



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

215.575.9050 Phone

901 E Street NW
Washington, DC 20004

202.552.2000 Phone

www.pewtrusts.org

February 1, 2021

The Honorable Patty Murray
Chairwoman
Committee on Health, Education,
Labor, & Pensions
428 Dirksen Senate Office Building
Washington, D.C. 20510

The Honorable Richard Burr
Ranking Member
Committee on Health, Education,
Labor, & Pensions
428 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Chairwoman Murray and Ranking Member Burr:

The United States continues to confront a crisis in student loan repayment: Before the pandemic, many families were already struggling with financial insecurity, nearly 20% of the nation's 43 million federal student loan borrowers were in default, and millions more were behind on their payments.¹ In addition, borrowers of color, particularly African Americans,² and first-generation students³ face default at higher rates than their peers.

As the COVID-19 pandemic unfolded this year, Congress and the Trump administration acted to help mitigate the serious challenges confronting federal student loan borrowers by automatically pausing payments and interest charges for most federal loans and suspending collection efforts for those in default.⁴ And the incoming Biden administration extended this important assistance through September 30.⁵

Struggling borrowers faced problems enrolling in affordable repayment plans before the pandemic.⁶ And COVID-19 and the related economic downturn have created an even greater need to focus on effective strategies to assist those at risk of delinquency and default. For example, once the pauses end, those who benefited will have to simultaneously navigate financial challenges, continued uncertainty, and a confusing repayment system. Policymakers should consider evidence-based measures to help borrowers smoothly transition back into repayment, including: a grace period for those struggling after the pause ends, easier enrollment in income-driven repayment plans, and identification of early red flags raised by at-risk borrowers.⁷

The Pew Charitable Trusts (Pew) requests that you address these and other important issues concerning student loan repayment with U.S. Department of Education (the department) Secretary-designate Miguel Cardona as he seeks to undertake the oversight of more than \$1.5 trillion in outstanding federal student loan debt. Research by Pew's project on student borrower success indicates that borrowers, especially those in danger of delinquency and default, would benefit from carefully tailored policies to facilitate repayment success.⁸ These findings, and related questions for Secretary-designate Cardona, include:

Timely implementation of the FUTURE Act must be a top priority. The Fostering Undergraduate Talent by Unlocking Resources for Education (FUTURE) Act contains a provision that directs the Internal Revenue Service (IRS) to securely share relevant borrower data with the department and has the potential to benefit about 9 million borrowers now enrolled in income-driven repayment plans, as well as those who enroll going forward.⁹ Once implemented, this data sharing will streamline the burdensome and duplicative income verification requirements for income-driven repayment plans, bolster the accuracy of the information used to determine borrowers' repayment obligations, and reduce improper payments.

Question for Secretary-designate Cardona:

1. The FUTURE Act requires that the secretaries of Education and Treasury submit regular reports to Congress on implementation status, but it includes no effective date and leaves much of the process at the discretion of these agencies. How will you work with the Commissioner of the IRS to ensure that this data sharing is implemented in a timely manner?

Income-driven repayment plans must be made easier to enroll and reenroll in, especially during the pandemic. Congress and the department should remove barriers to enrollment into income-driven plans—such as burdensome documentation processes—and transition more borrowers into such plans, especially those who were behind on their payments or in prolonged periods of deferment and forbearance before the period of paused payments. To provide repayment flexibility at a time of great uncertainty, such as the pandemic and economic downturn, servicers should be permitted to enroll borrowers in income-driven plans without requiring extensive paperwork—for example, orally, through a website, or through electronic communication.

Question for Secretary-designate Cardona:

2. Borrowers often find the enrollment and recertification processes for the department's income-driven repayment plans confusing and time consuming. How will the department make it easier for borrowers to quickly access these plans, especially until the FUTURE Act can be fully implemented? What opportunities exist to streamline access during the rulemaking process?

Consistent, accurate, relevant, and timely communications about repayment options are key to helping borrowers stay on track, especially during periods of transition. The department and student loan servicers should use existing data and personalized information about a borrower's repayment situation to provide targeted outreach to those who showed signs of distress before periods of transition, such as exiting the current period of paused payments. They should also seek to quickly identify those who go off track immediately after a transition. These borrowers may need additional assistance enrolling in, recertifying for, or modifying their payments within income-driven repayment plans. Pew research highlights indicators that can help identify at-risk borrowers before they are in distress, such as those who miss payments early, repeatedly suspend payments, or have previously defaulted.¹⁰

This is especially relevant for the transition out of the current payment pause—a recent Pew survey showed that almost 6 in 10 borrowers who reported paused payments said it would be somewhat or very difficult to afford their payments if they had to begin making them in the next month. And more than 9 million borrowers could reach out to loan servicers for assistance when payments resume, overwhelming the system.¹¹

Question for Secretary-Designate Cardona:

3. How does the department plan to work with servicers to ensure that borrowers most at risk of default and delinquency receive additional, targeted outreach to help them enroll in income-driven repayment plans before the period of paused payments ends?

The department must establish clear standards for servicers and provide oversight. Standards should include a focus on borrower outcomes—such as reducing rates of delinquency and default—and require targeted outreach to borrowers in periods of transition.

Questions for Secretary-designate Cardona:

4. The department and its office of Federal Student Aid have been working to restructure the current servicing system since 2014.¹² Today, several iterations later, this initiative to modernize and streamline the technology and operational components of the repayment system is called the “Next Generation Financial Services Environment” (Next Gen).¹³ So far, work is underway to build the borrower-facing and back-end processing components of the Next Gen system. Although much has been accomplished to streamline the borrower experience, the ambitious program has yet to be completed. And the most recent piece of the Next Gen puzzle—the procurement for the Interim Servicing Solution—was put on hold. What are the Biden administration’s plans for Next Gen?
5. How will you prioritize the reduction of delinquency and default as you move forward with repayment and servicing reforms?
6. How will the department ensure accountability for borrower outcomes among servicers? And as it centralizes some of the responsibilities currently held by servicers, how will it hold itself accountable?¹⁴

Thank you for considering the needs of student loan borrowers as the 117th Congress and Biden administration begin. We look forward to working with you and Dr. Cardona to provide research and policy recommendations for reform of the student loan repayment and servicing systems.

Sincerely,

Sarah Sattelmeyer
Director, Project on Student Borrower Success
The Pew Charitable Trusts
901 E Street NW, Washington, D.C. 20004
202-540-6638
ssattelmeyer@pewtrusts.org



Endnotes

¹ <https://studentaid.ed.gov/sa/about/data-center/student/portfolio>

² <https://www.pewtrusts.org/en/research-and-analysis/articles/2020/12/15/race-and-financial-security-play-central-roles-in-student-loan-repayment>

³ https://ticas.org/sites/default/files/pub_files/students_at_the_greatest_risk_of_default.pdf

⁴ <https://www.pewtrusts.org/en/research-and-analysis/articles/2020/04/24/millions-of-federal-student-loan-borrowers-lack-access-to-immediate-repayment-help>

⁵ <https://studentaid.gov/announcements-events/coronavirus>

⁶ <https://www.pewtrusts.org/en/research-and-analysis/reports/2020/05/borrowers-discuss-the-challenges-of-student-loan-repayment>

⁷ <https://www.pewtrusts.org/en/research-and-analysis/articles/2020/11/03/outreach-from-borrowers-could-overwhelm-student-loan-system-when-pandemic-pauses-end>

⁸ <https://www.pewtrusts.org/en/research-and-analysis/reports/2020/05/borrowers-discuss-the-challenges-of-student-loan-repayment>

⁹ <https://www.pewtrusts.org/en/research-and-analysis/articles/2020/03/02/law-will-ease-access-to-affordable-student-loan-repayment-if-implemented-effectively>

¹⁰ <https://www.pewtrusts.org/en/research-and-analysis/reports/2019/11/student-loan-system-presents-repayment-challenges>

¹¹ <https://www.pewtrusts.org/en/research-and-analysis/articles/2020/11/03/outreach-from-borrowers-could-overwhelm-student-loan-system-when-pandemic-pauses-end>

¹² <https://www.americanprogress.org/issues/education-postsecondary/news/2019/09/10/474254/long-path-new-student-loan-repayment-system/>

¹³ <https://studentaid.gov/announcements-events/next-gen>

¹⁴ <https://www.ed.gov/news/press-releases/us-department-educations-office-federal-student-aid-announces-new-contracts-five-companies-improve-customer-service-increase-accountability>