WRITTEN STATEMENT FOR
FEDERAL STUDENT AID CHIEF OPERATING OFFICER
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U.S. HOUSE OF REPRESENTATIVES COMMITTEE ON EDUCATION AND THE WORKFORCE
SUBCOMMITTEE ON HIGHER EDUCATION AND WORKFORCE TRAINING
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Thank you for the opportunity to testify before the Committee on the Department of Education's office of Federal Student Aid's progress in transitioning to the William D. Ford Federal Direct Loan Program (Direct Loan Program). I believe that this transition has been and continues to be a success, and I am pleased to appear before you today.

A little over a month ago, Secretary of Education Arne Duncan appointed me as the Chief Operating Officer of Federal Student Aid. Prior to this appointment, I held the position of Deputy Chief Operating Officer of Federal Student Aid. By way of background, my prior experience includes over 20 years in management and financial services in the private industry. I was also a recipient of federal financial assistance over 20 years ago while attending Harvard University as a graduate student. I am honored to serve the very programs that helped me to complete my education. It is a privilege to be a part of an organization that supports student access to higher education and workforce training.

Federal Student Aid is responsible for implementing and overseeing the federal student financial assistance programs, authorized under Title IV of the Higher Education Act of 1965 (HEA). These programs represent the largest source of student aid for postsecondary education in the United States. Last year, Federal Student Aid processed over 21 million applications for federal student aid and delivered roughly $150 billion in grant, work-study, and loan assistance to approximately 15 million postsecondary students and their families. Today, our loan portfolio is valued at over $848 billion, with 36 million individual borrowers and 146 million loans.

Federal Student Aid is not alone in these efforts; we are supported by our public-private partnerships. Federal Student Aid's workforce includes over 1200 employees supported by approximately 9,000 private sector contract employees. In fact, approximately 85 percent of Federal Student Aid's administrative budget goes to private-sector vendors. In addition, we are supported by, and work closely with several offices within the Department. As the numbers will tell, we efficiently manage a high volume of work with our federal staff in an effort to be good stewards of taxpayer money.

Before I discuss the Department's process in transitioning FFEL Program lending to the Direct Loan Program, I would like to quickly highlight some of the other work Federal Student Aid is doing to support students as they pursue education and training beyond high school.

First, we have greatly simplified the Free Application for Federal Student Aid (FAFSA) as part of our overall strategy to increase access to postsecondary education and meet President Obama's goal of having "the best educated, most competitive workforce in the world" by 2020. Federal Student Aid redesigned our online application—FAFSA on the Web—with improved "skip-logic" and expanded the availability of the Internal Revenue Service Data Retrieval Tool. These improvements reduced the time for families to complete the application by approximately one third. FAFSA on the Web allows financial aid applicants and their parents to retrieve, directly from the Internal Revenue Service, certain income and other information they had reported on their federal income tax returns and to automatically transfer that information to their FAFSA. This not only makes it easier for families to complete the application, but it also increases the accuracy of the information used to determine a student's eligibility for federal student aid. Aid applicants are taking note of these changes. Last quarter, the FAFSA received a score of 90 from the American Customer Satisfaction Index, which is a national economic indicator of customer evaluations of the quality of products and services available to household consumers in the United States. The average government score is 75, and scores above 88 are considered "outstanding."

Another improvement I would like to highlight is the smooth completion of the Federal Family Education Loan (FFEL) Loan Purchase Programs, which resulted from the authority given to the Secretary of Education in the Ensuring Continued Access to Student Loans Act of 2008 (ECASLA). As you know, the decline in the financial markets that began in 2007 directly affected student lending by severely restricting the availability of capital for private lenders to make federally supported student loans. This crisis had the potential to leave millions of students without the funds needed for a postsecondary education. We have many of you on this Committee to thank for ensuring students had access to these funds.

As a result of Congressional action, the Administration established the ECASLA Loan Purchase Programs. By authorizing the Department to purchase eligible federal student loans, the ECASLA Loan Purchase Programs provided FFEL lenders with the capital necessary to make Stafford and PLUS loans for the 2008–09 and 2009–10 academic years. The purchase of new loans under the ECASLA Program was completed on October 15, 2010 after the Department purchased almost $109 billion in FFEL Program loans representing approximately 85 percent of all FFEL loans disbursed during that period. In addition to these programs, the Department also guaranteed another $41 billion in FFEL Program loans financed by an asset-backed commercial paper conduit

These are just a few of the many achievements Federal Student Aid has accomplished in the past few years, while continuing to provide record amounts of aid at lower incremental cost to more students than ever before. I am very proud to report these achievements to the Committee today.

The primary reason I am here today is to discuss Federal Student Aid's efforts to ensure a smooth transition of the FFEL Program to 100 percent Direct Lending. I also want to discuss the many processes and programs that have been implemented by the Department to ensure appropriate stewardship of taxpayer funds and the continued integrity of the student aid programs.

On March 30, 2010, President Obama signed the Health Care and Education Reconciliation Act, P.L. 111-152. The provisions that prescribed the significant changes to the Title IV program are referred to as the SAFRA Act. The SAFRA Act ended new lending under the FFEL program beginning July 1, 2010. While the SAFRA Act ended new FFEL lending, it is important to note that 77 million FFEL Program loans totaling almost $490 billion and representing over 23 million borrowers still exist today.

I am pleased to report that the transition to 100 percent Direct Lending was a success and the Department made $102.2 billion in Direct Loans to 11.5 million recipients during academic year 2010-2011. This transition from the FFEL Program to the Direct Loan Program resulted in a 140 percent year-over-year increase in Direct Loan Program disbursements in the 2010-11 academic year.

Beginning in 2007, the decline in the credit markets compelled a number of schools to move to the Direct Loan Program and many FFEL lenders to advocate for federal assistance in securing loan principal for new originations. In fact, the number of schools entering the Direct Loan Program increased by 52 percent in the nineteen months **prior** to the February 2009 release of President Obama's 2010 budget proposal to originate all Stafford, PLUS and Consolidation loans via a single loan program. As the number of schools moving to the Direct Loan Program increased, we initiated steps to ensure Federal Student Aid had the capacity to assume additional Direct Loan volume. Beginning in 2008, we increased the Direct Loan origination capacity of our Common Origination and Disbursement system. We accomplished this through a series of three upgrades that improved the system's infrastructure and increased call center and system operations support.

In 2009, the volume of loans sold to the Department by FFEL lenders under the ECASLA loan programs quickly grew, while at the same time schools continued their migration to the Direct Loan Program. With front-end Direct Loan volumes increasing, we augmented our back-end servicing capacity with the award of four loan servicing contracts to our Title IV additional servicers (TIVAS): private sector companies– Nelnet Servicing, LLC; Great Lakes Educational

Loan Services, Inc; SLM Corporation (Sallie Mae); and the Pennsylvania Higher Education Assistance Agency. These contracts provided the Department with the capacity necessary to support the anticipated increase in the number of loans owned by the Department. The structure of these contracts ensures that borrowers will receive the highest quality of service at the lowest possible cost to the taxpayer. Today, the Department's federally held portfolio with the four servicers is more than $125 billion in Direct Loans and over $100 billion in outstanding principal and interest on FFEL loans purchased by the Department through the ECASLA programs.

While Federal Student Aid's systems and processes were ready to support the increase in Direct Loan volume, many schools still required assistance in transitioning to the Direct Loan Program. In summer 2009, Federal Student Aid began offering assistance and guidance as schools contemplated joining the Direct Loan Program. We established the Direct Loan Task Force to provide dedicated technical assistance to schools transitioning into Direct Lending.

In October 2009, the Department implemented a comprehensive training plan to assist schools transitioning to the Direct Loan Program. That same month, we launched our Direct Loan Webinar Training Series for domestic schools. This consisted of a suite of six different modules on multiple aspects of administering the Direct Loan Program. We established and published the *Direct Loan Source*, a monthly newsletter for schools considering a transition to the Direct Loan Program. In December 2009, we hosted over 5,300 financial aid professionals at our annual conference—providing detailed Direct Loan training. We offered Direct Loan training again at our 2010 annual conference, with over 5,700 attendees. We also conducted Regional Direct Loan Training Conferences in 15 cities across the Nation, serving almost 2,600 financial aid professionals. Additionally, our team traveled to 10 cities across the world to offer training to foreign schools personnel.

I can report to the Committee that all eligible institutions of higher education in the United States wishing to participate in the Direct Loan Program have successfully transitioned and are able to provide Direct Loans to students at their institutions. Today, approximately 5,800 domestic institutions are participating in the Direct Loan Program.

The SAFRA Act also amended the HEA to provide eligibility for domestic students attending foreign institutions to borrow under the Direct Loan Program. Today, 400 foreign schools now participate in the Direct Loan Program. Every foreign school wishing to originate a Direct Loan has been able to do so.

We are also taking additional steps to augment our loan servicing capacity. The Department is now implementing the SAFRA Act provision that providing mandatory funding for the Department to allow certain non-profit servicers to service Direct Loans. Final pricing was announced on April 19, 2011. To date, 15 entities representing 26 not-for-profit servicers and 30 states have entered into memoranda of understanding with the Department, and one servicer has entered into a contract with the Department and already received its first allocation. We anticipate that other not-for-profit servicers will come on line over the next year.

With the knowledge that most schools participating in the Direct Loan Program would have fewer than two years experience in administering the Direct Loan Program, we significantly increased our program support and compliance efforts. Our program support staff continues to assist with account reconciliation and technical support. We also increased staff to provide oversight and compliance in this area to ensure taxpayer funds are being used as intended. In addition, we are reviewing existing policies and procedures for identifying at-risk schools and practices, further enhancing our ability to ensure integrity of the program.

As already mentioned, Federal Student Aid is taking steps to improve the accuracy of information provided through the FAFSA. This includes the new IRS Data Retrieval Tool which ensures greater accuracy of financial information provided by applicants as well as the resulting aid eligibility determination. New regulations, effective July 1, 2012, help institutions better target the verification of student-reported data for student aid recipients. We are also developing targeted verification techniques leveraging enhanced skip logic functionality within future versions of the aid application.

We also augmented our risk management capacity within Federal Student Aid to identify and mitigate systemic, operational and business vulnerabilities. Additionally, we are enhancing our security of student aid data to protect FSA systems and student data.

With the growth in Federal Student Aid's borrower base, we are also increasing our customer outreach, default prevention and risk management efforts. Last year, Federal Student Aid established a Chief Customer Experience Officer, whose role is to manage the overall customer experience. This officer is responsible for, among other things, customer advocacy, financial literacy and consumer protection. We have also updated our financial counseling for new borrowers, and have provided incentives for our new loan servicers to reduce defaults. Ultimately, it is student aid recipients who are our customers, and we want to equip them with information to make informed financial decisions.

Finally, with the growth in the number of federal student loans owned by the Department comes greater risk for a higher number of defaulted borrowers whose accounts must be serviced. Over the years, we have increased the number of debt collection vendors under contract to 23, and are implementing a new default management system that features more flexibility and greater analytics to increase the effectiveness of our debt collection efforts.

In an effort to support the continued transition from FFEL to Direct Loans, the Secretary invited FFEL Program guaranty agencies to submit proposals for Voluntary Flexible Agreements (VFAs) in late May). As authorized by the HEA, VFAs use existing authority to leverage private sector best practices to improve efficiencies and customer service in the administration of the Title IV programs, while reducing the cost to the American taxpayer. As of August 1, 2011, the Department received a total of 22 proposals, representing 24 guaranty agencies. The Department is currently reviewing these proposals. We look forward to working with the guaranty agencies to continue to provide services to students.

A summary of our progress to date would be incomplete without an acknowledgment of the incredible efforts of the Federal Student Aid staff. The dedication, professionalism and absolute commitment of this team to ensuring students have the aid they need to achieve their educational pursuits is truly inspirational. I would also like to recognize financial aid administrators at institutions participating in the Direct Loan Program for their efforts in making the transition a success.

Thank you for inviting me to testify on the Department's progress in the Direct Loan transition and for the opportunity to present the steps we are taking to ensure that eligible students and their families have access to Direct Loans they need, and taxpayers' investments are protected. On behalf of the dedicated staff of Federal Student Aid, I would like to reiterate our commitment to serving the Nation's students and their families. I am happy to take any questions you may have.