Written Testimony

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"Indebted for Life: Older Americans and Student Loan Debt"
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Thank you Chairman Nelson, Ranking Member Collins, and distinguished members of the Select Committee on Aging. By way of introduction, I am William Leith and I am the Chief Business Operations Officer at Federal Student Aid (FSA), a principal office of the US Department of Education (Department). I have served at FSA for close to 11 years. Prior to joining the Department, I spent 19 years in financial aid-management positions at several institutions, most recently as Assistant Vice President and Director of Financial Aid at the University of Maryland.

It is an honor to be here today to speak on the important issue of student debt for older Americans. Federal Student Aid's mission is to help students of all ages pursue their postsecondary education goals. As you know, a college degree is essential to ensuring personal success for students, as well as greater prosperity and security for our nation. And, encouragingly, in recent years the number of "non-traditional" older students enrolling in postsecondary programs has increased. But as the cost of higher education continues to climb, and more students assume debt to finance their education, improving the tools and options available to federal student loan borrowers is critical.

Student debt now totals more than $1 trillion, and impacts borrowers of all ages. While some borrowers have taken out loans to support dependent students, the data suggest many older Americans are returning to school themselves.[1] Providing guidance and support to this population is an important priority for Federal Student Aid.

My testimony today will provide some background and context on the Title IV federal student aid programs, as well as information on the tools and resources the Department offers to help older borrowers manage debt, and an overview on how the Department addresses borrowers in default or delinquency.

Federal Student Loan Programs

To begin, I would like to provide some background on FSA and our work. FSA ensures that all eligible students and their families have access to federal financial assistance for education or training beyond high school. More than 1,200 employees serve at FSA's headquarters in

[1] Federal Student Aid Data pulled from National Student Loan Data System

Washington, D.C. and 10 regional offices across the country. Last year, FSA delivered $137.6 billion in federal grants, loans, and work-study funds to approximately 14 million students and administers loan servicing for 40 million student loan borrowers.[2]

Federal Student Aid has two federal student loan programs authorized under Title IV of the Higher Education Act of 1965, as amended. These are the William D. Ford Federal Direct Loan Program and the Federal Family Education Loan (FFEL) Program.

The Direct Loan program lends federal funds directly to students and parents through participating schools. Under the FFEL program, which ceased making new loans in June 2010, private financial institutions used their own capital to make loans while the Federal government provided interest subsidies and guarantees against default. In fiscal year 2013, the Department made $102.5 billion in Direct Loans to 10.6 million student and parent borrowers (not including consolidation loans). While no new FFEL loans have been made since 2010, there still remains a FFEL outstanding loan portfolio of $423 billion for 19.8 million borrowers. [3] Many older borrowers may hold FFEL loans, Direct Loans, or both. Today, the total federal student loan portfolio, including both Direct Loans and FFEL loans, is valued at more than $1 trillion, with roughly 40 million borrowers. [4]

Loan Types

There are five types of loans in the Federal student aid programs: Subsidized Stafford Loans, Unsubsidized Stafford Loans, PLUS Loans, Consolidation Loans, and Perkins loans. There is no age eligibility requirement or limitation for any of these loans. Older borrowers may rely on one or more of these loan programs finance their own education, and may use a PLUS Loan to finance a dependent student's education.

Subsidized Stafford Loans are need-based loans for undergraduate students on which the government, not the student borrower, generally pays the interest while borrowers are in school and during grace and deferment periods. The borrower is responsible for interest that accrues after loans enter repayment, and during forbearance periods. If the borrower does not pay the interest that accrues during a forbearance period, it is capitalized at the end of the forbearance.

Second, Unsubsidized Stafford Loans are non-need-based loans for both undergraduate and graduate or professional students on which interest accrues during the entire period after the loan has been disbursed, including while the borrower is in-school, and during grace, deferment, and forbearance periods. Any unpaid interest is capitalized when the borrower enters repayment and at the end of a deferment or forbearance period.

Third, PLUS Loans are made to graduate or professional students as well as to the parents of dependent undergraduate students to pay for education expenses not covered by other financial aid. PLUS loans are not need-based and interest accrual and capitalization provisions are the same as for Unsubsidized Stafford Loans. To qualify for a PLUS loan the applicant must not

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[2] Federal Student Aid's FY 2013 Annual Report
[3] FSA's Data Center
[4] FSA's Data Center

have an adverse credit history, as defined in the Department's regulations. While the amount of Stafford Loan funds are limited by statute, there is no limit on the amount of PLUS Loan funds a borrower may receive except for the school's cost of attendance.

Fourth, consolidation loans allow borrowers to take out a new loan that repays other federal student loans. The new loan has a single fixed interest rate and a set repayment period. A consolidation loan is particularly beneficial for borrowers who have both FFEL loans with a private lender and Direct Loans with the Department. Some older borrowers, who currently have FFEL loans, or a combination of FFEL and Direct Loans, may benefit from a consolidation loan. If borrowers are interested in consolidation, they should call 1-800-4-FED-AID or visit StudentAid.gov to learn more.

Finally, Perkins loans provide assistance for undergraduate and graduate students with exceptional financial need. Unlike Direct Loans, Perkins Loans are part of the Campus-Based Aid programs, and are originated by the student's institution. Approximately 1700 institutions participate in the Perkins Loan program. Perkins loan borrowers are eligible for a number of the benefits I will discuss today, and a borrower interested in learning more about their options should contact the school where he or she received the loan.

Borrower Eligibility

To receive a federal student loan, a student must meet certain eligibility requirements that include:

- completing a Free Application for Federal Student Aid (FAFSA®);
- being a U.S. citizen or an eligible noncitizen;
- having a valid Social Security number;
- if required, registering with the Selective Service;
- having a high school diploma or a recognized equivalent;
- being enrolled at least half-time as a regular student in an eligible degree or certificate program at an eligible institution; and
- maintaining satisfactory academic progress.

As noted above, there is no age eligibility requirement or limitation for any loans or federal grants. Any otherwise eligible student (or parent) cannot be denied a federal student loan based on age.

Interest Rates

Over the years, the method for determining a federal student loan's interest rate has varied. Some older borrowers may have taken out a loan during a period when interest rates were variable and adjusted each year. Those variable rates were, at times, capped at rates as high as 12 percent. From 2006-2013, the interest rates were set in statute. With the enactment of the Bipartisan Student Loan Certainty Act of 2013, interest rates are tied to the interest rate on the ten-year Treasury T-Bill. Under this Act, interest rates are determined each spring for new loans being made for the upcoming award year, which runs from July 1 to the following June 30. Each loan will have a fixed interest rate for the life of the loan.

Tools and Resources to Assist Student Loan Borrowers

Informing borrowers about interest rates, terms and conditions of federal student loans, and ways to manage student loan debt are a significant part of FSA's work. We work extensively throughout the student loan life cycle to provide clear, complete information and offer counseling tools, communications, and personal service to inform borrowers their rights and responsibilities and can manage their debt.

The Department's website, Studentaid.gov, a strong social media presence, and a suite of useful online tools provide borrowers with information about the entire student aid lifecycle—from application to repayment. This site includes information on student loan repayment options, applying for various forgiveness programs, and managing a defaulted loan. StudentAid.gov also includes a number of interactive tools, such as FSA's Repayment Estimator, which is available on all phones/tablets in both English and Spanish, and provides the option for a user to understand the impact of student loan debt and possible loan repayment options without logging in or providing detailed information. The website also includes the Financial Awareness Counseling Tool (FACT), which provides additional interactive guidance and customized feedback to borrowers regarding their debt. FSA has logged hundreds of thousands of unique visits to each of these tools since their launch.

In addition the tools available on our website, FSA and our loan servicers contact our borrowers beginning the moment they take out their loan. Servicers work directly with borrowers on an ongoing basis, through regular correspondence, phone calls, online tools, and counseling. Our servicers work to find innovative new ways to connect with borrowers, and the Department engages in outreach activities that complement these efforts.

Additionally, the Department has launched an innovative public-private partnership with the Department of Treasury and Intuit Inc., to raise awareness about income-driven repayment plans on the TurboTax website. Treasury and Education also included a message on the back of approximately 25 million envelopes containing this year's tax refund checks to raise awareness of Federal student loan repayment options. The Department is considering expanding these efforts through new innovative partnership and broader outreach campaigns to reach all borrowers, including older Americans.

Finally, the Department announced in its recent PLUS loan Notice of Proposed Rulemaking its plans to provide a PLUS specific repayment calculator and voluntary PLUS loan entrance counselling, to help parent (and older) borrowers understand the terms and repayment plans for PLUS loans, which can differ in significant ways from other loans.

Repayment Plans

To help borrowers manage their financial obligations, we offer several different, flexible repayment options including four income-driven repayment plans. Today, approximately 25 percent of all outstanding Direct Loans in an active repayment status are in an income-driven repayment plan.

A borrower's eligibility for a given repayment plan depends on the loan type and the borrower's income. Many older borrowers, who may have a limited income, may qualify for one or more of the available plans. Note that income-driven repayment options are not available for parent PLUS loans

While each plan is slightly different, they all allow borrowers to cap their monthly loan payments based on their income. For example, under the Pay As You Earn repayment plan, a borrower's maximum monthly payment amount is capped at 10 percent of the borrower's discretionary income, unless the standard 10-year repayment amount is less. The maximum repayment period is 20 years, after which any remaining balance is forgiven. Under current IRS rules, the borrower may have to pay income tax on the forgiven amount

To assist borrowers in applying for any of the income-driven repayment plans, FSA has a tool that helps individuals estimate their payments under these plans using their own loan information. If borrowers are interest in applying, they can then apply through an online application tool that provides direct access to the borrower's income information from the IRS. Borrowers can go to StudentAid.gov, or learn more about the application process by calling 1-800-4-FED-AID.

Additional Tools for Borrowers

In addition, the federal loan programs offer a number of options to help borrowers manage their debt, provide forgiveness benefits in exchange for service, or discharge loans in cases of death, total and permanent disability, or other circumstances.

The loan forgiveness program that provides the broadest benefit to borrowers is the Direct Loan Program's Public Service Loan Forgiveness Program (PSLF). The PSLF Program provides forgiveness of a borrower's remaining Direct Loan balance after the borrower has made ten years of qualifying monthly payments while employed full-time by certain public service entities if they are in a standard or income-based repayment plan. In general, eligible public service entities include all federal, state, and local government agencies, any private not-for-profit organization that is classified by the IRS as a 501(c)(3) organization, and certain other not-for-profit entities if they provide one or more of a defined set of public services. Parent PLUS Loan borrowers are eligible for Public Service Loan Forgiveness, and forgiveness depends on the qualifying public service employment of the parent.

Borrowers may also be eligible to have their loans discharged if they are totally and permanently disabled. The Department has worked to streamline the application process for borrowers seeking a Total and Permanent Disability (TPD) discharge. In July 2013, FSA implemented a new, streamlined TPD application process with a standardized form and a single point of contact for all FFEL and Direct Loan borrowers throughout the lifecycle of a TPD discharge application. In addition, borrowers may now use a Social Security Administration or Department of Veterans Affairs TPD determination to apply for a loan discharge through the central application.

Finally, loans may be discharged if a borrower dies (or in the case of a PLUS Loan made to a parent if the student dies). Under current IRS rules, the borrower or his estate may have to pay income tax on the amount that is forgiven due to either Total and Permanent Disability or death. Borrowers are not required to pay income tax on loans forgiven under the PSLF program. Borrowers interested in pursuing loan forgiveness or discharge under any of these programs should contact their loan servicer. They can also visit StudentAid.gov or call 1-800-4-FED-AID to learn more.

In addition to forgiveness options, a federal student loan borrower's obligation to make payments on a Direct Loan or on a FFEL loan may be temporarily suspended if the loan is placed in a deferment or forbearance. As noted earlier, the borrower is generally not responsible for interest on subsidized loans during deferment periods. The borrower is, however, responsible for interest on unsubsidized and PLUS loans during deferment periods, and on all loan types (including subsidized loans) when a loan is in forbearance.

There are a number of deferments provided in the law, some of which may be of more interest to older borrowers struggling to make payments on their loans. Deferment types include:

- In-School deferments,
- Military deferments,
- Unemployment deferments, and
- Economic Hardship deferments.

Forbearances are generally granted to allow the borrower to get through a short-term economic distress, or to cover periods while the borrower is changing repayment plans or preparing to apply for a deferment, loan discharge, or forgiveness.

If borrowers are interested in pursuing any of these options – deferment, forbearance, forgiveness or discharge – they should contact their loan servicer to learn more. They can also visit StudentAid.gov or call 1-800-4-FED-AID.

Default

Unfortunately, some borrowers default on their federal student loans. Many older borrowers may be at particular risk of default.

Under the law, a default occurs when the borrower is delinquent for more than 270 days. After a loan defaults, the Department provides the borrower with multiple opportunities to work with us to bring their loan back into a current repayment status. After a loan defaults, the borrower's loan servicer has additional time to make contact with the borrower in writing, by email, and by phone. If the borrower remains in default at the end of that window, the loan is transferred to the Department's Default Management Group, where we continue to work to establish contact with the borrower and set up an appropriate repayment plan.

The Department is always looking for new and innovative ways to reach delinquent and defaulted borrowers and help them get back into active repayment. In June, President Obama directed FSA to develop, evaluate, and implement new targeted strategies to communicate with borrowers to help them understand the tools and resources available to help them manage their debt, and we look forward to launching those new efforts in the coming months.

If, after more than a year after borrower stops making payments, the loan remains in default, it is referred to a Private Collection Agency (PCA) for additional collection activities, and the Department will initiate a required offset of federal payments, if applicable. This can affect elderly borrowers' Social Security payments.

There are a number of ways for borrowers to get out of default. Borrowers may "rehabilitate" their loans – and clear the default from their credit history – by entering into an agreement and making at least nine "reasonable and affordable: payments on time over a ten-month period. Outstanding collection costs are added to the principal balance of the rehabilitated loan. The Department has recently made it easier for borrowers to rehabilitate their loans. Most importantly, in 2013 we implemented a new regulation which defines that "reasonable and affordable' payment as no more than 15 percent of their discretionary income.

Once a loan is rehabilitated, the borrower regains eligibility for deferments and forbearances and access to the full range of repayment plans.

In addition, borrowers can resolve their defaults by consolidating their loans or by paying the loan in full. To consolidate a defaulted loan, a borrower must either first make a specified number of payments on the defaulted loan or, for any non-Parent PLUS Loan, agree to repay the new consolidation loan under an income-driven repayment plan. These options, however, do not clear the borrowers' credit history, but can get the borrowers back into good standing and potentially a zero-payment income based repayment plan much more quickly.

If a borrower in default does not rehabilitate, consolidate, or otherwise make arrangements to repay his or her loan, the Department applies other collection tools which have "due process" protections that include notification requirements, appeal rights, and exemptions in cases of financial hardship. These tools include administrative wage garnishment, litigation, and, most relevant to the subject of this hearing, the Treasury Offset program (TOP).

TOP is a centralized mandatory offset program to collect delinquent debts owed to the federal government. Under the Debt Collection Improvement Act of 1996, the Department of Education and other federal agencies are required to submit delinquent debts to the Department of the Treasury's Fiscal Service for collection and inclusion in TOP. Before the Department refers a debt to TOP, the Department provides the borrower with a 60-day due process notice, which provides opportunities to work out payment arrangements. In addition, Treasury will send a 60-day warning notice before regularly recurring payments, such as Social Security benefit payments, so that the borrower can present any hardship to the Department. The most common offset is the federal income tax refund. The law, however, allows for the offset to be applied to other federal payments including a portion of some payments made by the Social Security Administration. TOP includes a number of protections for low-income borrowers, including a prohibition on offsetting Social Security Disability Insurance payments, limiting the percentage of a borrower's Social Security payment that can be offset, and allowing for the suspension of an offset by the Department if there is a legally valid objection to the collection activities.[5]

However, none of these actions occur until the borrower has been notified many times of the debt, both before the loan defaults and many more times after default, and has been given an opportunity to object to the collection action or enter into a voluntary repayment plan.

Additionally, it is important to remember that even after a borrower is subject to an offset, there are steps they can take to help resolve their defaulted debt. Most importantly, borrowers should contact their loan servicer immediately to explore the options available to them. To assist defaulted borrowers, the Department, in partnership with the Consumer Financial Protection Bureau, developed the Student Loan Debt Collection Assistant, which provides user-friendly information about how to access the full range of special repayment options available.

Borrowers can find their loan holder's contact information in the case of FFEL or their servicer for Direct Loans, as well as a link to the Student Loan Debt Collection Assistant, at Studentaid.gov.

Conclusion

Federal Student Aid is committed to working with our borrowers to help them understand and manage their debt. As the number of federal loan borrowers, including those over the age of 65, increases, we will continue to develop new tools and new programs that can help borrowers manage their debt. I hope that the information I have provided today will prove helpful both to the committee and to borrowers themselves.

I appreciate the opportunity to provide the Committee with a brief overview of the federal financial aid programs and the tools and resources we offer borrowers, students and their families to help manage their debt. I welcome any questions you may have today.

[5] Treasury TOP Resource page - http://fiscal.treasury.gov/fsservices/gov/debtColl/dms/top/debt_top.htm