



March 15, 2021

Re: Recommendations for Successfully Transitioning Federal Student Loan Borrowers Back Into Repayment

From: Center for American Progress, New America Higher Education Program, National Association of Student Financial Aid Administrators (NASFAA), The Institute for College Access & Success (TICAS), and The Pew Charitable Trusts' Project on Student Borrower Success

To: Interested Parties

Even before the COVID-19 pandemic, many student loan borrowers were struggling, with more than a million borrowers going into default each year. To mitigate the challenges facing borrowers during the pandemic, the Biden Administration extended the pause on payments, interest, and collections for most federal student loan borrowers through September 30, 2021. When the pause ends, tens of millions of borrowers will move back into repayment simultaneously. The difficulties borrowers face are likely to persist even as the economy re-opens and the COVID crisis subsides.

The impending transition out of the repayment pause is an unprecedented challenge for the Education Department (ED), the Office of Federal Student Aid (FSA), and its contracted loan servicers. In fact, [recent survey work](#) indicates that as many as nine million borrowers could reach out for help at the same time, potentially overwhelming the system.

[Research has shown](#) that borrowers are confused and anxious about this transition, with many saying they may not be able to afford their monthly payments when the pause ends. If not managed properly, this transition could result in borrowers falling through the cracks and into delinquency and default; past disaster-related forbearances for hurricanes and wildfires have [contributed](#) to rising delinquency and default rates after the forbearances ended.

Of particular concern are borrowers who were in delinquency or default before the pause started in March 2020. Borrowers who were delinquent will re-enter repayment with a clean slate, and many defaulted borrowers who were in the process of rehabilitating their loans will have completed the process and will re-enter the repayment system. But these borrowers remain at high risk of falling back into delinquency and default, and FSA must take targeted steps to keep these borrowers on track. And, borrowers who were in default before the payment pause but who did not rehabilitate their loans will once again be subject to collections.¹

¹ While this piece focuses on borrowers transitioning back into the repayment system and actions ED can take to assist them, there are several populations who did not benefit from the pause or who will not re-enter repayment with a clean slate. This includes borrowers in default who have not started or completed rehabilitation and borrowers with [commercially held FFEL loans and Perkins loans](#), among others. ED should engage in targeted outreach to borrowers in default who have not started the process of rehabilitating their loans and use available flexibilities to ensure these borrowers are able to return to successful repayment when the pause ends. ED and servicers should continue to conduct outreach and provide additional support to borrowers whose loans are not included in the pause to support successful repayment.

Below, we outline recommendations for concrete steps that ED and FSA can take before the payment pause ends to ensure all borrowers can transition successfully back into repayment. We are encouraged by the inclusion in the American Rescue Plan of \$91.1 million for student aid administration, which will help enable ED to implement key strategies for successfully transitioning borrowers back into repayment. We urge ED and FSA not to delay and to take full advantage of the next seven months to implement these recommendations.

Provide intensive, targeted outreach to borrowers who demonstrated signs of struggle before the pause. Throughout the payment pause, ED and FSA have conducted periodic outreach campaigns to inform borrowers of their options both during the pause and after the pause ends. As part of this effort, ED should focus on borrowers who are most at risk of delinquency and default and take steps to ensure they get the help they need to enroll in income-driven repayment (IDR) plans. These communications should go out as quickly as possible.

To the extent possible, ED should also review borrower engagement with previous communications and make responsive modifications to messaging, language, and formatting, based on what drives the highest engagement. ED should work in tandem with servicers to communicate directly with borrowers as September 30 approaches, and should, at minimum, communicate closely with servicers to share communication best practices.

This effort should include adjusting servicer incentives to encourage higher-touch help for borrowers who had indications of struggle before the pause. This could include (but not be limited to) borrowers who:

- Were 90 or more days behind on their payments;
- Had recently defaulted;
- Missed payments within their first three months of entering repayment (if they had recently entered repayment before the pause);
- Entered into a non-administrative forbearance on two or more occasions or for a period longer than a year;
- Paused, missed, or made partial payments while enrolled in an IDR plan;
- Missed two or more consecutive payments on three or more occasions; or
- Had other indicators of repayment distress, such as not having completed a program of study.

[Recent research](#) highlights several promising practices for communicating with borrowers (many of which are already being implemented by servicers), including:

- Emphasizing the financial insurance aspect of IDR plans for at-risk borrowers — specifically, that these plans could ensure that payments remain affordable during unexpected changes in income.

- Following up via email, phone, and text with borrowers who express interest in IDR plans when contacted and with those who submit incomplete applications or whose applications are otherwise not approved.
- Highlighting that borrowers experiencing hardship could be eligible to make a lower (as low as \$0) payment in an IDR plan.
- Underscoring the consequences of inaction, such as highlighting the increased monthly payment that will occur if a borrower does not re-certify for an IDR plan and the credit-related consequences of delinquency.
- Providing a checklist of documents that borrowers need to enroll in or re-certify for an IDR plan, including examples of the documents and where to obtain them.

We encourage servicers and ED to include, conduct, or substitute additional outreach activities and outreach to different borrower groups as long as those efforts are evidence-based and are designed to assist borrowers who are struggling or are otherwise at elevated risk of delinquency and default.

Provide clarity on auto-debit payments. When the payment pause started, servicers turned off borrowers' auto-debit payments. ED and servicers must carefully consider whether it is in the best interest of borrowers to automatically reinstate their auto-debit payments. While reinstating auto-debits could help borrowers make payments immediately after the pause ends, this action poses significant risks to those whose finances have been negatively impacted by the pandemic. For example, if borrowers have experienced changes in income during the pandemic which would render their pre-pause payment amount unaffordable, having those payments withdrawn from their bank accounts could impact their ability to make ends meet.

If it is determined that auto-debit should be automatically turned back on, ED and servicers should also consider whether this should happen immediately when payments resume, or at a different point in time after repayment resumes. Additionally, regardless of which path is taken, ED should ensure that practices around reinstating auto-debit are consistent across servicers, so that the experience is the same for all borrowers.

In any scenario, ED and servicers must proactively communicate with borrowers about whether auto-debit will be turned back on and, if that is the case, clearly state when auto-debit payments will resume. These communications should be marked as "urgent" and should clearly state that a borrower needs to take action if they want to opt out (in the event that auto-debit is automatically turned back on) or opt in (in the event that auto-debit is not automatically turned back on). These communications should include information on how borrowers can modify their auto-debit information, and should begin well before repayment resumes to give borrowers ample notice to prepare. ED and servicers should also work to identify and analyze existing data to better understand the population of borrowers that were previously enrolled in auto-debit arrangements.

Provide additional flexibilities to borrowers who exhibit signs of stress after the pause ends. Even with targeted outreach and high-touch servicing, it is likely that some borrowers may still slip through the cracks when repayment resumes. ED should use its existing authority to allow additional short-term, penalty-free periods of non-payment for those who miss payments immediately after the protections expire. ED and servicers should also engage in and support additional outreach efforts for such

borrowers (ED could consider incentivizing servicers to prioritize this effort via payment structure). For those borrowers who become severely delinquent over a set period after the pause expires, ED should consider taking similar measures before borrowers are placed in or experience the consequences of default.²

Ensure that it is as easy as possible for servicers to enroll borrowers into IDR plans now and in the long term. The process for enrolling in (or re-certifying enrollment in) an IDR plan can be complex and time-intensive for borrowers and servicers, even during regular times. When the pause ends, servicers will likely be overwhelmed by an unprecedented volume of outreach from borrowers needing assistance. Servicers have faced challenges operating support centers during the pandemic and may not have enough call center staff or capacity to manage this transition, which could result in long wait times when borrowers need help the most.

In addition to conducting proactive outreach about IDR enrollment, we recommend that ED implement flexibilities to streamline IDR enrollment. For example, for borrowers who have had reductions in income and cannot benefit from using the IRS Data Retrieval Tool (which is typically used to transfer tax information into an IDR application), ED should temporarily permit servicers to enroll borrowers into an IDR plan without requiring extensive paperwork — such as verbally, through a website, or through electronic communication.

Require student loan servicers to maintain a skilled workforce and ensure proper servicer oversight. The demand for high-quality servicing will be higher than normal in the months after payments resume, but servicers' workforces may have decreased as a result of the uncertainty surrounding pause extensions and the proposed changes to the student loan servicing system.

While FSA adjusted servicer compensation when the pause began, there were no requirements or resources implemented to enable servicers to maintain their workforces or the ability to manage the same or an increased volume of borrower communications and processing tasks. ED could consider minimum requirements (FTE or otherwise) to ensure that servicers have sufficient capacity to support and assist borrowers — with minimal delays — when payments resume. ED should also consider plans to temporarily increase servicing-related staffing post-pause and ensure that appropriate financial resources are tied to these requirements. ED should prioritize the clearance of employee background checks to help servicers maintain a skilled workforce.

As part of these efforts, ED must also perform strong oversight of its contracted servicers to ensure they are effectively serving borrowers and meeting performance standards.

Address uncertainty surrounding Next Gen and federal loan servicing contracts. The success of the transition back to repayment will rely heavily on federal loan servicers, and attempting to re-structure servicing contracts during the re-entry period will likely result in chaos. As ED continues its work to overhaul the loan servicing system, it must carefully calibrate the timeline for advancing the Next Gen initiative and issuing new servicing contracts to ensure that broader upheavals to the servicing system don't undermine a successful transition back into repayment.

² For a long-term fix that would help minimize defaults, we recommend that borrowers be automatically enrolled (with the choice to opt out) into an IDR plan after a certain number of days in delinquency. This policy was included in the bipartisan SIMPLE Act ([H.R.3833](#), 116th).

Continue work on longer-term repayment reform. While it's critical for ED to quickly take the above steps to smooth the repayment transition, there remain many overdue reforms to the federal student loan repayment system.

By enabling secure data sharing between ED and the Internal Revenue Service, the FUTURE Act ([Public Law 116-91](#)) — once implemented — will significantly streamline enrollment and re-certification for IDR plans. We urge ED to work with stakeholders to implement the FUTURE Act provisions related to IDR enrollment and re-certification as quickly as possible.

ED should also work with Congress to streamline IDR options and create a new, improved IDR plan that all borrowers can access, while also re-thinking the overly punitive consequences of loan default and the role of private collections agencies in the repayment system.