Statement of Ben Miller  
Senior Director, Postsecondary Education, Center for American Progress  
Before the  
United States House of Representatives Committee on Oversight and Government Reform,  
Subcommittee on Government Operations  
and  
United States House of Representatives Education and the Workforce Committee  
Subcommittee on Higher Education and Workforce Training  
November 18, 2015

Chairman Meadows, Chairwoman Foxx, Ranking Member Connolly, and Ranking Member Hinojosa, thank you very much for the invitation to testify before you today.

My name is Ben Miller, and I am the senior director for postsecondary education at the Center for American Progress, where I conduct and publish research and analysis on higher education and student debt. I also had the honor of serving in the Obama Administration from 2011 to 2013. I worked in the Office of Planning, Evaluation, and Policy Development at the Department of Education, where I worked closely with the Federal Student Aid (FSA) office.

With Congress discussing the reauthorization of the Higher Education Act, now is the time to think about what can be done to make FSA more successful in the future while preserving the things it does well. This is an important debate. Making sure that FSA is effective, efficient, and working in the best interests of students and taxpayers is crucial for ensuring the federal investment in postsecondary education increases educational attainment and improves our country’s economic future. And the stakes are higher than ever: if FSA were a bank, it would be roughly the size of Citigroup in terms of assets it owns or guarantees.1

In the past 10 years, FSA has had some big victories: the near-seamless shift to Direct Lending, the launch of a smarter, leaner aid application process, and substantial improvements to the loan repayment process. It also has some areas where improvement would help: overseeing colleges that are defrauding or taking advantage of students, holding servicers and debt collectors accountable for providing quality service to students, and providing sufficient public data about its portfolio.

Under discussion today is whether FSA’s congressionally mandated structure, which provides flexibility in key areas around hiring, contracting, and budgeting, is still the right way to manage the federal aid programs today. Currently, FSA’s structure works very well with getting dollars out the door to students. It encourages steady improvement in the aid application and repayment processes. In the past several years it allowed FSA to rapidly adapt to two major changes in the student loan market—the need to purchase federal loans issued by private banks and convert to a system where FSA originated all federal loans. Both of these developments occurred in a matter of months and likely could not have gone as smoothly under a traditional government structure.
Conversely, FSA still has room to improve in some areas, such as oversight of institutions, contractors, and lenders, and releasing data necessary for policymakers, students, and the public. Congress should consider whether changes to FSA may be necessary to help the agency get better in these areas. This could include making oversight and data transparency stated goals of the legislation guiding FSA’s structure.

Under the current legal framework FSA, cannot address structural problems that contribute to the rising cost of college and student debt. It cannot reverse long-standing trends that are shifting the cost of higher education from taxpayers on to students through state disinvestment. It cannot make colleges become more innovative in their educational operations to improve outcomes or bring down the cost of educating students. Nor can it encourage colleges spend scarce resources on what is really needed for high-quality teaching and learning, not unnecessary amenities and administration. Those are all policy issues that FSA cannot address without Congress changing the law.

The rest of my testimony focuses on four things: (1) why FSA became a PBO, (2) what FSA has done well in the last several years, (3) the need for better data from FSA, and (4) what Congress can do to improve the administration of the aid programs.

**Federal Student Aid’s current structure**

Federal Student Aid became a “performance-based organization” (PBO) as part of the 1998 reauthorization of the Higher Education Act. As reported by the Congressional Research Service, there was significant concern at the time about the quality of FSA’s customer service, its efficiency, and its accountability. The United States Government Accounting Office (GAO) had also identified the federal student aid programs as high-risk since 1990.

Concerned that FSA’s structure prevented it from operating as efficiently and effectively as possible, Congress elected to convert the agency into a PBO. This turned FSA into a separate agency within the Department of Education, which, while still part of the government, was expected to act more like a private business. The idea was that FSA would gain more autonomy in terms of hiring, contracting, personnel, and budgeting but then be subject to greater accountability for outcomes. In particular, the legislation creating the performance-based organization set out seven purposes:

1. Improve service to students and other participants
2. Reduce administration costs
3. Increase accountability for FSA staff and leaders
4. Become more flexible in administering the programs
5. Combine information services into a more streamlined process
6. Create a common delivery system for federal student; and
7. Establish a system that has accurate and timely data to ensure program integrity

The language establishing the PBO sent a clear message to FSA—do a better job delivering federal aid, and do so at a lower cost. To that end, it focused almost exclusively on issues related to aid disbursement and systems. Less attention was paid to the agency’s roles in carrying out oversight and enforcement activities.
Federal Student Aid excels at getting dollars to students

Guided by the PBO goals that emphasize cost efficiency and streamlined delivery, FSA is very effective at getting aid dollars to students. This is not an easy task. Last year the federal student aid programs disbursed $128 billion to 12 million students at over 6,100 institutions and campuses. This includes everything from Ivy League universities to small cosmetology schools. Students receive funds when they need them in a process that is continuously improving. Funds are dependable and delivered quickly with no interruptions in service.

The PBO encourages low-cost disbursement and management

This high-functioning nature of aid disbursement can likely be attributed to FSA’s status as a performance-based organization. As noted earlier, the PBO legislation emphasized FSA’s need to be more efficient and effective in disbursing aid. And so it has clear and easily measurable goals that directly relate to getting aid to students and operating the programs at a low cost. This includes measures like the cost per processing an aid application, the cost per borrower of student loan servicing, and the FAFSA filing rate of high school seniors.

FSA oversaw two significant loan changes quickly and efficiently

In addition to its success in getting aid dollars to students, FSA rapidly and effectively handled two major recent changes in the federal student aid programs: the threatened collapse of the bank-based loan system during the recession and the transitioning to having the government disburse and service all federal loans in 2010. In doing so, it showed the benefit of the PBO in flexibly adapting to new circumstances while preserving access to aid for students.

The first of these major changes occurred in 2008. At the time, private loan companies could issue federal student loans. To encourage them to do so, the government provided subsidies to lenders and guaranteed 97 percent of the loan’s balance against default. In exchange, lenders raised capital to originate loans and then serviced them.

Finding capital to issue loans was the most significant private market function in the system. But lenders proved incapable of doing this during the credit crunch. Several lenders exited the federal loan business and other major companies started threatening that they would be unable to issue new student loans. So Congress passed a law called the Ensuring Continued Access to Student Loans Act, or ECASLA. This bailout program authorized the federal government to lend money to loan companies and also purchase bank-issued federal loans. The effect of this bill was that FSA lent to loan companies at one rate, gave them subsidies at another, and allowed the lenders to collect the difference between the two—about 129 basis points. FSA stood up the required ECASLA programs quickly, stabilizing the loan market and ensuring students got the loans they needed.

The second major event occurred in 2010 when Congress ended the bank-based loan program and shifted to a system where all loans are made directly by the U.S. Department of Education using the government’s lower cost of capital. Known as the Direct Loan Program, this change put FSA in charge of originating, disbursing, servicing, and collecting all new federal loans.

Switching to a system where FSA directly handled all federal student loans was a monumental undertaking. It made the entire switch in just three months—from the end of March to the end of June. This included helping thousands of institutions to switch systems. A few numbers illustrate the sheer scale of this change. In 2008, the Department originated $13.3 billion in Direct Loans, about 19
percent of all federal loan volume.$^{12}$ In 2010-11 it disbursed $105.3$ billion—150 percent more than all federal loans issued in 2007-08.$^{13}$ Yet all students still received their loans in a timely fashion.

This move to 100 percent Direct Lending not only showed FSA’s operational capability, it also helped students and taxpayers. Ending subsidies for private lenders saved tens of billions of dollars for taxpayers, which allowed for spending over $36$ billion more on Pell Grants, as well as over $19$ billion to reduce the federal deficit.$^{14}$

Eliminating the role of private banks also reduced the risk of fraud in the federal loan system. This is because there never was a truly private market for federal loans, just a lucrative set of subsidies. Congress set the loan terms and conditions. Students received the same interest rate, loan limits, and borrower benefits regardless of lender. Private companies issuing the loan had a 97 percent guarantee against default and also received quarterly payments from the government.

With no competition on loan terms or real skin in the game, lenders instead resorted to questionable tactics to compete over loan volume. In 2007, Andrew Cuomo, then the New York Attorney General, reached settlements with over a dozen loan companies, including the eight largest private lenders, for improper relationships with institutions of higher education.$^{15}$ Cuomo’s investigation found that loan companies were doing things like offering kickbacks to financial aid administrators in exchange for recommending their loans to students.$^{16}$ One Department of Education official even held over $100,000 in stock of a student loan company he oversaw.$^{17}$ Lenders also took advantage of securitization practices to generate potentially hundreds of millions in inflated subsidy payments from the federal government—an issue for which several student loan companies are still facing legal action.$^{18}$

Terminating the bank-based loan system removed the risk of lenders engaging in questionable behavior going forward. It saved taxpayers money. And FSA’s ability to ramp up the Direct Loan program showed that it could handle this expansion of responsibility quickly and efficiently.

**FSA has significantly improved the aid application process**

During the last several years FSA took several steps to make the Free Application for Federal Student Aid, or FAFSA, much easier for students and families to fill out. This is important for ensuring that paperwork does not become a burden to getting money needed for college. To accomplish this, FSA implemented skip logic for the online form, reduced the number of questions by 30 percent, and created a tool that allows users to import data directly from the Internal Revenue Service.$^{19}$ The result is it now takes about 21 minutes to complete the form, down from closer to an hour.$^{20}$ It also launched a pilot project to help states and school districts identify students who started but did not finish a FAFSA so they can apply for the aid they need.$^{21}$ These are all instances of good government innovation to make products and services better and more efficient.

**FSA has significantly improved the student loan repayment process**

FSA made several changes over the last several years to improve the process of student loan repayment. It implemented repayment plans that allow all borrowers to tie their loan payments to an affordable share of their income. It also conducted substantial borrower outreach to increase awareness of income-driven repayment options and redid the loan counseling tool students complete when they leave school. And it has made it easier for borrowers to apply for income-driven repayment plans by establishing a link to IRS data that makes it possible to easily transfer income data to application forms. These changes should help millions of borrowers stay current on their loans.
Federal Student Aid must improve data transparency

While FSA publishes some analyses of the condition of the student loan portfolio, the public and policymakers would benefit from more data. Increased transparency would help Members of Congress and others who rely on evidence to develop solutions. FSA should do more to unlock the data it has, make it transparent, and use it for improving internal practices.

The data FSA possesses and releases
FSA’s most important database is known as the National Student Loan Data System, or NSLDS. It represents the most complete set of information available about the federal student aid programs. This system contains information on all individuals receiving federal financial aid from FSA. This includes data on the schools a student attended where they received aid, the amounts and type of aid received and when, and some of the information students provided when filling out the application for federal aid. The main purpose of NSLDS is operational. FSA uses it to track aid awarded, note when borrowers enter repayment or default, and other functions related to managing the federal student aid programs under the rules set by Congress.

In 2009 FSA created a Federal Student Aid Data Center that uses NSLDS to generate spreadsheets of information about its portfolio to the general public. These workbooks include information about the amount of grants and loans disbursed by institution by year. More recently the site started publishing breakdowns of the Direct Loan portfolio in terms of loan status, repayment plan, and the types of deferments and forbearances used by students to pause their payments for at least a year at a time.

Available data are insufficient for Congressional policymaking
The federal student aid programs offer a suite of benefits to help struggling borrowers avoid delinquency and default. For example, borrowers can use forbearances to pause their payments for a year at a time without becoming delinquent. Borrowers can also tie their monthly payments to their income as a way of ensuring affordability.

FSA’s public data do not allow for analyzing the effectiveness of these repayment options. While the agency does disclose information on the sheer stock of loans in forbearance and income-based repayment, it does not provide information about how loans may flow in and out of these statuses. In other words, FSA reports how many borrowers are on forbearance, but not how long they stay in this status, whether borrowers who leave forbearance end up repaying or defaulting. These are important questions for assessing effectiveness. If it turns out that forbearance is nothing more than a pause on the way to default then new borrower assistance tools may be necessary. Or if borrowers spend several years in forbearance then it may be necessary to explore ways to get them on income-based repayment instead.

The same issue is true for institutional, servicer, and contractor oversight. Every year the Department of Education discloses student loan default rates. And this year the Department of Education released some data on loan repayment rates and earnings of federally aided students as part of a revised College Scorecard. For institutions, however, FSA does not release information related to longer-term default rates overall and by type of loan, usage of repayment plans such as income-based repayment, or delinquency rates.
The data FSA discloses by servicer are useful but would also benefit from some additional information. FSA releases data on repayment plan and loan status by Direct Loan servicer, but does not break results down by cohort. This means data combine the experiences of borrowers across many years in repayment, not how the set of borrowers who entered repayment in a given year fare. Similarly, data on loan results by private loan company are also limited.

The public would benefit from more data on debt collectors. FSA does not disclose information related to how different debt collectors fare in terms of helping borrowers rehabilitate defaulted loans or consolidate them to get on income-based repayment. Knowing more about these issues is important for determining whether the current structure of debt collection succeeds in giving borrowers the tools they need to fix their situations while also getting the government’s money back when warranted.

**Data could be better leveraged for changing contractor incentives**

It is increasingly clear that the borrowers most likely to default are those who drop out with relatively low balances. For instance, a recent report from the Association of Community College Trustees drawing on data from borrowers at Iowa Community Colleges found that nearly half of defaulters owed less than $5,000. Similarly, of students who started in 2003-04, borrowed, and had defaulted by 2009, over 60 percent had dropped out and about 20 percent had completed nothing more than a certificate.

FSA could make better use of its data to identify risk signs among borrowers, such as dropping out, and use them to drive changes the practices of its contracted servicers and debt collectors. For instance, FSA could place new requirements for servicers to contact higher-risk borrowers sooner and more frequently. It could also change contracting terms to compensate servicers differently for serving riskier borrowers. And FSA could establish new performance metrics that introduce greater accountability for helping these individuals.

**FSA needs a public data analysis tool**

The first step in improving data transparency is to create a tool that would allow the public to run its own analytics off the data held in NLSDS. This does not mean giving access to anything close to personally identifiable data. It would look like PowerStats, a tool the Department of Education’s National Center for Education Statistics (NCES) created to let the public run queries off the sample surveys it administers. With it, anyone can generate statistics about the rate at which students borrow, average amounts, and other important data.

Building a similar tool for NSDLS could satisfy many research and analysis questions. With it users could answer some of the key questions raised above—what is the longer-term default rate on loans? Do borrows who use forbearance ultimately repay? What are the risk characteristics in terms of institutions and students most associated with poor loan outcomes? This system would not need to produce results at the institutional level, but would have to generate answers by institution type and major student characteristics. And it could include the same privacy protections—including jail time and fines for those who violate rules—that NCES already established for PowerStats.
Possible Congressional actions

Congress should take steps to improve the administration of aid programs.

Add data and transparency to the PBO goals

With a reauthorization of the Higher Education Act on the horizon now is the time to rethink the structure of aid benefits, accountability, and other major issues. To do so requires better data about what currently happens to students. Adding data release and transparency, including a public data analysis tool, to the PBO’s goals would make this a core expectation of FSA’s responsibilities.

That said, even greater transparency around existing data will not correct the major gap in FSA’s current data system—students who do not receive federal aid. While this information is not important for analyzing loan performance, it is crucial for judging completion and attainment rates of students. Without data on the full population of students it is impossible to contextualize the results of federally aided students.

FSA is currently not allowed to generate this fuller picture of student performance. A 2008 change by Congress banned the establishment of a student unit record system that would include data on individuals in college who do not receive federal aid. If Congress is concerned about the completion success of federally aided students it should overturn this unit record ban.

Require reporting on FFEL loans

The public is currently flying blind when it comes to the operation of the FFEL program. These are a significant amount of loans—$371 billion. And the public knows little about their delinquency status, payment plan, or other key indicators because the FFEL loan holders are not required to report it. Congress should require new reporting for FFEL lenders to ensure that the Department can better analyze how that older part of the portfolio performs.

Simplify the aid programs

An additional operational challenge for FSA is that Congress has created far too many aid options, especially in terms of loan repayment. Students who enter repayment can pay anywhere between 10 years and 30 years, in equal payments, in payments that grow over time, or based upon their income. Reducing the number of payment options down to a standard plan and an income-driven plan would help FSA better communicate options to borrowers and assist with choice.

Similarly, Congress can do more to help borrowers access their financial aid and maintain their repayment benefits. On the front end, it could authorize a pilot program to inform students as early as eighth grade of their aid eligibility. Doing so could send a strong signal to younger students that college will be affordable and within reach to motivate them in school.

Congress can also take two steps to improve loan repayment. First, it could allow students applying for the income-driven repayment plans to authorize the sharing of their income information for multiple years. Doing so would make it easier for borrowers to re-enroll in these plans each year and also reduce costs for servicers. Second, it should authorize a pilot program to test out allowing borrowers to pay their loans through the payroll withholding system. If successful, paying loans in this manner could make it much easier for students to stay on track and avoid default.
Conclusion
Seventeen years ago Congress turned FSA into a PBO largely due to concerns about high costs of program administration and poor service to institutions and students. The structure appears to have been very successful at fixing issues related to getting funds to students and keeping administrative costs reasonable. Now, the challenge is to encourage better oversight of institutions, servicers, lenders, and other contractors, and to provide the public and policymakers with increased data and transparency. Accomplishing these goals will make FSA and the aid programs it administers stronger and better for students and taxpayers.

Notes

5 Ibid.


Name:

1. Please list any federal grants or contracts (including subgrants or subcontracts) you have received since October 1, 2012. Include the source and amount of each grant or contract.

   From February 2011 to May 2013 I was employed in the Office of Planning, Evaluation, and Policy Development at the U.S. Department of Education. But I did not receive any federal subgrants or contracts at that time.

2. Please list any entity you are testifying on behalf of and briefly describe your relationship with these entities.

   I am testifying in my capacity as senior director, postsecondary education at the Center for American Progress (CAP). I am a full-time employee there and am not testifying on behalf of any other entity.

3. Please list any federal grants or contracts (including subgrants or subcontracts) received since October 1, 2012, by the entity(ies) you listed above. Include the source and amount of each grant or contract.

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I certify that the above information is true and correct.

Signature: ________________________________  Date: 11/16/2015
Ben Miller

HIGHER EDUCATION POLICY EXPERIENCE

Senior Director, Postsecondary Education, Center for American Progress May 2015 – Present

- Publish research and commentary on student debt, college accountability, Pell Grants, and accreditation, among other issues
- Manage the postsecondary policy team, set strategic goals, and oversee the work of a three-person staff
- Issued reports on student outcomes by national accreditation agency; new data from the College Scorecard data; and the effect of budget caps on Pell Grants


(Senior Policy Analyst from May 2013 to December 2014)

- Conducted research and analysis on a variety of higher education issues, including accreditation, college ratings, quality, gainful employment, student debt, and the earnings of postsecondary programs
- Published papers on improving the gainful employment regulation, the current state of student borrowing, and improving federal grant aid for non-traditional students
- Contributed posts on measuring student learning, college pricing, student loan servicing, and several other issues at EdCentral.org


- Helped develop policy and budget proposals related to higher education completion, student debt and affordability, college accountability and accreditation
- Framed strategic work, drafted Congressional testimony, and provided other forms of research and policy support for the Secretary and senior leadership on college affordability, student debt, and other postsecondary issues
- Guided policy development and competition design for a broad portfolio that covered college completion, STEM, education technology, community colleges, and higher education programs (such as Upward Bound)

SELECTED PUBLICATIONS

Recent Op-Eds
- “Perkins Loan Expiration a Great Chance to Reform Student Aid,” U.S. News & World Report (Sept. 2015)
- “The Decision Threatening the Future of For-Profit Colleges,” Talking Points Memo (July 2015)
- “Corinthian Colleges: The High Cost of Regulatory Neglect,” Los Angeles Times (April 2015)
- “Don’t Be Fooled: Red Tape Isn’t to Blame for Runaway College Costs,” Talking Points Memo (Feb. 2015)

Up to the Job? Center for American Progress (Sept. 2015)

- Examined student outcomes by national accreditation agency
- Featured in the Washington Post and later cited in ProPublica and Inside Higher Ed

Beyond Access New America (June 2015)

- Analyzed California and Texas data to chart success rates of Hispanic and Latino students following recent increases in enrollment

Myths and Misunderstandings New America (Jan. 2015)

- Co-authored a report that investigated why year-round Pell Grants ended up having such a high expense and what’s wrong with common narratives about the program

Breaking with Tradition New America (July 2014)

- Examined the effectiveness of federal grant programs in serving non-traditional students, including recommendations for rethinking dependency categorization, experimenting with aid delivery, and creating affordability requirements for states and colleges

The Student Debt Review New America (Feb. 2014)

- Analyzed recent U.S. Department of Education survey data to show how the rate of undergraduate borrowing and the amount of money taken out has changed over from 2003 to 2012.

Rethinking the Middleman, New America (July 2009)

- Discussed the history and structure of federal student loan guaranty agencies and why they are flawed
- Published in conjunction with a series about guaranty agencies that raised questions about practices by the guarantor in South Carolina

EDUCATION

Brown University – Providence, RI 2007

B.A., Concentrations in Economics and History