quality loan servicing during repayment. In the Health Care and Education Reconciliation Act (HCERA) of 2010, Congress directed the Department to contract with eligible not-for-profit servicers, in addition to private loan servicers, to allow for competition. Unfortunately, despite Congress's directive in HCERA, the Department has not adequately supported competition in loan servicing under the previous and now current administrations. This has required Congress to repeatedly express its intent, through both statute and report language that multiple entities should compete for student loan servicing volume. Most recently, through the fiscal year 2016 and 2017 appropriations act, Congress instructed the Department to allocate student loan accounts across multiple servicers based on their performance and capacity.

In addition to the risks associated with moving to a single servicer for the entire federal student loan portfolio, we are concerned that the revised servicing procurement reduces the level of customer service provided to borrowers. We fear this scaling back of procurement requirements would result in a direct increase in the number of student loan borrowers in delinquency and default. Under the originally proposed procurement, loan servicers would be required to provide borrowers seeking income-based repayment plans dedicated access to staff specializing in these plans. Servicers would also be required to meet specific standards to provide high-touch servicing to delinquent and at-risk borrowers to reduce defaults. These measures are intended to help borrowers stay on track in repayment and protect taxpayers by preventing losses on unpaid loans.

We understand, based on the Department's public statements, striking many of these required provisions from the loan servicing procurement was intended to reduce loan servicing costs. That is a laudable goal, and taxpayers should certainly receive good value for their money under this contract. However, simply seeking to reduce servicing costs without considering the potential impact of reduced service may prove shortsighted. In a variety of consumer lending markets, including mortgages and private student loans, we have seen lenders' efforts to reduce loan servicing costs result in poor quality servicing that imposed hardships on borrowers and limited lenders' ability to collect on debts. It is even possible that reducing the level of servicing required under the contract would cost taxpayers more, with the initial savings offset through increased losses on defaulted loans.

We stand ready to work with the Department to improve the student loan servicing process, but we urge you to reconsider your changes to the loan servicing procurement. Members of both the House and Senate Appropriations committees have questioned these changes. Our ability to fulfill our Constitutional responsibility to oversee the Department may be limited if the

Department issues a contract prematurely. In light of the ongoing Congressional debate over the appropriate loan servicing model, we respectfully request that you defer further action on this procurement until Congress has the opportunity to fully review this issue as part of the reauthorization of the Higher Education Act.

Sincerely,

ROBERT C. "BOBBY" SCOTT
Ranking Member
Committee on Education and the Workforce

DAVID YOUNG
Member of Congress