

## **Student Loan Servicer Performance Accountability Act**

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Nearly 40 million Americans collectively owe more than one trillion dollars in federal student loan debt, including more than \$137 billion in default.<sup>1</sup> The vast majority of student loan debt, which has surpassed total credit card debt, is owned or guaranteed by the federal government.

The Department of Education's Office of Federal Student Aid currently contracts with nine companies, non-profit, and state-based organizations to service and administer this trillion-dollar federal student loan portfolio. Student loan servicers manage borrowers' accounts, process monthly payments, manage enrollment in different repayment plans, and communicate directly with borrowers, including borrowers who are struggling to make payments. Student loan servicers are a critical link between borrowers and the Department of Education, and borrowers usually have little control over who services their federal student loans. These nine servicers are currently evaluated on the basis of performance and compete with each other for loan allocations from the Department of Education.

The current federal student loan servicing contracts are set to expire in 2019, and, last year, the Department of Education launched a new competition for the next round of federal direct student loan servicing contracts. In May 2017, the Department of Education released a revised plan for the servicing competition that would reduce the number of federal student loan servicers from nine to just one servicer for the entire trillion-dollar federal direct loan portfolio.<sup>2</sup> Moving to a single federal student loan servicer would contradict recent Congressional intent, eliminate performance-based competition, and diminish the incentive to improve service for students and taxpayers. This single servicer would inevitably become too big to fail.

### ***Student Loan Servicer Performance Accountability Act***

This legislation would:

- Cancel the Department of Education's current competition for a single federal student loan servicer;
- Ensure performance-based competition in federal student loan servicing by requiring the participation of multiple servicers that contract directly with the Department of Education;
- Promote competition by requiring the Department of Education to allocate loans to servicers based on measures of their performance, including scores on borrower satisfaction; and
- Prohibit the Department of Education from awarding all federal student loans to a single federal student loan servicer and creating a federal student loan monopoly.

This bill would serve student loan borrowers and taxpayers by protecting and strengthening performance-based accountability of federal student loan servicers through greater competition and stronger oversight.

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<sup>1</sup> Consumer Federation of America, "New Data: More Than 1.1 Million Federal Student Loan Defaults in 2016".

<sup>2</sup> U.S. Department of Education, "U.S. Secretary of Education Betsy DeVos Releases Amended Federal Student Loan Servicing Solicitation" (May 19, 2017). Online: <https://www.ed.gov/news/press-releases/us-secretary-education-betsy-devos-releases-amended-federal-student-loan-servicing-solicitation>