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Opening Statement
Ranking Member Gerald E. Connolly
Subcommittee on Government Operations
Hearing on "Improper Payments in the Federal Government: Student Aid"
May 25, 2017

Thank you, Mr. Chairman, and welcome to all of our witnesses here today.

Today's hearing examines improper payments at the Department of Education. It is an important topic, and there are a number of reasons to be concerned about this issue.The Department of Education Inspector General (OIG) has repeatedly reported on the Department's noncompliance with the Improper Payments Information Act of 2002, the Improper Payments Elimination and Recovery Act of 2010, and the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERA). We must understand how the Department can improve its evaluation and targeting of improper payments.

However, the more pressing issue at the Department of Education, and the one facing the most Americans' checkbooks, is the unethical, abusive, and predatory actions of student loan companies. The Department distributes $125 billion in student assistance each year. With more than $1.3 trillion dollars in loans on the books, it is one of the largest financial institutions.

To manage this portfolio, the Department contracts with student loan companies. Last September, the OIG issued a report finding that multiple student loan companies—which were supposed to be helping students—were actually accessing and changing student log-on information as part of predatory schemes to access their accounts, change their regular mail and email addresses, and even intercept correspondence.

Specifically, the IG reported that the process for logging on to the Federal Student Aid (FSA) website was "being misused by commercial third parties to take over borrower accounts."

In one case, the IG warned that a student loan company "changed the mailing address, phone number, and email address for borrowers so that it would be difficult for the borrowers to be contacted by their loan servicers."

Less than two months ago, on April 20, the staff of the Oversight and Government Reform Committee conducted a transcribed interview with the Special Agent in Charge of this investigation at the Inspector General's office. The Special Agent warned that these companies "were controlling thousands of accounts or creating thousands of accounts and controlling them."

In other words, the very companies that were supposed to be helping students were abusing their trust.

In January of this year, the Consumer Financial Protection Bureau (CFPB) filed suit against Navient, one of the largest student loan servicing companies, alleging that they steered high risk borrowers into plans designed for those with short-term financial hardships, misrepresented the consequences of non-renewal of plans, and prevented some of the most financially vulnerable borrowers from securing the benefits of payment plans specifically intended for them.

In response to documented abuse by loan servicers and a default rate of one default every 29 seconds, the Obama Administration issued a memorandum requiring the FSA to do more to help borrowers manage or discharge debt. The new guidance also put protections in place for borrowers by reducing the possibility that new contracts would be given to companies that mislead or otherwise harmed debtors.

Unfortunately, Secretary Betsy DeVos recently rescinded those directives and instructed the FSA to move forward awarding contracts to companies that have current lawsuits against them, have admitted in court to their abuses, and have been fined millions of dollars.

The elimination of these important protections by Secretary DeVos allows student borrowers to be charged up to 16 percent of the principal and accrued interest owed on loans, unless they enter the government's loan rehabilitation program within 60 days of default.

Secretary DeVos also intends to shift to contracting with one loan servicer, which will potentially have subcontractors under them. This policy will eliminate direct government oversight of many student loan servicers. I want to know how this new policy will provide better customer service and reign in loan servicer abuse. From the announcement by Secretary DeVos it appears that the Department will in fact have less oversight of the loan servicers under this new model.

The rollback of these vital protections and financial oversight combined with the recently announced Trump Budget for FY2018 represent a unilateral retreat from safeguarding the best interests of students and borrowers. The budget outlines a $9.2 billion, or 13.5%, cut to the Department. The Administration would eliminate the federal student loan forgiveness program for public service workers, limit student loan repayment options, and end federally subsidized student loans.

The actions of this Administration constitute an assault on educational and economic opportunity. Education is an investment the government can make that has a return. When we shortchange that investment by leaving students to fend for themselves against unscrupulous loan servicers or withdraw federal support for education, we absolutely diminish our expected return – the talented, well-educated workforce the United States needs to compete in a 21st century global economy.

Thank you, Mr. Chairman.

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