chronicle.com

A Watchdog Admonished the Education Dept. for Not Monitoring Loan Servicers. Here Are 3 Takeaways From That Report.

Dan Bauman

6–8 minutes

The inspector general argued that Navient, a student-loan servicer based in Wilmington, Del., has provided insufficient guidance to borrowers about their options for repaying loans.Associated Press

Update (2/15/2019, 1:30 p.m.): This article has been updated with a statement from Navient, one of the servicers mentioned in the

Office of Inspector General report.

Over two and a half years, the U.S. Department of Education failed to hold accountable the companies, known as servicers, that manage federal student loans, according to a report from the department's Office of Inspector General.

The report, released on Thursday, examines practices in the department's Federal Student Aid office, or FSA, from January 2015 through September 2017. In spite of data indicating that the servicers had not complied with regulations in substantial ways, the department rarely used the oversight tools at its disposal to push those servicers to obey federal regulations, the inspector general found.

Here are three takeaways from the report:

1. The FSA collected data on servicers that failed to meet its standards. But the office didn't use that data.

Instead, the inspector general reported, the FSA relied on the memories of employees to recognize recurring instances of noncompliance. In the five years leading up to September 2017, the department penalized servicers for noncompliance only four times.

When FSA staff members observed servicers failing to follow federal regulations meant to protect borrowers and the federal treasury, those breaches in conduct weren't tracked by the department, as long as the servicers agreed to rectify the issues.

"FSA's oversight activities regularly identified instances of servicers' not servicing federally held student loans in accordance with federal requirements," the report stated. But department contractors who ignored the government's rules on servicing more often than their competitors never paid a price, the OIG said, and their loan portfolios remained robust.

2. Servicers that had courted controversy in the past kept getting opportunities.

Had the federal aid office used the data available to it, it would have noticed some alarming trends, the inspector general said.

Over a two-month span in 2017, the Pennsylvania Higher Education Assistance Agency (PHEAA), better known as FedLoan, failed -- at a significantly higher rate than most other federal servicers -- to sufficiently inform borrowers of all their available repayment options.

FedLoan is being sued by the Massachusetts attorney general, Maura T. Healey, for allegedly deceiving "teachers and public servants across the country," who in turn lost or received reduced or delayed benefits from various government programs designed to counter student-debt loads. (The Department of Education sided with FedLoan in the case, arguing unsuccessfully that Healey's suit invoked state laws that conflicted with federal law.)

FedLoan has exclusive servicing rights to two of the government's generous student-loan programs: the Teacher Education

Assistance for College and Higher Education Grant program, and Public Service Loan Forgiveness.

The inspector general also pointed to the findings of an internal federal review, which found that another servicer, Navient, had repeatedly presented borrowers with only one option, loan forbearance, even when other repayment options were available. The Trump administration concluded that Navient was not improperly steering borrowers into forbearance, but the inspector general argued that servicers like Navient had provided insufficient guidance to borrowers about repayment options.

“Borrowers might not have been protected from poor servicers, and taxpayers might not have been protected from improper payments,” the OIG said in its report.

3. Some servicers miscalculated how much some borrowers owed on their debt each month.

Between January 2015 and September 2017, the Department of Education prepared 41 reports that examined the calculation of income-driven repayment amounts. Of those 41 reports, 13 of them disclosed instances in which servicers did not correctly calculate those amounts.

The inspector general noted that Utah Higher Education Assistance Authority, better known as CornerStone Education Loan Services, incorrectly calculated repayment amounts for eight of 90 borrower accounts between July 2016 and June 2017.

“Any errors in the calculation of the affordable payment amounts could negatively affect borrowers or taxpayers,” the report stated.

For its part, “FSA strongly disagreed with the overall conclusion” of the inspector general, the report noted.

Nikki A. Lavoie, a spokeswoman for Navient, said the company disputed the OIG's characterization of the May 2017 Education Department review of Navient's customer service interactions. For those borrowers who select to enter forbearance over the phone, Lavoie said Navient provides each with a verbal disclosure and a written notice about other repayment options.

Lavoie also defended the practice by servicers of facilitating borrowers' entrance into forbearance, and said critics of the practice were being overly harsh and dismissive when it came to use of forbearance by borrowers.

"One of the main claims is that enrolling borrowers in forbearance is an inappropriate and therefore deceptive practice. This conclusion is deceptive in itself and shows a lack of understanding of the different repayment options available to borrowers and how forbearance can be both a proper and lower cost option for borrowers," Lavoie said in a statement. "It also ignores the fact that the option of forbearance was authorized by Congress and is a valid option for borrowers seeking short-term temporarily payment relief."

Dan Bauman is a reporter who investigates and writes about all things data in higher education. Tweet him at @danbauman77 or email him at dan.bauman@chronicle.com.

We welcome your thoughts and questions about this article. Please email the editors or submit a letter for publication.