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INDEBTED FOR LIFE: OLDER AMERICANS AND STUDENT LOAN DEBT

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WEDNESDAY, SEPTEMBER 10, 2014

U.S. SENATE,
SPECIAL COMMITTEE ON AGING,
Washington, DC.

The Committee met, pursuant to notice, at 2:16 p.m., in Room 562, Dirksen Senate Office Building, Hon. Bill Nelson, Chairman of the Committee, presiding.

Present: Senators Nelson, Blumenthal, Donnelly, Warren, and Collins.

OPENING STATEMENT OF SENATOR BILL NELSON, CHAIRMAN

The CHAIRMAN. Good afternoon. We have a vote in progress and Senator Collins has just voted and she is on her way, so in order to make efficient use of the time, I am going to go ahead and start and we will recognize Senator Collins when she arrives.

We in this Committee have taken a look at the financial security of Americans in retirement from a variety of angles. We have examined the difficulty of the average senior and that difficulty of facing life as they are on a day-to-day basis trying to make ends meet in retirement and how some of them have turned to risky products like pay-day loans or they have been enticed by scams. That is what a lot of the looks of this Committee for the benefit of seniors has been over the course of the last year-and-a-half.

Well, today, we are looking at an unusual subject, student loan debt and how it puts the retirement security of senior citizens at risk. While many think of student loan debt for just a young person, increasingly that is not the case, and so, we are going to hear from the General Accounting Office today that a significant number of older Americans still have student loan debt from financing their own college education, and what happens to those folks when they hit retirement age is absolutely frightening.

Those in default on their loans, a younger person might be out of money, in debt, and go bankrupt, but a senior citizen has their Social Security check coming in and it is garnished. It is leaving them with retirement income well below the Federal poverty line.

Now, you take the case of Janet Lee Dupree, a 72-year-old Ocala, Florida resident. In the early 1970s, she took out a $3,000 loan to finance her undergraduate degree, and while she recognizes that she did not pay the original loan when she could have, or she should have, she has now paid thousands of dollars on this loan, and today owes an astounding $15,000 due to compound interest and penalties.

She is in poor health. She will never be able to pay off this sum of money, and especially because all she can afford is the $50 the Government takes out of her Social Security check every month, what she has left over from what they garnish.

Large amounts of any kind of debt can put a person's finances at risk, but I think Mrs. Dupree's story shows that student debt has real consequences for those in or near retirement and they need to juggle debt on a fixed income and that is a difficult thing for a senior.

In today's hearing, we would like to achieve a few things. We would like for the public to know, especially seniors that are nearing retirement, to think about the amount of student loan debt that they have. We want to help folks with student loan debt understand the options that they have for staying current on their payments without descending into poverty, and we want to highlight any obstacles that might get in their way in doing that.

I will recognize Senator Collins when she gets here.

Senator Warren.

OPENING STATEMENT OF SENATOR ELIZABETH WARREN, COMMITTEE MEMBER

Senator WARREN. Thank you very much, Mr. Chairman, and I really do commend you for all you have been doing through these hearings to talk about many of the pressures on seniors, but I am particularly glad you are talking today about student loans. You know, it is easy to see that student loan debt is a problem for young people, but we cannot forget the burden on older Americans. Not every college student is 18 or 19 or 20 years old, and parents, even grandparents, have guaranteed loans for their children and their grandchildren.

More and more Americans are dealing with student loan debt into their 50s, their 60s, their 70s, and even beyond. Mounting student loan debts is not just a problem for borrowers. It is an economic emergency. The Federal Reserve Bank, the Consumer Financial Protection Bureau, and the Treasury Department have all sounded the alarm.

Student debt is holding Americans back from making the purchases they need to make to keep the economy growing. They are not able to buy homes or start businesses, save for retirement, buy cars, and student loan debt cuts significantly into retirement security.

I am very pleased that this Committee is examining the student loan problem. We cannot just bury our heads in the sand and hope that it goes away. We need to face it head on and find solutions that will reduce the burden of student debt and provide real protection for borrowers who find themselves struggling to pay back their loans, so I thank our witnesses for being here today. You do a great service by joining us. Mr. Chairman, I am ready whenever you are.

The CHAIRMAN. Okay. I just want to point out that of those in retirement age, just six years—in a six-year period, from 2004 to 2010, the number of seniors in retirement age with student loan debt was 150,000. That has ballooned in six years to 700,000, and the amount of that debt in just that six years ballooned from $3 billion to $18 billion.

Now, what Senator Warren said is true, that some of that debt is seniors taking out student loan debt for their grandchildren or their children, but that is only 20 percent of it. 80 percent of it is their own student loan debt, so this is a problem that if you ask the average American if they thought that there was a problem here, nobody would guess this and that is why we are having this hearing.

What we will do, we will start and I am just going to stop you all when Senator Collins gets here, so we are going to have Rosemary Anderson, who is struggling with student loan debt, and Charles Jeszeck, Director for Education Workforce and Income Security at the Government Accountability Office, GAO, and William Leith, the Chief Business Officer of Federal Student Aid at the Department of Education. Thank you all for being with us. Ms. Anderson.

STATEMENT OF ROSEMARY ANDERSON, OLDER AMERICAN WITH STUDENT LOAN DEBT

Ms. ANDERSON. Thank you, Chairman Nelson, and in her absence, Ranking Member Collins, and Senator Warren, for the opportunity to tell my story before the Senate Special Committee on Aging. I was a little reluctant to be the poster child for the older American, but I am still working. I am 57 years old. I was a healthy married woman with one child and another on the way when I decided to go back to school in my 30s.

I lost a job I'd had for 16 years and decided that in order to be more employable out into the future, that I needed to have a college degree. By the time I had obtained both a Bachelor's and a Master's degree to pursue career goals, I was divorced and overcoming a debilitating illness. I owed $64,000 in student loans at that time.

I had faced a variety of expenses that made me unable to pay my debt and that figure has now ballooned over $126,000. I will be indebted for life. While my growing concern is that when I reach the age to take Social Security, that a sizable portion of that check will be garnished to pay my student loan debt.

As a teenager, I had been accepted to Boston College and I decided instead to move to California. I got married, I bought a house. I worked in the field, as I said, working with developmentally disabled adults teaching life skills. I started a family. However, a series of life events prompted me to return to school, as I mentioned, and I finished my undergraduate degree in my 30s and my Master's degree when I was just over 36.

For those two degrees, as I mentioned, I took out $64,000 in loans, but at that time, I was not worried. I was married. My husband was gainfully employed. I had a job where I could start paying back those loans. I had a variety of loans so I chose, when the opportunity came about in 2001, to consolidate those loans so I was making one payment for the convenience of writing one check as opposed to all the checks that I was writing, and trying to track the loans over the life of that time.

It took about a year to go through the consolidation process and at that time—and it still is—the interest rate was 8.25 percent, and once you consolidated your loans, you could never refinance them, so therein lay the problem for me, is that over time, that interest, as they mentioned before, has compounded and grown over time. Do I need to stop?

The CHAIRMAN. Okay, please continue, Ms. Anderson.

Ms. ANDERSON. That was in 2001. Then life and the economy changed. In 2002, my husband and I divorced and I was forced then to live on one income. I had child support, but it was impossible to pay and get by on the income that I had. As a result, I incurred additional debt and to address the debt that I had to borrow—I borrowed against equity in my home. I put things on credit cards. That increased my credit card debt and I fell further into a financial hole.

After the child support ended and the housing market crashed, and as a state employee I took a pay cut, my house that I had been borrowing against and using the equity from was now worth less than what I owed on it. It was actually worth less than half of what I owed on it, and my mortgage was greater at that time than my income was.

My parents raised me to be a responsible adult and I was committed to paying down my debt. I sold everything I could, I took extra jobs, I rented rooms in my home, which I still do today, and I was able to pay down my credit card debt and restructure my mortgage through the Federal Relief program that was offered at that time, so that my mortgage payment was now more affordable.

However, while I was struggling with the consumer debt, I was deferring my student loan payments and I have been doing that for the past eight years. I am not making any payments on loans and that bottom line just grows bigger and bigger and bigger literally by the day. I was offered this last time, because every year you have to become eligible for some sort of deferment program in order to stay out of default. My objective was always to stay out of default because as you mentioned in your introductory statement, if I default on those loans my Social Security will be garnished at a time where I am the most financially vulnerable.

My hope is that through hearing the testimony from the people that are before you today and understanding how, as Senator Warren pointed out, that it has a ripple effect on our economic stability as well as the stability of my personal future, I know that I will likely never retire, but I do not want to, when I start collecting Social Security, to have the fixed income that I have be garnished to the point where then that is my biggest worry.

I find it very ironic that I incurred this debt as a way to improve my life, and yet, I sit here today because the debt has become my undoing. I am a responsible person and I would not entertain the idea of bankruptcy, but even if I did, under bankruptcy law, the student debt is not able to be discharged.

I thank you. That concludes my statement and I welcome any questions that you may have later.

The CHAIRMAN. Thank you, Ms. Anderson. Senator Collins.

OPENING STATEMENT OF SENATOR SUSAN M. COLLINS, RANKING MEMBER

Senator COLLINS. Thank you very much, Mr. Chairman. My apologies for missing your opening statement, but I am glad that I was able to hear Ms. Anderson's testimony. An issue that we both care deeply about is whether older Americans will have the financial resources that they need to be secure in retirement.

After four decades in the work force, seniors should be confident that they will have the money that they need to pay their bills and enjoy their retirement without fearing that they will be overtaken by debt and fall into poverty. Yet, as this Committee has seen in our work together this session, far too many American seniors struggle to get by with inadequate savings and limited income. Add to this the troubling trend of increasing debt held by older Americans.

A recent study by the Urban Institute found that the share of Americans 65 or older who are in debt grew from 30 percent in 1998 to 43 percent in 2010. That study also found that the median debt held by those seniors increased by 56 percent from about $13,600 to $21,200. About half of this debt is attributable to mortgages.

I was thinking about the fact that at my age, my parents were having a party to burn their mortgage; and yet,

I find myself taking on new mortgages, and that is not uncommon. Much of the rest traces to various forms of consumer debt such as auto loans and credit card balances, but as our hearing topic today suggests, another source is student loan debt.

Student loan debt held by older Americans is just a tiny fraction of the $1 trillion Federal student loan debt outstanding. According to GAO, about three percent of households headed by seniors have student loan debt. One might assume that this debt reflects loans taken out by parents for their children or by grandparents for their grandchildren.

That does not appear to be the case. The GAO has found that 82 percent of the balances remaining on student loans taken out by seniors are attributable to loans used to finance that senior's own education, while only 18 percent are attributable to loans used to finance the education of a child or a grandchild.

The default rate for these loans, 31 percent, is more than twice that of the default rate for loans taken out by younger borrowers, and that is a very troubling statistic. As has been discussed, seniors whose loans are in default can have their Social Security benefits garnished and reduced to as little as 750 a month, a floor set by Congress in 1998. That floor was not indexed for inflation and is now far below the poverty line.

I will be introducing legislation shortly to adjust this floor for inflation over the past 15 years and to index it going forward, to make sure that this garnishment does not plunge seniors into poverty. We will be exploring today when and why these seniors took on such a heavy debt load, and to what extent the burden they carry is due to the soaring cost of a college education.

Twenty years ago, the cost of attending a four-year public university was just half of what it is today, even after adjusting for inflation. Similarly, the cost of attending private four-year institutions and public two-year colleges was one-third lower than it is now. Given these dramatic cost increases, it is reasonable to ask what steps our nation's colleges and universities are taking to address the problem of student loan debt.

Are these institutions doing all that they can to control their costs, to ensure they remain affordable not only for older Americans, but for all who pursue a higher education? Are they fulfilling their obligation to make sure their students understand the burden that heavy debt will place on them, especially older students who may be returning after a period in the workforce and who may not remain in the workforce long enough to pay off their loans before they retire?

Mr. Chairman, I look forward to hearing from the rest of our witnesses. Thank you for calling this hearing.

The CHAIRMAN. Mr. Jeszeck.

STATEMENT OF CHARLES JESZECK, DIRECTOR, EDUCATION WORKFORCE AND INCOME SECURITY, U.S. GOVERNMENT ACCOUNTABILITY OFFICE

Mr. JESZECK. Mr. Chairman and members of the Committee, thank you for inviting me here today to discuss the state of student loan indebtedness among our nation's older citizens. Rising student loan debt has become a growing national concern. In 2013, total student loan debt cracked the $1 trillion barrier, up from a not insignificant $400 billion in 2005.

My testimony today focuses on the extent that older Americans have student loan debt, the extent to which they may default on that debt, and the consequences of default. In summary, although student loan debt is not typically viewed as a senior citizen issue, our analysis suggests another look. Available data indicate that while the amount of student loan debt held by our nation's seniors is small in comparison with other age groups, it is growing more rapidly.

Further, borrowers 65 and older carry defaulted student loan debt at much higher rates than other age groups. Such defaults can, among other consequences, leave some retirees with incomes below the poverty level. Our analysis of 2010 Survey of Consumer Finance Data finds that about three percent of households headed by persons aged 65 and older held student loan debt, compared to about 24 percent of households headed by younger persons.

However, the number of student households with student loan—senior households with student loan debt has increased significantly in recent years. For example, among households headed by persons aged 65 to 74, the percentage carrying student loans grew from one percent in 2004 to four percent in 2010. Further, Education Department data shows that total Federal student loan debt, which accounts for roughly 85 percent of all student loan debt, for those aged 65 and older surged from $2.8 billion in 2005 to $18.2 billion in 2013.

Although older borrowers hold a small number of all Federal loans, they are much more likely to be in default. In fiscal year 2013, all persons aged 65 and older accounted for only one percent of all Federal student loans. 27 percent of loans held by persons aged 65 to 74 were in default, as were over 50 percent of loans held by persons over age 75. This compares with a 12 percent rate for persons aged 25 to 49.

Default can have serious consequences for borrowers. It can adversely affect one's credit rating and lead to collection agency actions and collection fees up to 25 percent of the interest and principle. Further, after 425 days of non-payment, the Education Department can send defaulted loans to Treasury for what is known as offset. Under an offset, Treasury can reduce the tax refunds of defaulted borrowers as well as monthly benefits like Social Security retirement, survivor and disability benefits.

Tax refunds accounted for over 90 percent of the $2.2 billion in total 2013 offset revenue for defaulted student loans with retirement and disability and survivor benefits at about $150 million. While small, the number of borrowers affected by offsets of Social Security benefits and who are older has grown significantly in the last decade.

In 2013, 36,000 borrowers age 65 and older were offset, a sixfold increase from 2002. Meanwhile, the total number of borrowers who had their benefits offset increased from 31,000 to 155,000 over the same period.

There are limits on how much Treasury can offset from monthly benefits. The amount of allowable benefits offset is limited to the lesser of 15 percent of the monthly benefit or any benefit amount over $750 per month. The $750 minimum has not changed since 1998. If indexed to poverty, the $750 limit would be over $1,000 today. Such indexation would prevent some older borrowers from having benefits offset, but would also reduce the Federal Government's recoveries.

In 2013, indexation would have resulted in 61 percent of offset borrowers aged 65 and older keeping their entire

Social Security benefit. It would also have reduced collections by $94 million, or about 4.2 percent of all offset dollars collected on student loans. That concludes my statement, Mr. Chairman. I will be happy to answer any questions you or other members may have.

The CHAIRMAN. Thank you, Mr. Jeszeck.

Mr. Leith.

STATEMENT OF WILLIAM LEITH, CHIEF BUSINESS OFFICER FOR FEDERAL STUDENT AID, U.S. DEPARTMENT OF EDUCATION

Mr. LEITH. Thank you, Chairman Nelson, Ranking Member Collins, and distinguished members of the Select Committee on Aging. My name is William Leith and I am the Chief Business Operations Officer at the Department of Education's Federal Student Aid Office. I appreciate the opportunity to join you to discuss this very important issue, the impact of student loan debt on older Americans.

Federal Student Aid's mission is to help students pursue their post-secondary education goals. Last year alone, Federal Student Aid delivered $138 billion in Federal grants, loans, and work-study funds to approximately 14 million students. As the cost of education continues to climb, more students are relying on student loans and student debt now totals more than $1 trillion and the debt owed by all students, including older Americans, continues to grow.

We must continue to improve the tools and options available to help Federal student loan borrowers to manage their debt. Federal loans offer a number of flexible repayment options for borrowers, including several income-driven repayment plans. For example, the pay-as-you-earn plan caps a borrower's monthly payment at 10 percent of their discretionary income and the borrower's remaining balance is forgiven after 20 years.

While income-driven plans are not the best option for everyone, many older borrowers with limited income may benefit from enrolling in one of these plans. Borrowers can apply for an income-driven plan using a central application which they can access on our Web site. Borrowers may also be eligible to have their loans discharged if they are totally and permanently disabled.

As of 2013, Federal Student Aid offers a single application and a single point of contact for the total and permanent disability application process, and borrowers may now use the eligibility determination of the Social Security Administration and the Department of Veterans Affairs. In addition, borrowers may have their outstanding loans forgiven after ten years of qualified public service loan forgiveness under the public service loan forgiveness program.

Finally, borrowers may qualify for deferment or forbearance on their loans for issues such as unemployment and economic hardship, but clearly, there are trade-offs there. It is important to remember that under current law, a borrower may have to pay income tax on loans forgiven under the income-driven plans or discharge.

Federal Student Aid offers a wide range of counseling tools, direct communication, and personal services available to all borrowers to make sure that they are aware of the tools and resources I am describing. The Department's Web site includes information on repayment options, forgiveness programs, and managing defaulted loans. It also includes a host of interactive tools which borrowers can use to learn about the debt and apply for various repayment plans.

We are also constantly looking for new and innovative ways to reach our borrowers. For example, earlier this year, the Departments of Treasury and Education included a message on the back of 25 million tax refund envelopes to raise awareness on Federal student loan repayment options. However, while we work to help borrowers manage their debt, some borrowers still default on their student loans.

Under the law, a default occurs when a borrower is delinquent for more than 270 days. Federal Student Aid and our servicers provide borrowers with multiple opportunities to work with us before and after default. Services contact a borrower when they become delinquent to help them avoid default. Even after default, we continue to try and work with the borrower to set up a repayment plan.

If the borrower remains in default for nearly a year after stopping making payments, the loan is transferred to the Department's Default Resolution Group for further outreach. There are a number of ways that a borrower can get out of default. Borrowers can rehabilitate their loan by making nine one-time payments, and when a borrower rehabilitates that loan, that loan is removed from the credit history and that borrower then regains eligibility for other financial aid programs as well as income-driven repayment plans.

The Department has worked to make the rehabilitation process easier, including new rules that determine a borrower's reasonable and affordable payment using an income-based repayment formula. In addition to loan rehabilitation, borrowers can resolve their defaults by consolidating their loans or paying the loan in full.

If despite the Department's efforts to work with the borrower for more than a year and the borrower is still in default, the Department must apply other collection tools to recover that debt. These tools include administrative wage garnishment, litigation, and the Treasury Offset Program which is referred to as TOP.

Under the Debt Collection Improvement Act of 1996, the Department of Education must refer delinquent accounts to Treasury, which may offset the borrower's tax refund, a portion of the Social Security benefits, and other Federal payment. TOP, however, may not collect on Social Security disability insurance payments and there are protections in place for low-income borrowers subject to this offset.

The Department of Education and Treasury both provide notice to borrowers before the offsets begin. I just want to reiterate that the Department is required by law to refer defaults to the TOP program at Treasury, but we do everything we can to contact and work with the borrower before we reach that point. If a borrower is subject to the offset, they should contact our loan holder immediately, and they can also find out more information on our Web site.

In conclusion, Federal Student Aid is committed to working with older borrowers to help them understand and manage debt. I appreciate the opportunity to provide the Committee with a brief overview of the Federal financial aid programs and resources that we offer borrowers of all ages. I welcome any questions and thank you.

The CHAIRMAN. Does that reduction of the loan because of the economic hardship that you mentioned, does that apply to seniors?

Mr. LEITH. There are no special benefits or programs that are based on age, so deferments, forbearances, income-driven repayment plans, none of those plans have an age qualifier.

The CHAIRMAN. The case that I cited of the Ocala, Florida woman who is now receiving Social Security and whose Social Security check is garnished, and because she is in such economic dire straits, is that a consideration that your loan program would make in deferring or forgiving part of that loan?

Mr. LEITH. Under the law, we do not have the—my understanding is we do not have the option to take age into consideration, but we can suspend the Treasury offset based on undue hardship and we do have a process in place for that.

The CHAIRMAN. An undue hardship in this definition is undue economic hardship.

Mr. LEITH. Yes. I mean, without, obviously, you know, looking at the exact case, but I think it is safe to say that the situation you are describing would fall under a definition of undue hardship for offset of Social Security benefits.

The CHAIRMAN. Okay. After the hearing, we are going to give you the specifics of this case.

Mr. LEITH. Okay. I appreciate that.

The CHAIRMAN. Thank you. Senator Warren.

Senator WARREN. Thank you, Mr. Chairman. In June, the Senate voted on our proposal to refinance existing student loans down to rates currently offered to new student loan borrowers, and even though a majority of the Senate voted to go forward on this bill, every Democrat, every Independent, and three Republicans, including our Ranking Member here, the Republicans blocked it as a group and kept it from going forward.

Ms. Anderson, you talked about that when times were tough economically, you refinanced your mortgage to bring down the interest rate. When interest rates are low, people refinance all the time, but you did not mention refinancing your student loans, and I presume the reason for that is, are you permitted to refinance your student loans?

Ms. ANDERSON. No, I am not permitted to refinance my loans, and I did want to make a comment about Mr. Leith's talk about the resources that are available, that it is true there is an income contingent resource available for people about repayment, but there are very certain criteria that you have to meet in order to be eligible for that.

All of those income-based repayment plans are based on your gross income, not your net income. My gross income and my net income are very, very different, so the reason that I have been able to be—remain eligible for the various programs over the past eight years is that I can prove I cannot pay it.

But with this negative amortization contract, which is the latest offer for me to be in basically deferment where I pay $100 a month, which I do not have, that then magically next May I will be paying $526 a month for 24 years, at which time I will be 81 years old and the total interest that I will have paid on that original loan amount is over $88,000.

Senator WARREN. $88,000 in interest on what was originally $64,000——

Ms. ANDERSON. Correct.

Senator WARREN. [continuing.] That you borrowed?

Ms. ANDERSON. That is right.

Senator WARREN. All right. Well, there is much that we need to fix here. I just want to focus for another minute, though, on the question about refinancing the student loans just so I am sure we get this into the record. Mr. Leith, according to the Department of Education estimates, how many borrowers would benefit if Congress passed the refinancing program?

Mr. LEITH. My understanding from the bill that was submitted, that it was estimated that roughly 25 million borrowers could benefit.

Senator WARREN. Okay, and I realize it is all age groups, but we would be able to help about 25 million borrowers who would have either lower payments or they would be paying more toward their principle to be able to pay down these student loans. Now, the borrowers who are able to refinance, does the Department of Education have some rough estimate on about how much they would be able to save?

Mr. LEITH. I think under the bill that was submitted, the estimate was that the average would be about $2,000 over the life of the loan.

Senator WARREN. I take it, it depends on how much loan debt you have outstanding. For some people, it will be hundreds of dollars a year; for some people, it would be thousands of dollars a year if they have much higher loan balances. Well, I appreciate this. Some of our Republican colleagues do not seem to think that it is worth asking millionaires and billionaires to pay their fair share in taxes so that we can put hundreds of dollars a year back in the pockets of student loan borrowers. I disagree on this.

Ms. Anderson, let us come back to you. You said you borrowed about $64,000. It is obviously much more than that now because of the Government programs you have been involved in. You cannot refinance your interest rate down.

If the student loan refinancing bill had passed and you had been able to cut your interest rate significantly—I think you said it is over eight percent—let us say cut it down to 3.8 percent, maybe four percent depending on where you are with your loans, what would that have meant to you?

Ms. ANDERSON. Well, first, it would have meant that it would have stopped the bleed, so to speak, for the amassed interest that I literally watched grow daily, and by cutting that, it would be more than half of what my current interest rate is. As I mentioned in my previous examples with my mortgage, is that I would not be living in my home if that refinance was not possible for people like myself who hit on hard times in the housing market and the mortgage problem.

Senator WARREN. Refinancing your mortgage.

Ms. ANDERSON. Right.

Senator WARREN. If that had not happened, you would be out of a home?

Ms. ANDERSON. Correct, and the mortgage debacle and many other economic issues that have arisen have had some kind of a bailout or some kind of a relief attached to it and the student loan has not, so no matter what I become eligible for, that fear is always a constant presence for me, and it especially becomes more critical as I become older.

Senator WARREN. Well, thank you. Student loan refinancing is not all that is needed. We also should be talking about the changes we need to make in bankruptcy protection and the cost of college and the repayment programs and the loan forgiveness programs, but I am disappointed that so many Republicans chose to stand with millionaires and billionaires instead of our students.

I am disappointed that borrowers like Ms. Anderson will have to continue paying far more than they should on their student loans, but we are not giving up on this. This exploding student loan debt is threatening the futures of our young people, it is threatening the economic security of our seniors, and it is threatening our entire economy.

I remain hopeful that eventually enough of our colleagues will listen to the voices of millions of student loan borrowers struggling under needlessly high interest rates and drop their filibuster so we can move this bill forward. Thank you. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator. Senator Blumenthal.

Senator BLUMENTHAL. Thank you for having this hearing, Mr. Chairman, which I think focuses on an aspect of the college affordability challenge and student debt problem that a lot of Americans simply fail to appreciate. I want to thank Rosemary Anderson for your story, which I think says thousands of words, volumes, about how this kind of overhang of student debt, not only in early years after graduating from college, but throughout lifetime can be literally crippling financially and emotionally.

I want to join Senator Warren in everything that she has said about our determination to continue with this effort to make college debt and tuition more affordable in this nation. It is one of the supremely important challenges and it is not going away, nor are we.

Let me also say, this GAO report strikes me as a kind of canary in the coal mine, because what it says to me is, look at this narrow slice of the baby boom generation that now has debt, look at its impact on people like Ms. Anderson, which is, if anything, more pernicious and insidious than it is for younger people because they have lifetimes ahead. They have the hopes and dreams and energy that all of us have at that age.

And this age group is not only affected in more serious ways, but it is also going to grow. In other words, this report says, look out, the cliff is ahead, or the avalanche, maybe it is a tsunami of older student debt. Am I exaggerating or is that the message that I should take away?

Mr. JESZECK. Well, Senator, I think two things. One, if you look at Figure 3, you can see for the other age groups that there is a significant amount of debt coming down, and I think actually the one number that I think is also a cause for concern is that the default rate for people between 25 and 49 was 12 percent. I mean, that seems quite large.

Senator BLUMENTHAL. It is higher for that age group than anyone else, so that is another way. I was going to raise that issue, that this report is the canary in the coal mine, because it says, you know, the rate of default at lower age groups is going to be dwarfed by the rates at older ages, so I think that is a very important point as well, and would you predict that trend will hold steady based on what you know now?

Mr. JESZECK. Well, I think given the findings of this report, I think we think that is likely the case. I do want to say, one of the real limitations of the study, we were unable to get information on the duration of the loans, so we do not know, for the people who are in default, or anybody actually, whether they took the loans out a few years ago or whether these people who are retirees took it out in their 30s.

That is data that we were not able to get from the Department of Education in time. Apparently with their systems, it is quite difficult to calculate, but I think that would be a really important piece of information to have to sort of dig a little deeper and think about how we might want to attack this problem.

Senator BLUMENTHAL. Thank you for that answer. Let me ask finally, Mr. Leith, I am a strong supporter of the existing program providing student loan forgiveness for borrowers who choose to enter public service professions or occupations, and the Federal Government created this program to encourage young people to enter public service. Unfortunately, older Americans do not have the chance to participate in this program which was created in 2007, or did not prior to that.

Is there some way to make it available to them now, number one? And number two, as you may know, I proposed expanding this program so that some of the limits, for example, requiring that people be in the same job for an excessive number of years and borrowing, in effect, a periodic or a staged forgiveness program be eliminated, and that is why I have introduced legislation to eliminate, in effect, the current all or nothing structure. Could you give me your opinion of those ideas?

Mr. LEITH. On the first question, I think there is some either statutory or regulatory issues that would have to be addressed and I would have to take that back to our—actually, both issues—back to our policy staff. Unfortunately—I mean, my role at the Department is to implement the legislation that is passed.

I would be happy to take both of these issues back to our policy staff and make sure that the right people, you know, have the right conversation with you on this issue.

Senator BLUMENTHAL. On both ideas?

Mr. LEITH. Yes, sir.

Senator BLUMENTHAL. Okay. Just out of curiosity, Mr. Leith and Jeszeck, maybe you have already said, but I wonder, did you have student loans?

Mr. JESZECK. Yes, I did, sir.

Mr. LEITH. Yes, I do as well.

Senator BLUMENTHAL. Are they all paid?

Mr. JESZECK. Yes, but I am also close to retirement.

Senator BLUMENTHAL. You are close to retirement. You may have children who are paying.

Mr. JESZECK. Yes, Senator.

Mr. LEITH. I have three kids in college right now, so I actually have outstanding loans.

Senator BLUMENTHAL. You guys have skin in the game. Thank you for being here.

Mr. JESZECK. Thank you.

Mr. LEITH. Thank you.

The CHAIRMAN. What about that, Mr. Leith? How about people that not only have loans themselves, but they have loans on their children? How do you go about helping them pay off that debt?

Mr. LEITH. I mean, the Department is working extremely hard, and the Administration is extremely concerned, with the student loan debt problem, the impact it has on individuals, the impact it has on the nation. The Department works extremely hard to educate all of the borrowers on the various repayment options. We work extremely hard to make sure that students now, when they are in school, are making smart borrowing choices.

We have a calculator up on the Web site that, you know, for a student that is in school, allows them to pull their existing loans into a formula that will tell that individual how much they would pay over the life of the loan under all of the different repayment plans, both principle and interest. You know, we work at different communication strategies to make sure that people understand that these tools are available and what the options are.

We also have to work within, you know, the limits of our regulations and statutes, so, I mean, that is what we are doing.

The CHAIRMAN. Okay. Well, we are here also to talk about how to improve the law, so you are saying this is something for the policy people?

Mr. LEITH. I am not sure I understand that exact question, but I am saying as far as——

The CHAIRMAN. We want to change the law to make it more fair for folks, so who do we need to talk to?

Mr. LEITH. Well, as I said, I think the President has put forward a number of proposals and I know that Secretary Duncan and his staff at the Department would be more than happy to discuss these changes with you.

The CHAIRMAN. What do you think about Ms. Anderson's situation? She collected all of her loans together and she is paying eight percent.

Mr. LEITH. Right.

The CHAIRMAN. She cannot refinance it. What do you think about that?

Mr. LEITH. Personally, I mean, it is difficult, but everything she said is true. You know, within the programs that we have, she has exhausted some options, you know, and it is difficult to work through these issues. I mean, we try very hard and we take it very seriously to help every single borrower, but, you know, everything she has put forward here today seems to me to be very accurate.

The CHAIRMAN. In the case of a senior, you can garnish their Social Security check. You also charge them fees for doing that?

Mr. LEITH. I believe Treasury charges a fee for the offset. I would have to——

The CHAIRMAN. It just adds to the debt?

Mr. LEITH. I would have to get back to you on that.

Mr. JESZECK. Other agencies may charge fees as well, Senator, for processing.

The CHAIRMAN. Okay. What about, how do you determine hardship? Do we need to help you with the definitions?

Mr. LEITH. There is a—when it comes to suspending the offset for Social Security, garnishment, if a borrower calls and says they have a hardship, we will automatically suspend that offset for 30 days and ask the borrower to submit a statement of income and expenses, so based on that statement of income and expenses, then that suspension can be continued for another 12 months and it can be continued on a 12-month basis.

The CHAIRMAN. Those employees that are making that determination, is their training clear and is it consistent across the board?

Mr. LEITH. I believe it is, sir.

Ms. ANDERSON. If I may——

The CHAIRMAN. Please.

Ms. ANDERSON. [continuing.] Chairman, is that while that is true, again it is 12 months at a time. My economic hardship is not going to end at the end of 12 months, so while I might be able to delay default by getting into a negative amortization contract, it is saying that magically next year I am going to be able to pay close to $600 a month for 24 years when my economic status is not going to change significantly between now and then.

The CHAIRMAN. Right.

Ms. ANDERSON. Especially at my age.

The CHAIRMAN. Well, forbearance and deferral seem like good ideas until you realize what you just said, that delaying the payment is making your debt grow. Mr. Leith, we are not trying to pick on you, but we have got to get answers from you, or if you would have one of your policy people call our staff director here, I would appreciate it.

If the focus is on helping people and helping them to make timely payments and stay out of debt, what we have heard here is that it does not sound like the system is working that way.

Mr. LEITH. Clearly, not everyone is current on their payments, and I think, you know, like I said, we work, you know, very hard to educate the students coming out of college on the payment options and how to stay current. In certain cases, there are not options available for every borrower, so the income-based repayment program is an excellent program.

It is not right for everyone. It is right for many, but not everyone is eligible, and as Ms. Anderson said, it does not take into account net income. It takes into account discretionary income, which is formula driven.

Ms. ANDERSON. I also wanted to mention that, you know, Ranking Member Collins mentioned that there also has to be a need on the part of educational institutions to look at their costs. I have been working for the University of California for 21 years and I know on my campus how we have cut back administrative costs in order to pass on those savings to students who are seeing increases in just ways that is hard to fathom for the cost of their education.

What we do not want to do is discourage people from pursuing an education. For me, if there was any silver lining is that when my daughters became eligible for college, I was able to really counsel them about how and from whom to borrow.

Mr. Leith is correct that the communications about what the paperwork you are signing and what the implications are out into the future has improve exponentially over the years. For people like myself who came a little too late, not to say that perhaps the information was there, but in a nine-point font that I was not paying attention to because I was driven by my main objective, which was to get my education.

I met with Congressman Farr this morning and said, really, there has to be some kind of bureaucracy busting advocacy office that helps people understand really what you are signing and be able to interpret what that impact is going to be, beyond a calculator on a Web site, into your future life, and for me, because I was older when I went back to school, as I said, I was able to buy a home. That would not be true today.

The CHAIRMAN. Senator Warren.

Senator WARREN. Thank you, Mr. Chairman. Mr. Chairman, I would like to be able to talk for a minute about student loan servicing. You know, there is more than a trillion dollars outstanding in student loan debt, but the United States Government does not actually go out and collect on these loans.

This is handled by contract with the United States Government. We have private companies that are out there, private for-profit companies that are out doing the student loan servicing. Now, there are a lot of rules and a lot of laws around student loan servicing, things that they are required to do, things they are not permitted to do, that we have, in some measured way, tried to make sure that borrowers will at least be treated with some basic fairness.

Now, I want to start this by thinking about what happens when you break your contract. You know, students or former students who cannot pay on their loans pay a terrific price. You have a document. They pay high fees, their credit is ruined, their paychecks are garnished, their Social Security checks can be garnished. In other words, one misstep on your obligation under your student loan and you can be in real financial trouble and you can pay for it for a very long time.

What happens when the contractors that service our student loans do not meet their contractual obligations? Well, it turns out it seems that life is not nearly so harsh for them. Servicers like Sallie Mae, who has recently changed its name to Navient, have broken the rules, broken the law, failed their borrowers, and not lost a dime on their Federal contracts.

Now, in June, President Obama announced that the Department of Education would take steps to hold these servicers, these loan servicers, more accountable, and two weeks ago, the Department of Education followed through on that promise by announcing that it had renegotiated the contracts with the student loan servicers. Now, that is good news.

Evidently, the Department of Education decided that this should be done by paying student loan servicers a higher price for loans that are in active repayment and less for loans that are delinquent, so they have kind of changed the payment schedule.

The problem is that these changes may not have the intended effect, because the new arrangement sets such a high price for loans that are current, servicers could make more money under the renegotiated contracts than they did under the old contracts without changing their behavior at all.

For example, analysts at Compass Point ran the numbers and concluded that under the renegotiated contract, Navient, the Sallie Mae spinoff, would make an estimated $20 million extra every year going forward, even if it does not make a single change to treat any of its borrowers better or to comply with the law, so I do not get this. When Navient breaks the law, they get a new contract from the Department of Education that lets them make more money if they keep right on with business as usual, so what the heck is going on here, Mr. Leith?

Mr. LEITH. First of all, the contracts were renegotiated with the intent of incentivizing all of our servicers to do everything they can to make a borrower and keep a borrower current, not only active in repayment, but current. We modeled out the changes and I would have to look at the $20 million number.

Senator WARREN. I am sorry, so you modeled this out and how much more did you figure out that they were going to make?

Mr. LEITH. I do not have that with me, but I guess my point is——

Senator WARREN. Can you give me a ballpark here? Did you figure out that it was going to be more than $20 million?

Mr. LEITH. I am sorry. We looked at it in the aggregate of our portfolio, not by individual servicer.

Senator WARREN. Navient has what portion of your portfolio?

Mr. LEITH. They are our third largest servicer.

Senator WARREN. Here is one of your biggest servicers. Someone else has been able to run the numbers based on what you have published, and shown that this servicer does not have to change a single thing and can make $20 million more a year by continuing to treat student borrowers badly? And you do not have any numbers on this?

Mr. LEITH. Like I said, we have numbers on the aggregate portfolio.

Senator WARREN. What do your numbers show on the aggregate portfolio?

Mr. LEITH. I will provide that. I do not have it on the top of my head.

Senator WARREN. Okay. Let me ask you this. Surely, you know this because surely you did this analysis before you renegotiated these contracts. Did it show that in general they were going to make more money for doing the same thing, or they were going to make a whole lot less money if they kept doing the same thing?

Mr. LEITH. No. It shows, in general, that they will make a little bit more across the portfolio, but the point is, we want them to do a lot more.

Senator WARREN. Let me get this straight. You break the law, you do not follow the rules, you treat the borrowers badly, and you all just renegotiated the contract to make sure that across the portfolio they are going to make a little more money if nothing changes?

Mr. LEITH. We have 11 servicers, so——

Senator WARREN. But you told me this is across the portfolio.

Mr. LEITH. Right.

Senator WARREN. Collectively they are going to make a little more money for continuing, I presume, to break the law, to not follow the rules, and to treat borrowers badly. The idea of the renegotiation was to try to help the borrowers, not to make it worse or to make the servicers richer.

Mr. LEITH. The intent of the renegotiation is exactly to help the borrowers, so we will measure the impact of this change over the next six to nine months, and if we do not see significant improvement in the percentage of the portfolio that are in current repayment status, you know, moving people from delinquency to in repayment, then we will reset prices again. But we are——

Senator WARREN. You will reset prices again to do what, to pay them even more money for not making any changes?

Mr. LEITH. Then——

Senator WARREN. Mr. Leith, I do not understand a basic renegotiation that says, you can continue breaking the law, but we are going to pay you more money for doing it.

Mr. LEITH. With regard to the Navient, I mean, I think—and the breaking the law issue, this came up when Secretary Duncan said that we would complete a review within 120 days. That 120 days will be up in a couple weeks and we are on schedule to complete that review in the time frame that was committed to. I cannot say that I am aware that our servicers are out there breaking the law.

Senator WARREN. You are not aware that Sallie Mae has admitted to breaking the law and that you have—your agency—I am sorry, your title is you are the head of the Student Loan——

Mr. LEITH. I am the Chief Business Operations Officer.

Senator WARREN. Chief, Business Operations for Federal student aid and you are not aware that the servicers have broken the law?

Mr. LEITH. I am aware of the Navient settlement with Justice.

Senator WARREN. Which was a settlement because they did what?

Mr. LEITH. It was a settlement that was a non-admission of guilt, which is why we are doing our investigation.

Senator WARREN. So your position is you are paying them more money because you are not sure they broke the law?

Mr. LEITH. I am sorry. We are paying our servicers the prices that we are paying to try to get the borrowers into the best current repayment plan possible.

Senator WARREN. Well, I actually just wanted to point, based on these numbers, that the other side—I mean, this is just mad—they could actually do a worse job and still make as much money as they are making today. I just think this is deeply shocking. We need some real accountability here, and I think what that accountability means is we need publicly available data so everyone knows how each of the servicers is performing so we can hold their feet to the fire.

It means serious penalties for violating contracts, not bonuses. It means open competition so that different organizations, different groups can bid for these servicing contracts, and we need a Department of Education that is going to be on the side of the students, not on the side of the servicing industry, so that is it on that question, Mr. Chairman. Thank you.

The CHAIRMAN. Senator Warren, what I intend to do is to write a letter from the Committee. I invite you to be a part of the drafting of this letter and the signing of the letter. We will offer it to other members of the Committee to sign, to Secretary Donovan on these very points that you have raised.

Senator WARREN. Thank you. Can I ask one more question?

The CHAIRMAN. Please.

Senator WARREN. I do not want to cut in front of you if you have got another one here. I want to ask another one, and let me see if I can just find my notes on this. I have kind of shuffled things around here, but I want to ask a question about—here we go. I think I have got it here. I want to ask about an Inspector General report for the Department of Education.

In 2003, the Inspector General issued a report on how well the Department of Education was doing on monitoring these private collection agencies that administered the student loans and deal with students who are in default, and in this report, the Inspector General found that the Department of Education was failing in its central job to protect borrowers, failing to track complaints, failing to perform audits, failing to review deliverables, and failing to maintain adequate files.

In response, the Department of Education's Federal Student Aid Office—I think that is your office, Mr. Leith—pledged to change its practices, and that was 11 years ago. Now, in July of this year, just last month, the Inspector General examined the Department of Education's collection practices once again. The IG found many of the same deficiencies.

According to the Inspector General, the Department is failing to monitor borrower complaints, failing to take corrective action, and failing to review deliverables. In other words, the Department was still not doing its job to ensure that the collectors were treating borrowers fairly and following the law.

Mr. Leith, how can the Department be making the same mistakes and failing borrowers in the same ways 11 years after the Office of the Inspector General pointed out these flaws

Mr. LEITH. I can assure you that from the last Inspector General audit, we have put a corrective action plan in place for every one of those issues.

Senator WARREN. I am sorry. When you say the last one, do you mean the 2003 one or the one that just came out?

Mr. LEITH. No, the one that just came out.

Senator WARREN. Well——

Mr. LEITH. I am sorry. I cannot speak to the 2003 one, but I can speak to what we are doing now. We have just change contractors for the debt collection system. We followed a life cycle methodology for the development and changes that are being made. We are tracking both verbal and written complaints.

We are listening, doing random samples of 140 calls a quarter per PCA, and, you know, when we find an issue, we address the issue. We put it in. We develop a corrective action and we follow up through resolution on that corrective action.

Senator WARREN. Mr. Leith, I appreciate that and I am glad that you are doing those things, but what I do not understand is, there was a report in 2003 that identified the same set of problems, so each action that you identify, why were you not taking that action in 2004, in 2005, in 2006, in 2007, in 2008, in 2009, in 2010, in 2011, in 2012? Why have you not already done those things so when the Inspector General comes back in 2013, the Inspector General can say, there has been significant change since 2003?

Mr. LEITH. It is a legitimate question. I cannot answer that, but I will certainly follow up.

Ms. ANDERSON. If I may interject, I think that is a perfect illustration of what is happening with the student loan debt and the people like myself, the borrowers, that find that they do not have options available to them within the current structure, is that people who are in charge of those loans and in charge of that piece of it are given latitudes that we are not given latitude in, and therein lays the insidious nature of how those collections and how that money is being collected on the backs of people who just wanted to improve their lifestyle.

Senator WARREN. You make the right point, Ms. Anderson. Students do not get to pick their servicers. They borrow from the Federal Government and then the Federal Government picks who will service that loan, and part of the understanding is the Federal Government will not only pick the companies that will treat the students well, but will follow the law, that will be scrupulous in how they treat people who have taken out student loans.

But also, that the Federal Government will then monitor to make sure, day after day, week after week, month after month, that those servicers are following the law. We depend on you, the Department of Education, to do this, and it is clear that it is not happening and it is not happening for millions of borrowers out there.

Mr. Chairman, I would be glad to join you on this letter and whatever else it is we can do. We have got to make some changes here.

The CHAIRMAN. Whatever else we can do is going to involve the Chairman issuing an invitation to Secretary Donovan on behalf of the Committee, Senator Collins and the rest of the Committee members, to come and have a discussion. We will start with a private discussion—it may turn out into a round table discussion at some point—about a number of the issues that have been raised here today.

This meeting was for the purpose of concentrating on senior citizens and the debt that they are carrying, but obviously in the course of the discussion, we have raised a number of other issues that apply to all borrowers.

I want to thank the panelists. I want to thank everybody who has been interested in this subject, and the meeting is adjourned.

[Whereupon, at 3:26 p.m., the hearing was adjourned.]

APPENDIX

Prepared Witness Statements

Testimony of Rosemary Anderson

"Indebted for Life: Older Americans and Student Loan Debt"
Special Committee on Aging
September 10, 2014

Thank you Chairman Nelson and Ranking Member Collins for the opportunity to tell my story before the Senate Special Committee on Aging.

My name is Rosemary Anderson. I am 57. I was a healthy married woman with one child and another on the way when I decided to go back to school in my 30s. By the time I had obtained both a bachelor's and master's degree to pursue my career goals, however, I was divorced and overcoming a debilitating illness. I owed $64,000 in student loans, but because I faced a variety of expenses that made me unable to pay down my debt, that figured has ballooned to more than $126,000. I will be indebted for life, and my growing concern is that when I reach the age to take Social Security, a sizeable portion of my check will be garnished to pay off that money.

I am originally from New Jersey – the middle of seven siblings – raised with faith, family, social and community responsibility and education as core values. My maternal grandmother and my mother were the only ones who graduated from college. It was an expectation that each of us would go on to college after high school and obtain a college degree. I was a bit rebellious in high school and after my freshman year was told if I wanted to continue attending private school, I would have to pay my own tuition. I got a job at 15 and did just that. I was raised with the notion that you paid for your mistakes and hopefully did not repeat them. I was accepted to Boston College and then made an impetuous decision to forego the college track and after graduating from high school, travelled instead to California in 1975 with an older sister and have called the West Coast home ever since.

I was married in 1982 and through hard work and the help of family we were able to purchase our first home in Watsonville, California, a home I still own today. I was working two jobs at that time to be able to afford our mortgage; part-time in the health care field caring for chronically ill and terminally ill patients, as well as providing respite for families with severely disabled children. My full-time job was first working with the developmentally disabled population and then with a non-profit organization that provided life skills and work skills training to developmentally disabled young adults with the objective of transitioning them to become more independent. This was my career for 16 years.

We brought our first daughter into the world on February 26, 1986. I returned to work full time after my maternity leave when Taylor was 3 months old. I had been promoted to run an independent skills training program in Monterey County.

I received a call at work one day in August of 1988 that my younger brother David had been taken to the hospital in New Jersey. He suffered from HIV and at this time he received an AIDS diagnosis. I flew to see him immediately. I took a leave of absence to care for him during his last few months of life. He died in June 1989, Within a few weeks, I was fired from my job and learned I was pregnant with my second child.

After all that emotional upheaval and financial impact on our family, I decided it was time to return to school and earn my college degree. I felt it would make me more marketable in the workplace with broader options in the future.

My second daughter was born on February 1, 1990. I was just beginning my last semester at community college the week she was born, I returned to class infant in tow and finished my courses on schedule. I completed all the requirements and credits needed to be admitted to a two year degree program through the University of San Francisco and graduated with my BS (with a perfect GPA) in Organizational Behavior in 1993. I chose this particular program because it was designed for older adults who were already well into their careers or were in the process of changing careers and had not yet earned a college degree. It fit with my time table; I could earn college credits for my life experience through their intensive portfolio writing option (which actually saved me thousands of dollars and classroom semester hours)

My then husband ran a custom woodworking business and was self-employed with no health benefits and the self-employment taxes were very high. I did the books and contracts and front office part of the business. Our medical coverage had a $5,000 deductible and was meant for catastrophic coverage only. We decided I had to return to the workforce.

I was hired by UC Santa Cruz in August of 1993 in an entry level position working three-quarter time and furloughed in the summer months. After child care expenses, parking (we have to pay to park on campus) and commute costs, I averaged about $1.75 an hour. But, we had excellent benefits. I could now provide medical, dental and vison coverage for the whole family, which was offered at no cost to employees at the time. We were finally able to start a retirement fund and plan for our financial future. I had an opportunity to go on to earn my Master of Science in Organizational Development through the University of San Francisco and now that I was working and the program again was geared toward working adults, I felt it would be another great asset in finding better positions within the University.

During the time I sought my master's degree, I became ill with what I later learned was Lupus, and that debilitated me for close to three years as I struggled to get that in control and in remission so I could resume a full time work schedule. I am very fortunate to work for an organization that provides full medical benefits and that was willing to alter my schedule so I could work part time until I got better. It delayed the completion of my degree program but I finally graduated in 2001.

I had a variety of loans to pay each month ranging from federal loans, to loans issued through the school, and I believe a couple of bank loans. I decided consolidation was a great option (making one payment as opposed to writing multiple checks a month would be a better way to track and pay) and at the time the interest did not seem unreasonable. It took almost a year to get the consolidation package completed and approved. I did not realize when I made that choice that I would never be able to refinance that loan.

In the meantime, my marriage began to fail and we spent a significant amount of money, time and energy in counseling to make it work. Unfortunately, that was not to be and we were divorced in December 2002.

I was unprepared for how drastically my life would change going from a dual salary household to a single wage earner. When child support for my children ended when they turned 19, I was still providing for their educational costs, health care costs and miscellaneous expenses and my slide toward major indebtedness began.

The $1,600 in child support did not cover the increases in living costs over time. I should have admitted then that I could not afford to continue supporting my daughter after her child support ended, while covering the increased expenses for my youngest at the same time. I began using my home equity to pay bills and necessary expenses. I was essentially robbing Peter to pay Paul. I began paying for major expenses like tuition and other critical bills by borrowing money on top of the support to make it all work. My last child support payment for my youngest daughter was February 1, 2009. By this time, my total debt was out of control.

My expenses continued to rise and my salary did not. In 2010, my house was worth less than half of what is was worth three years prior. We had numerous foreclosures and short sales in our neighborhood, exacerbating the weak real estate market. The value of my house was $200,000 less than what I owed on it, and although I did not want to move, selling it was not an option. I was in debt to two creditors and those accounts became delinquent. I did settle two credit card accounts with Bank of America in the summer of 2009.

As a state employee, I took a drastic reduction in pay and was furloughed 18 days over the year. I netted $3,298.55 a month + $1,000 in alimony. My mortgage payment (with taxes and insurance) was $3,470. I don't have to state how bad an equation that was.

I had always paid my bills on time and do not live extravagantly. I did not want to declare bankruptcy or lose my house. I explored debt settlement and actually contracted with a service and then found it would only make my situation worse. I tried to negotiate interest rates with long term credit accounts (per Suze Orman) which resulted in getting all credit cards cancelled and a nightmare of debt to pay down (it was my major epiphany of just how financially crippled I was - prior to that I was juggling so many balls in the air I didn't take the time to actually look at where I was) I was paying more with less and was living as a single spending like a couple. It was a life changing event I thought would do me in but turned out to be a saving grace.

Thankfully, the Obama Making Home Affordable Program was introduced and after 18 months of wading through the onerous bureaucracy to complete the eligibility, I became a recipient of that relief. It restructured my mortgage and reduced the payment on my home to something I could afford at a lower interest rate with the terms changing every few years. My mortgage payment now is $2,200 a month (the interest rate is 2% and changes every 3 years to a cap of 5.75%)

I sold just about everything I had of value to help with the credit card debt buy-down and to make ends meet. This took seven years, but I did it. I have taken on extra jobs to generate revenue and have rented rooms in my house for the past six years. My monthly lifetime alimony of $1,000 a month (which I was legally entitled to) ended December, 2013.

In January 2013 I took a five year loan of $10,000 against my retirement account to fund one daughter's wedding and help my other daughter finish her last year of college.

My net monthly income is $3,618. I divert part of my salary pretax to my university retirement account as I have no savings and no other assets except my home. My monthly expenses are roughly $3,661 with no room for anything unexpected.

Today the interest rate for my consolidated student loans is 8.25 percent. Given my financial constraints, I have not been able to pay anything toward my loans for close to eight years. Every year I go through an elaborate exercise of which program will keep me in 'good standing' without making a payment and thereby avoiding default.

If I enter into a negative amortization contract for the next year, my new terms of agreement starting next spring for my current student loan debt has me paying $526 a month for 24 years. I will be 81 and under those terms will pay $87,487 more than my original loan amount.

I am not eligible for income-based repayment plans because they do not take net earnings and actual expenses into consideration when they factor your payment amount. My overall pay is high, but my take-home pay is not, and even though I can prove that, my expenses are not factored in.

It is frustrating that in this one area, there is no real relief for me or people like me. I was able to use the real estate bailout for my underwater home but have no real way to see my loan debt forgiven. Even if I wanted to file for bankruptcy, which I don't, my student loan debt would not be forgiven.

I find it very ironic that I incurred this debt as a way to improve my life, and yet I sit here today because the debt has become my undoing.

And I am one of the lucky ones. I have a house to live in, a job that has excellent benefits and a retirement plan to pay into – although realistically I will be working for the rest of my life. I do not want this debt to define me. I am proud of my ability to survive and maintain and through all of the above and have made and continue to make significant contributions to my community in volunteer leadership roles.

Senator Warren's Bank on Students Emergency Loan Refinancing Act would offer relief for many mired in this student loan debt crisis, including parents with loans. It is an important first step. It doesn't however address the accumulation due to the interest on those loans and for those of us in our mid to late 50's and older will never live long enough to pay off our debt unless some interest forgiveness program or legislation is introduced.

I thank you for the opportunity to be a voice for this critical issue. It is my sincere hope that this Committee, as it has throughout its fifty-year history, will be able to influence much needed changes so that aging Americans can cease living in fear for their financial future.

I look forward to answering your questions.

United States Government Accountability Office

Testimony
Before the Special Committee on Aging, U.S. Senate

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OLDER AMERICANS

Inability to Repay Student Loans May Affect Financial Security of a Small Percentage of Retirees

Statement of Charles A. Jeszeck, Director, Education, Workforce, and Income Security

GAO Highlights

Highlights of GAO-14-866T, a testimony before the Special Committee on Aging, U.S. Senate

Why GAO Did This Study

Recent studies have indicated that many Americans may be approaching their retirement years with increasing levels of various kinds of debt. Such debt can reduce net worth and income, thereby diminishing overall retirement financial security. Student loan debt held by older Americans can be especially daunting because unlike other types of debt, it generally cannot be discharged in bankruptcy. GAO was asked to examine the extent of student loan debt held by older Americans and the implications of default.

This testimony provides information on: (1) the extent to which older Americans have outstanding student loans and how this debt compares to other types of debt, and (2) the extent to which older Americans have defaulted on federal student loans and the possible consequences of default. To address these issues, GAO obtained and analyzed relevant data from the Federal Reserve Board's Survey of Consumer Finances as well as data from the Department of the Treasury, the Social Security Administration, and the Department of Education. GAO also reviewed key agency documents and interviewed knowledgeable staff.

What GAO Recommends

GAO is not making recommendations. GAO received technical comments on a draft of this testimony from the Department of Education, the Department of the Treasury, and the Federal Reserve System. GAO incorporated these comments into the testimony as appropriate.

View GAO-14-866T. For more information, contact Charles A. Jeszeck at (202) 512-7215 or jeszeckc@gao.gov.

September 10, 2014

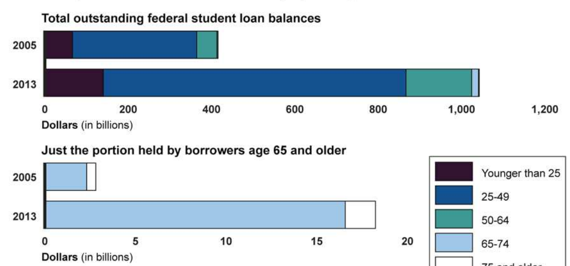
OLDER AMERICANS

Inability to Repay Student Loans May Affect Financial Security of a Small Percentage of Retirees

What GAO Found

Comparatively few households headed by older Americans carry student debt compared to other types of debt, such as for mortgages and credit cards. GAO's analysis of the data from the Survey of Consumer Finances reveals that about 3 percent of households headed by those aged 65 or older—about 706,000 households—carry student loan debt. This compares to about 24 percent of households headed by those aged 64 or younger—22 million households. Compared to student loan debt, those 65 and older are much more likely to carry other types of debt. For example, about 29 percent carry home mortgage debt and 27 percent carry credit card debt. Still, student debt among older American households has grown in recent years. The percentage of households headed by those aged 65 to 74 having student debt grew from about 1 percent in 2004 to about 4 percent in 2010. While those 65 and older account for a small fraction of the total amount of outstanding federal student debt, the outstanding federal student debt for this age group grew from about $2.8 billion in 2005 to about $18.2 billion in 2013.

Outstanding Federal Student Loan Balances by Age Group, 2005 and 2013



Source: GAO analysis of data provided by the Department of Education. | GAO-14-866T

Available data indicate that borrowers 65 and older hold defaulted federal student loans at a much higher rate, which can leave some retirees with income below the poverty threshold. Although federal student loans can remain unpaid for more than a year before the Department of Education takes aggressive action to recover the funds, once initiated, the actions can have serious consequences. For example, a portion of the borrower's Social Security disability, retirement, or survivor benefits can be claimed to pay off the loan. From 2002 through 2013, the number of individuals whose Social Security benefits were offset to pay student loan debt increased about five-fold from about 31,000 to 155,000. Among those 65 and older, the number of individuals whose benefits were offset grew from about 6,000 to about 36,000 over the same period, roughly a 500 percent increase. In 1998, additional limits on the amount that monthly benefits can be offset were implemented, but since that time the value of the amount protected and retained by the borrower has fallen below the poverty threshold.

Chairman Nelson, Ranking Member Collins, and Members of the Committee:

I am pleased to be here today to discuss the financial effect of student loan debt on older Americans.[1] This statement summarizes the work we did at the request of Chairman Nelson and Chairman Harkin, Chair of the Senate Committee on Health, Education, Labor, and Pensions. As recent studies have shown, debt held by older Americans is increasing and may affect financial security in retirement. A 2013 study reported that the percentage of Americans 65 or older with some debt increased from about 30 percent to about 43 percent from 1998 to 2010.[2] The study also found that the median amount of debt increased 56 percent, from about $13,600 to $21,200. Further, for those 65 and older, the overall debt ratio—total debt as a percentage of total household assets—doubled from 1998 to 2010, rising from 6.4 percent to 13 percent. Such debt reduces net worth and income and can erode retirement security. The effect of rising debt can be more profound for those who have accumulated few or no financial assets.

Student loan debt can be especially problematic because unlike other types of debt, it generally cannot be discharged in bankruptcy[3] and can, in the event of default on federal student loans, lead to reductions in certain federal payments such as Social Security benefits.[4] According to data compiled by the Federal Reserve Bank of New York, the number of Americans 50 and older with student loan debt increased from 3 million in 2005 to 6.9 million in 2012—an increase of 130 percent.

In light of these issues, we were asked to examine both the incidence of student loan debt among older American households, and the implications of defaulting on student loans for members of this population. Specifically, we examined (1) the extent to which older Americans have

[1]In this testimony, we use the phrase "older Americans" to mean those of traditional retirement age, 65 and older. As appropriate, we will also consider those approaching retirement age which, depending on the data source, may include those at or over the ages of 50 or 55.

[2]Nadia Karamcheva, *Is Household Debt Growing for Older Americans?* Urban Institute Program on Retirement Policy, Number 33, (January 2013).

[3]11 U.S. C. § 523(a)(8).

[4]31 U.S.C. § 3716(c)(3)(A)(i)(I).

outstanding student loans and how this debt compared to other types of debt, and (2) the extent to which older Americans have defaulted on federal student loans and the possible consequences of default.

To address these questions, we analyzed a number of nationally representative datasets, reviewed relevant literature, examined relevant federal laws and regulations, studied agency data and documents, and interviewed relevant experts. Specifically, for the first question, we extracted and analyzed data from the Federal Reserve Board's Survey of Consumer Finances (SCF), a survey conducted once every 3 years that gathers various economic and financial data at the household level. We also obtained targeted data reflecting individual loans—but not borrowers—from the Department of Education's (Education) National Student Loan Data System (NSLDS). Although Education maintains borrower-level data, it was only able to provide us with aggregated data by loan type during the course of our analyses. To answer the second question, we reviewed additional data from the NSLDS, and obtained data from the Department of the Treasury (Treasury) on payments withheld from Social Security benefits and applied to defaulted federal student loans through the Treasury Offset Program. To better understand offset for older Americans, we matched the Treasury data with data from the Social Security Administration's Master Beneficiary Record on the ages of these borrowers and the types of benefits they receive. In addition, we interviewed Education officials and reviewed relevant documentation regarding Education's debt collection policies and procedures; however, we did not audit their compliance with statutory requirements related to these activities. We assessed the reliability of the data sources by reviewing documentation and conducting testing of the data and determined that they were sufficiently reliable for purposes of this testimony. More details on our scope and methodology are included in appendix 1.

We provided a draft of this testimony to the Department of Education, the Department of the Treasury, the Social Security Administration, and the Federal Reserve System for review and comment. They generally agreed with our findings. We received technical comments from each agency except the Social Security Administration, which had no comments, and as appropriate, we incorporated these technical comments into this testimony.

We conducted this performance audit from November 2013 to September 2014 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

Since passage of the Higher Education Act of 1965,[5] a broad array of federal student aid programs, including loan programs, have been available to help students finance the cost of postsecondary education.[6] Currently, several types of federal student loans administered by Education make up the largest portion of student loans in the United States. Four types of federal student loans are available to borrowers and have features that make them attractive for financing higher education. For example, borrowers are not required to begin repaying most federal student loans until after graduation or when their enrollment status significantly changes. Further, interest rates on federal student loans are generally lower than other financing alternatives, and the programs offer repayment flexibilities if borrowers are unable to meet scheduled payments. As outlined in table 1, the four federal loan programs differ in that interest rates may or may not be subsidized based on the borrower's financial need, loans may be designed to specifically serve undergraduate or graduate and professional students, and loans may serve to consolidate and extend the payment term of multiple federal student loans.[7]

[5]Pub. L. No. 89-329, 79 Stat. 1219 (codified as amended at 20 U.S.C. §§ 1001-1161aa-1 and 42 U.S.C. §§ 2751-2757b).

[6]In addition to loans, the Higher Education Act of 1965 also authorizes various other types of federal support for higher education, including grants and scholarships.

[7]In addition to the loan programs described in table 1, many older borrowers may be carrying Federal Family Education Loans (FFEL). The FFEL program was authorized by the Higher Education Act of 1965, but the SAFRA Act terminated the authority to make FFEL loans after June 30, 2010 (Pub. L. No. 111-152, §§ 2001 and 2201, 124 Stat. 1029, 1071 and 1074 (codified at 20 U.S.C. § 1071(b) and (d)) and no additional loans have been made.

Table 1: Major Types of Federal Student Loans

Federal loan program	Eligibility	Aggregate loan limits	Interest rates[a]
Federal Perkins Loans	Undergraduate and graduate students who can demonstrate financial need	$11,000 for 1st and 2nd year undergraduate students $27,500 for 3rd and 4th year undergraduate students $60,000 for graduate students (including undergraduate loans)	5%
William D. Ford Direct Stafford Loans	Subsidized loans[b] Undergraduate students enrolled at least half-time who can demonstrate financial need Unsubsidized loans Undergraduate and graduate students. Same as subsidized loans, except financial need is not required	Subsidized $23,000 for undergraduate students $65,000 for graduate students Total (subsidized and unsubsidized) $31,000 for dependent undergraduates $57,500 for independent undergraduates and dependent students whose parents cannot get PLUS loans $138,500 for graduate and professional students	4.66% for undergraduates (subsidized and unsubsidized) 6.21% for graduate and professional (unsubsidized only)
Direct PLUS Loans	Graduate and professional students and parents of dependent undergraduate students Students must be enrolled at least half-time, and applicant must have no adverse credit history Financial need is not required	No aggregate limit	7.21%
Direct Consolidation Loans	Students or parent borrowers wanting to combine multiple federal loans into one loan Parent PLUS loans cannot be transferred to the student and become the student's responsibility	Not applicable	Rate is based on the weighted average of the interest rates of the loans being consolidated, rounded up to the nearest 1/8 of 1%

Source: U.S. Department of Education. | GAO-14-866T

[a]Federal student loan interest rates vary annually based on interest rates available in the financial markets and are determined each spring for new loans being made for the upcoming July 1 through June 30 period. Loans have a fixed interest rate for the life of the loan. The rates in this column apply to loans made on or after July 1, 2014 and before July 1, 2015, excepting Perkins loans, which have an interest rate of 5 percent regardless of the date the loan was disbursed.

[b]Subsidized loans are loans on which the federal government generally pays interest while the student is in school and during certain other periods. In the case of unsubsidized loans, interest starts accruing as soon as funds are disbursed, and the borrower is responsible for paying the interest. Federal Perkins Loans are subsidized as well, but Direct PLUS Loans are not. Direct Consolidation Loans may have both subsidized and unsubsidized components, depending on the loan types that were consolidated.

Education administers federal student loans and is generally responsible for, among other duties, disbursing, reconciling, and accounting for student loans and other student aid, and tracking loan repayment. Although no other federal agencies have a direct role in administering student loans, other agencies may become involved in the event that a borrower fails to make repayment. For example, Education may coordinate with Treasury to withhold a portion of federal payments to borrowers who have not made scheduled loan repayments. Such payment withholding, known as administrative offset, can affect payments to individuals by various federal agencies. Offsets of income tax refunds would involve the Internal Revenue Service and offsets of Social Security retirement or disability benefits would involve the Social Security Administration.

Student loans are also available from private lenders, such as banks and credit unions. Private loans differ from federal loans in that they may require repayment to begin while the student is still in school, they generally have higher interest rates, and the rates may be variable as opposed to fixed. Unlike federal student loans, private student loans may be more difficult to obtain for some potential borrowers because they may require an established credit record and the cost of the loan may depend on the borrower's credit score. Private student loans are a relatively small part of the student loan market, accounting for 10 to 15 percent of outstanding student loan debt—about $150 billion—as of January 2012.

Older Americans—that is, Americans in or approaching retirement—may hold student loans for a number of reasons. For example, because such loans may have a 10- to 25-year repayment horizon, older Americans may still be paying off student loan debt that they accrued when they were much younger. They may also have accrued student loan debt in the course of mid- or late-career re-training and education. In addition, they may be holding loans taken out for the education of their children, either through co-signing or through Parent PLUS loans.

Relatively Few Households Headed by Individuals 65 and Over Hold Student Loan Debt, but the Amount They Owe May Be Significant

According to the 2010 SCF, households headed by older individuals are much less likely than those headed by younger individuals to hold student loan debt.[8] As of 2010, about 3 percent of surveyed households headed by people 65 and older—representing approximately 706,000 households—reported some student loan debt. This compares to 24 percent for households headed by those under 65—representing about 22 million households.[9] The decrease in the incidence of student loan debt is even more marked for households headed by the oldest individuals—only 1 percent of those aged 75 or over reported such debt. Although few older Americans have student debt, a majority of households headed by those 65 and older reported having some kind of debt, most commonly home mortgage debt, followed by credit card and vehicle debt. While the incidence of all debt types declines for households headed by those 65 and over, the incidence of student loan debt declines at a much faster rate. For example, the incidence of student loan debt for the 65-74 age group is less than half of that for the 55-64 age group—4 percent compared to 9 percent. In contrast, the incidence of any type of debt for the older age group is only about 17 percent less than the younger age group—65 percent compared to 78 percent.

[8]The 2010 SCF did not use the phrase “student loans”, but rather asked respondents whether they have loans for educational expenses. However, for consistency in usage, we will use the phrases “student loans” or “student loan debt” throughout this report. Because of the inclusive wording of the question, the SCF data reflect both federal and private loans.

[9]SCF survey responses are based on the financial situation of an entire household, not just the head of household. Because of this, it is possible that for some households headed by older Americans, the reported student loan debt is held by children or other dependents that are still members of the household.

Table 2: Incidence of Debt by Age of Head of Household and Type of Debt, 2010

Age of head of household	Mortgage[a]	Credit card	Student	Vehicle	Other debt[b]	Any debt
18-34	34%	39%	40%	32%	23%	78%
35-44	57	46	26	41	32	86
45-54	59	46	18	36	35	84
55-64	51	41	9	28	34	78
Total, 18-64	50	43	24	34	31	81
65-74	37	32	4	23	23	65
75 and older	21	22	1	8	13	39
Total, 65 and older	29	27	3	16	18	52
Total, all ages	45	39	19	30	18	75

Source: GAO analysis of Federal Reserve Survey of Consumer Finance SCF 2010 data. | GAO-14-866T

Note: In all cases, the percentages in this table have margins of error of plus or minus 4 percentage points or less, and in the large majority of cases about 2.8 percentage points or less.

[a]Data in this column reflect home mortgage debt other than home equity lines of credit.

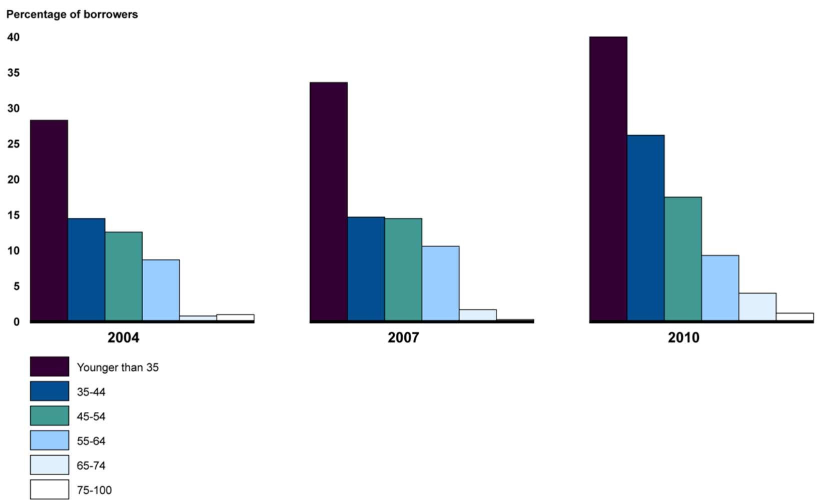
[b]Other debt includes home equity lines of credit, other lines of credit, residential debt not for primary residence, installment loans for other than vehicles and education, as well as other types of debt such as loans against pensions or life insurance.

While relatively few older Americans have student debt, data from the SCF suggest that the size of such debt among older Americans may be comparable to that of younger age groups. Among all age groups, the median balances of student and other types of debt are dwarfed by median balances of home mortgage debt. Estimates of median student debt balances for the various age groups range from about $11,400 to about $15,500. Median mortgage debt, in contrast, ranges from about $58,000 to $136,000 among the same groups. Among households headed by those 65 and older, the estimated median student debt was about $12,000, and among those 64 and younger, about $13,000. However, given the small number of older households with student loans, it is important to note that the estimate of student debt for the 65 and older age category is a general approximation.[10]

[10]The estimated median student debt of the 65 and older category—about $11,800—carries a statistical margin of error of about $5,800. This occurs because few households in this age group reported student loan debt, and because of the wide dispersion in the outstanding balance figures reported. Because the dollar values for this age group are measured relatively imprecisely, we cannot say that the dollar values were statistically less than $17,500 or greater than $6,000.

From 2004 to 2010, an increasing percentage of households in all SCF age groups have taken on student loan debt (see fig. 1). During the same period, the percentage of households headed by individuals 65 to 74 who had some student loan debt increased from just under 1 percent in 2004 to about 4 percent in 2010—more than a four-fold increase. The percentage of households having student loan debt in the two youngest age household categories—those 18 to 34 and those 35 to 44—were and remain much larger. Their rate of increase in that type of debt from 2004 to 2010 was comparatively modest—about 40 percent and 80 percent, respectively.

Figure 1: Percentage of Families with Student Loans



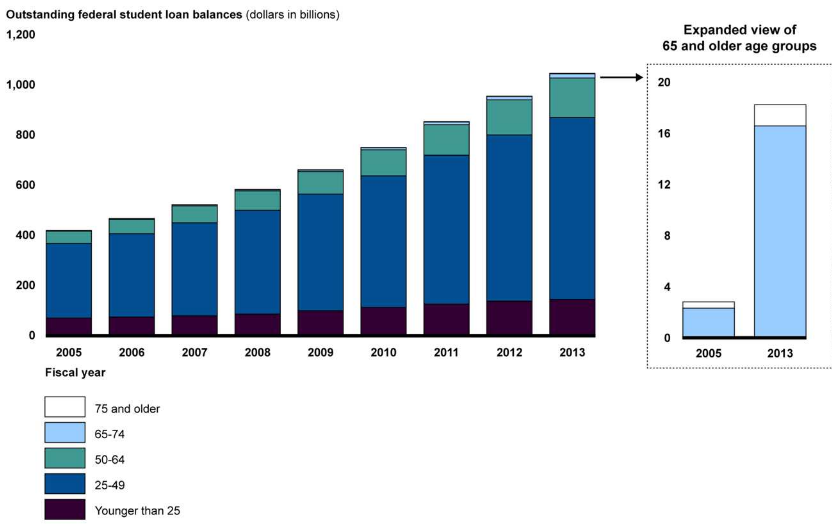
Source: GAO analysis of Survey of Consumer Finances data. | GAO-14-866T

Note: Based on standard errors estimated using the SCF replicate weights, all estimates have a margin of error of 2.4 percentage points or less.

Data from Education's NSLDS also indicates substantial growth in aggregate federal student loan balances among individuals in all age groups, especially older Americans.[11] Aggregate federal student loan debt levels more than doubled overall, rising from slightly more than $400 billion in 2005 to more than $1 trillion dollars in 2013 (see fig. 2). The total outstanding student debt for those 65 and older was and remains a small fraction of total outstanding federal student debt. However, debt for this age group grew at a much faster pace—from about $2.8 billion in 2005 to about $18.2 billion in 2013, more than a six-fold increase.

[11]Data in this paragraph and in figure 3 are drawn from the NSLDS, a comprehensive national database containing information about the federal financial aid history of students receiving federal assistance under Title IV of the Higher Education Act of 1965 (20 U.S.C. §§ 1070-1099d and 42 U.S.C. §§ 2751-2757b). For this reason, it is not perfectly comparable to the SCF, which collects data via survey at the household level, and reflects both federal and private loans as well as other forms of debt. See additional detail about these two data sources in Appendix I.

Figure 2: Outstanding Federal Student Loan Balances by Age Group from Fiscal Years 2005 to 2013



Source: GAO analysis of data provided by the Department of Education. | GAO-14-866T

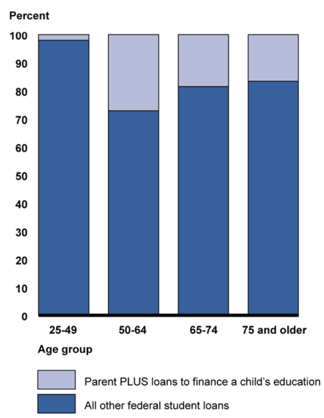
Note: Values have not been corrected for inflation. From 2005 to 2013, prices increased by approximately 23 percent, according to the consumer price index.

Although the Direct PLUS Loan program offers parents of dependent undergraduate students the opportunity to borrow to finance their children's education, data from Education suggests that most federal student loan debt held by older Americans was not incurred on behalf of dependents, but primarily for their own education.[12] About 27 percent of

[12]PLUS loans are a form of Direct Loan that can be used by graduate or professional degree students or parents of dependent undergraduate students to pay for educational expenses not paid for by other assistance. 20 U.S.C. § 1078-2. Parents or step-parents are eligible for such loans if their child is a dependent student enrolled at least half-time and the school participates in the Direct Loan Program.

loan balances held by the 50 to 64 age group was for their children, while about 73 percent was for the borrower's own education (see fig. 3). For age groups 65 and over, the percentages of outstanding loan balances attributable to the borrowers' own education are even higher. For those aged 65-74, 82 percent of the outstanding student loan balances was for the individual's own education, and for the 75 and older group, this was true of 83 percent. Because information on the age of the loans was not readily available to us, we do not know the extent to which the debt of older Americans is attributable to recently originated loans or loans originated many years ago during their prime educational years.

Figure 3: Percentage of Outstanding Loan Balances that Are Parent PLUS Loans or Other Federal Student Loans, by Age Group, Fiscal Year 2013



Source: GAO analysis of data provided by the Department of Education. | GAO-14-866T

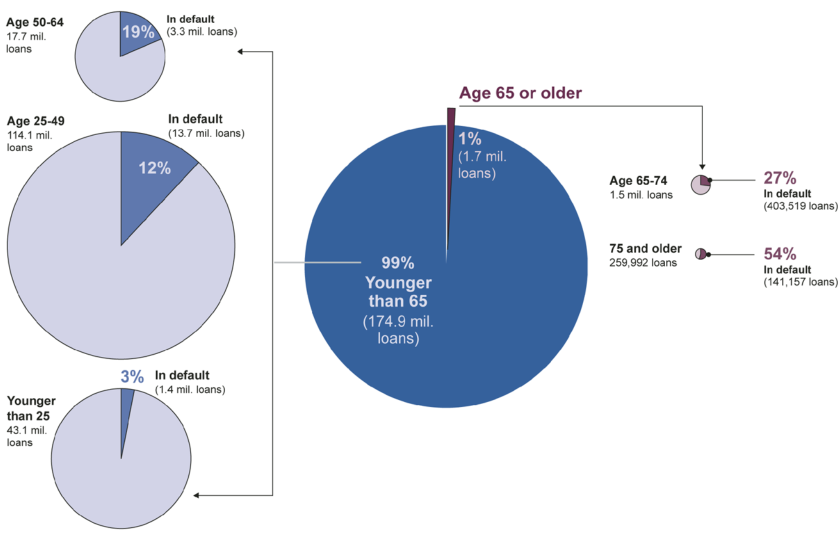
Older Borrowers Hold Defaulted Federal Student Loans at a Higher Rate and Default Can Have Serious Consequences

Older Borrowers Hold Defaulted Federal Student Loans at a Higher Rate, Especially for Their Own Education

Although older borrowers hold a small portion of federal student loans, they hold defaulted loans at a higher rate than younger borrowers. Individuals 65 or older held 1 percent of outstanding federal student loans in fiscal year 2013 (see fig. 4). However, 12 percent of federal student loans held by individuals age 25 to 49 were in default, while 27 percent of loans held by individuals 65 to 74 were in default, and more than half of loans held by individuals 75 or older were in default.[13]

[13]We measured the percentage of default by dividing the number of loans in default by the total number of outstanding loans for each age group. This differs from Education's calculation for cohort default rates, which measures the rate of default for a school's borrowers who enter repayment during a given fiscal year. Education officials noted that the two measures are not directly comparable.

Figure 4: Percentage of Federal Student Loans in Default within Age Groups, Fiscal Year 2013



Source: GAO analysis of data from the National Student Loan Data System. Department of Education. | GAO-14-866T

Note: Data is for loans in repayment status as well as loans not in repayment status for reasons such as deferment, forbearance, or a grace period.

According to Education data, older borrowers are in default on federal student loans for their children's education less frequently than they are in default on federal student loans for themselves. Specifically, in fiscal year 2013, 17 percent of Parent PLUS loans held by borrowers ages 65 to 74 were in default, while 30 percent of loans for their own education were in default.

Delinquent Borrowers Have Considerable Time to Begin Repaying Federal Student Loans before Facing Collection Actions, which May Include Withholding Federal Payments

Delinquent borrowers—those who have missed one or more payments—have more than a year to resume payments or negotiate revised terms before facing collection procedures. During the initial year of delinquency for Direct Loans, Education and the loan servicers make a number of attempts to help borrowers arrange for payments and avert default[14] (see fig. 5).[15] After the loan has been delinquent for 425 days (approximately 14 months), Education determines whether to take actions intended to recover the money it is owed. These actions can have serious financial consequences for the borrower. For example, Education may charge collection costs[16] up to 25 percent of the interest and principal of the loan.[17] Interest on the debt continues to accumulate during the delinquency and default period. In addition, Education may garnish wages[18] or initiate litigation. Education may also send the loan to a collection agency. The defaulted debt may also be reported to consumer reporting agencies,[19] which can result in lower credit ratings for the borrower. Lower credit ratings may affect access to credit or rental property, increase interest rates on credit, affect employers' decisions to hire, or increase insurance costs in some states.

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[14]Default generally occurs when a borrower fails to make a payment for more than 270 days; 20 U.S.C. § 1085(*l*); 34 C.F.R. § 682.200(b). However, Education generally identifies defaulted loans as those 360 days or more past due, because the agency allows loan servicers 90 days to transfer Direct Loans to Education and Federal Family Education Loan lenders up to 90 days to file a default claim with the guarantor.

[15]Outstanding loans made under the Federal Family Education Loan program, also known as guaranteed loans, follow a similar timeline except that defaulted loans are turned over to state guaranty agencies for debt collection, rather than to Education.

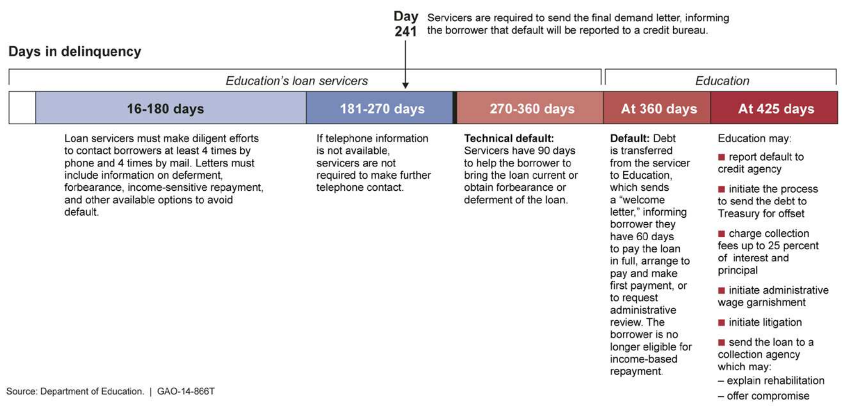
[16]34 C.F.R. § 30.60(a)(7).

[17]In re Evans, 322 B.R. 429, 436.

[18]34 C.F.R. § 34.18.

[19]34 C.F.R. § 30.35. Education also reports the borrower's delinquency status to credit bureaus during the life of the loan.

Figure 5: Department of Education Timeline for Delinquent and Defaulted Direct Student Loan Processing



Source: Department of Education. | GAO-14-866T

At 425 days, Education may also begin the process to send newly defaulted loans to Treasury to recover the debt by withholding a portion of federal payments—known as offset.[20] Federal payments subject to offset include wages for federal employees,[21] tax refunds,[22] and certain monthly federal benefits, such as Social Security retirement and disability payments.[23] Each year, Education prepares a list of newly defaulted loans for Treasury offset. In 2014, newly defaulted debt must have been more than 425 days delinquent before the July deadline so that it can be sent to Treasury in December. If the debt becomes 425 days delinquent after the

[20] 34 C.F.R. § 30.20.

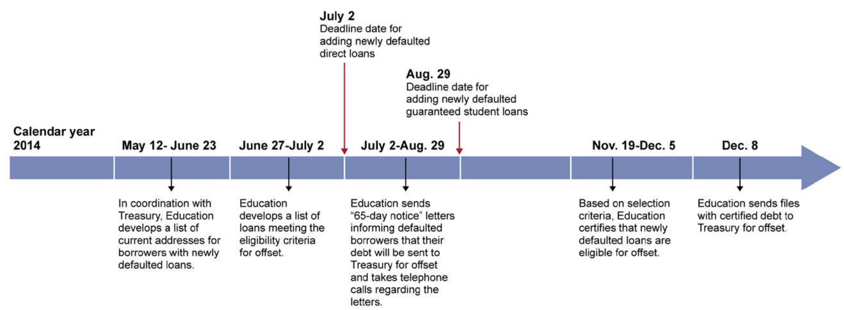
[21] 34 C.F.R. pts. 31 and 32.

[22] 31 U.S.C. § 3720A.

[23] 31 U.S.C. § 3716(c)(3)(A). The Debt Collection Improvement Act of 1996 centralized the collection of nontax debt at Treasury. Pub. L. No. 104-134, § 31001,110 Stat. 1321, 1321-358. The Treasury Offset Program within the Bureau of the Fiscal Service carries out offset of federal payments for nontax debt, including defaulted federal student loans. Offset for student loan debt began in 1999.

cutoff, it would be sent the following December (2015). Thus, the defaulted debt is sent to Treasury 3 to 15 months after 425 days of delinquency—between 17 and 29 months from the last date of payment on the loan (see fig. 6). According to Education officials, loans that have not been paid off are annually recertified as being eligible for offset.

Figure 6: Department of Education's Schedule for Preparing Newly Defaulted Loan Debt for Treasury Offset, 2014



Source: Department of Education. | GAO-14-866T

Note: Certain defaulted debt is not eligible for offset, such as debt being evaluated for discharge, in litigation, or where a Treasury offset hearing has been requested.

After a defaulted loan is certified as eligible for offset to Treasury, certain payments, such as any available tax refunds, are offset immediately, without prior notice to the debtor. Borrowers with monthly benefits available for offset are informed by mail that their benefits will be offset in 60 days and again 30 days before the offset is taken, allowing borrowers an additional 2 months to resume payment on their loan before offset occurs. Treasury assesses a fee[24] for each offset transaction, which is subtracted from the offset payment. Other federal agencies may charge additional fees for each transaction depending on the type of payment being offset. For fiscal year 2014, Treasury's fee was $15 per offset and other agency fees were up to $27.

[24]31 U.S.C. § 3716(c)(4).

Federal tax refunds are the source for more than 90 percent of offset collection for federal student loan debt. Offsets from Social Security benefits represented roughly $150 million in 2013 or less than 7 percent of the more than $2.2 billion in federal payments offset by Treasury.

Table 3: Sources of Offset Payments for Federal Student Loan Debt in 2013

Source of Payment	Amount (millions)	Percent of Total
Federal tax refunds	$2,050	91.7
Social Security benefits	$150	6.7
Other	$35	1.6
Total	**$2,235**	**100**

Source: GAO analysis of Department of the Treasury data. | GAO-14-866T

Note: Sources of payment categorized as "Other" include federal salary payments and federal vendor payments.

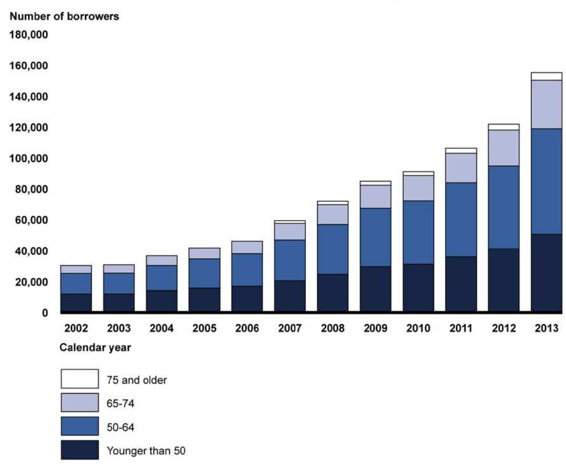
The number of borrowers, especially older borrowers, who have experienced offsets to Social Security retirement, survivor, or disability benefits to repay defaulted federal student loans has increased over time.[25] In 2002, the first full year during which Social Security benefits were offset by Treasury, about 31,000 borrowers were affected.[26] Of those borrowers, about 19 percent (6,000) were 65 or older. From 2002 through 2013, the number of borrowers whose Social Security benefits were offset has increased roughly 400 percent, and the number of borrowers 65 and over increased roughly 500 percent (see fig. 7). In

[25]Specifically, the Social Security benefits that Treasury offsets are Federal Old-Age, Survivors, and Disability Insurance Benefits, issued under Title II of the Social Security Act. Treasury does not differentiate among retirement, survivor, and disability benefits in administering Social Security benefit offsets, since all of these benefits are eligible for offset. Supplemental Security Income benefits have been exempted from offset.

[26]The Debt Collection Improvement Act of 1996 necessitated Treasury promulgate (in consultation with the Social Security Administration, Railroad Retirement Board, Department of Labor, Department of Veterans Affairs, Office of Management and Budget, and others) regulations before it offset any Social Security benefits, and those regulations were finalized on December 23, 1998. Offset of Federal Benefit Payments to Collect Past-due, Legally Enforceable Nontax Debt, 63 Fed. Reg. 44,986 (Aug. 21, 1998) (interim rule with request for comments) and 63 Fed. Reg. 71,204 (final rule). Treasury officials said that Treasury had to develop a system to process Social Security benefit offsets, including developing a way to provide information on offsets back to the Social Security Administration, before beginning offset of Social Security benefits in mid-2001.

2013, Social Security benefits for about 155,000 people were offset and about 36,000 of those were 65 and over.[27]

Figure 7: Number of Federal Student Loan Borrowers Whose Social Security Retirement, Survivor, or Disability Benefits Were Offset, By Age, 2002-2013



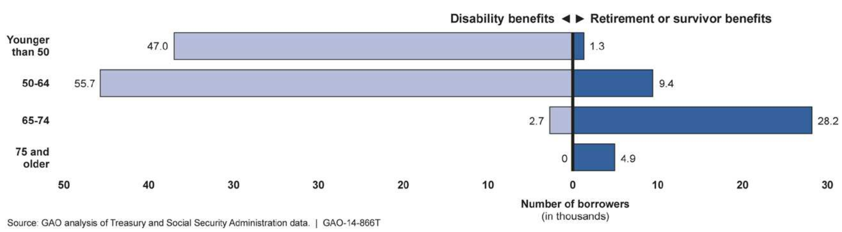
Source: GAO analysis of Treasury and Social Security Administration data. | GAO-14-866T

The majority of Social Security benefit offsets for federal student loan debt are from disability benefits rather than retirement or survivor

[27]While defaulted federal student loan debt can lead to reduced Social Security benefits once in retirement, the presence of student loan debt for those nearing retirement can also affect retirement security as it may keep individuals from saving for retirement.

benefits.[28] In 2013, 70.6 percent of defaulted borrowers (105,000) whose Social Security benefits were offset received disability benefits (see fig. 8).[29] That year, about $97 million was collected through offset from disability benefits. For borrowers 65 and over, the majority of Social Security offsets are from retirement and survivor benefits because Social Security disability benefits automatically convert to retirement benefits at the beneficiary's full retirement age, currently 66.[30] About 33,000 borrowers age 65 and over had Social Security retirement or survivor benefits offset in 2013 to repay defaulted federal student loans.

Figure 8: Federal Student Loan Borrowers with Social Security Benefit Offsets in 2013, By Age of Borrower and Type of Benefit



Source: GAO analysis of Treasury and Social Security Administration data. | GAO-14-866T

Note: The Social Security Administration automatically converts disability benefits to retirement benefits at the beneficiary's full retirement age, currently age 66. 20 C.F.R. § 404.316(b)(2).

[28]Borrowers with a total and permanent disability may apply for discharge of their federal student loans by providing, for example, a notice of award for Social Security Disability Insurance benefits indicating that the borrower's next scheduled disability review will be within five to seven years. 20 U.S.C. § 1087(a)(1), 34 C.F.R. §§ 674.61(b)(2)(iv)(B) and 682.402(c)(2)(iv)(B). Between July 1, 2013 and May 31, 2014, Education received 196,851 *applications for disability discharges and approved 139,855 in the same period. Education informs borrowers about disability discharge during mandatory loan entrance and exit counseling, and borrowers can learn about disability discharge through Education's websites or by contacting their loan servicer.*

[29]For less than 5 percent of Social Security benefit offset payments, we were unable to determine whether the offset was taken from a disability insurance payment or we were unable to determine the age of the borrower. We excluded these payments from our analysis.

[30] 20 C.F.R. § 404.316(b)(2).

The amount of money collected from Social Security benefit offsets to repay defaulted federal student loans has also increased, but the average amount offset on a monthly basis per borrower has remained relatively stable. Treasury collected about $24 million in offsets from Social Security benefits in 2002, about $108 million in 2012, and about $150 million in 2013. However, over this period, the average amount offset on a monthly basis per borrower rose only slightly, from around $120 in the early 2000s to a little over $130 in 2013.

Adjusting Current Limits for Offset Can Keep Monthly Benefits Above the Poverty Threshold, but Reduce Collections to Pay Defaulted Federal Student Loans

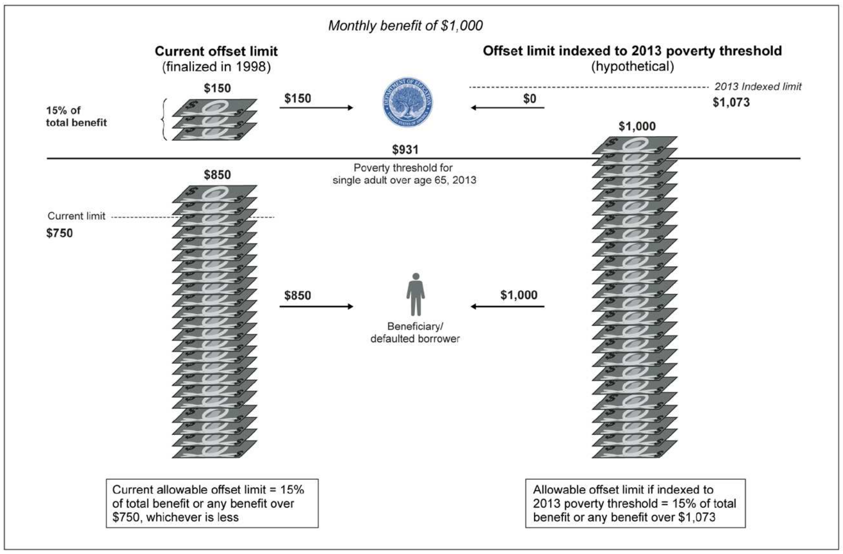
Although there are statutory limits under the Debt Collection Improvement Act of 1996 (DCIA)[31] on the amount that Treasury can offset from monthly federal benefits, the current limits may result in monthly benefits below the poverty threshold for certain defaulted borrowers. Social Security benefits are designed to replace, in part, the income lost due to retirement, disability, or death of the worker.[32] The DCIA set a level of $750 per month below which monthly benefits cannot be offset. In 1998, the amount of allowable offset was effectively modified under regulations, to the lesser of 15 percent of the total benefit or the amount by which the benefit exceeds $750 per month, thus creating a standard more favorable to defaulted borrowers.[33] For example, a borrower with a Social Security benefit of $1,000 per month would have an offset of $150, because that is the lesser of 15 percent of the benefit—$150—and the amount of the benefit over $750, which is $250. This offset would leave the borrower with a monthly benefit of $850, which is below the poverty threshold for 2013. The statutory limit of $750 for an offset was above the poverty threshold when it was set, in 1998. The offset limits have not changed since 1998, and the $750 limit represented about 81 percent of the poverty threshold for a single adult 65 and over in 2013. If the $750 limit had been indexed to the changes in the poverty threshold since 1998, in 2013 it would have increased by 43 percent or to about $1,073 (see fig. 9). Borrowers with benefits below this amount would not have been offset.

[31]Pub. L. No. 104-134, § 31001(d)(2)(D), § 3716(c)(3)(A)(ii), 110 Stat. 1321, 1321-360 (codified at 31 U.S.C. § 3716(c)(3)(A)(ii)).

[32]In 2011, more than a third of beneficiaries 65 and over relied on Social Security benefits for 90 percent or more of their income.

[33]Offset should not exceed the amount of the debt. 31 C.F.R. § 285.4(e).

Figure 9: Comparison of Offset Limit if Indexed to Poverty Threshold



Source: GAO analysis based on relevant laws and regulation. | GAO-14-866T

Indexing monthly benefit offset limits to the poverty threshold can prevent some older borrowers from having offsets, but would also reduce Education's recoveries from Social Security offsets. If the offset limit had been indexed to match the rate of increase in the poverty threshold, in 2013, 68 percent of all borrowers whose Social Security benefits were offset for federal student loan debt would have kept their entire benefit, including 61 percent of borrowers 65 and older. An additional 15 percent of all borrowers and borrowers age 65 and older would have kept more of their benefits in that year. However, indexing the offset limit would have reduced the amount collected from Social Security benefits by approximately 60 percent or $94 million in 2013, representing about 4.2

percent of all dollars offset from all sources by Treasury for student loan debt in that year.

In conclusion, student loan debt and default are problems for a small percentage of older Americans. As the amount of student loan debt held by Americans age 65 and older increases, the prospect of default implies greater financial risk for those at or near retirement—especially for those dependent on Social Security. Most of the federal student loan debt held by older Americans was obtained for their own education, suggesting that it may have been held for an extended period, accumulating interest over time. The Social Security retirement or survivor benefits of about 33,000 Americans age 65 and older were reduced through offset to meet defaulted federal student loan obligations in 2013. Because the statutory limit at which monthly benefits can be offset has not been updated since it was enacted in 1998, certain defaulted borrowers with offsets are left with Social Security benefits below the poverty threshold. As the baby boomers continue to move into retirement, the number of older Americans with defaulted loans will only continue to increase. This creates the potential for an unpleasant surprise for some, as their benefits are offset and they face the possibility of a less secure retirement.

Chairman Nelson, Ranking Member Collins, and Members of the Committee, this completes my prepared statement. I would be pleased to respond to any questions that you may have at this time.

GAO Contact and Staff Acknowledgments

If you or your staff have any questions about this testimony, please contact me at (202) 512-7215 or jeszeckc@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this statement. GAO staff who made key contributions to this testimony are listed in appendix II.

Appendix I: Objectives, Scope, and Methodology

To understand the extent to which older Americans have outstanding student loans and how this debt compares to other types of debt, we relied primarily on data from the Federal Reserve Board's Survey of Consumer Finances (SCF), a survey that is conducted once every 3 years and gathers detailed information on the finances of U.S. families.[1] SCF data is publicly available and was extracted from the Federal Reserve Board's website.[2] Specifically, we analyzed data from the 2004, 2007, and 2010 SCF to provide a range of information, including an overview of the percentage of families, by age of head of household, with student debt over time. An important limitation of the data is that debt, including student loans, is reported at the household level. As a result, the SCF survey responses represent the debt of the entire household, not just the head of household. Therefore, it is possible that for some households headed by older Americans, the reported student debt is actually held by children or other dependents that are still members of the household, rather than the older head of household.

In addition, to describe the trend in federal student loan balances among older Americans and approximate the loans older Americans had taken for themselves or for their children, we obtained data from the Department of Education's National Student Loan Data System (NSLDS).[3] Specifically, we used data from summary tables that Education provided containing data from NSLDS for fiscal years 2005 through 2013. We assessed the reliability of this data by reviewing data documentation and the queries used to create the summary tables from the underlying data system and by interviewing technical staff at Education involved in creating the summary tables. We determined that the data elements we used were sufficiently reliable for the purposes of

[1]To ensure representativeness of the survey, respondents are selected at random and the survey seeks to select families from all economic strata. In addition to education loans, the 2010 SCF inquired about financial assets, income and taxes, businesses, vehicles, credit attitudes and credit cards, and other matters.

[2]The 2010 SCF did not use the phrase "student loans," but rather asked respondents whether they have loans for educational expenses. However, for consistency in usage, we will use the phrases "student loans" or "student loan debt" throughout this report. Because of the inclusive wording of the question, the SCF data reflects both federal and private loans.

[3]The NSLDS is a comprehensive national database maintained by the Department of Education that is used to readily access student aid data and track money appropriated as aid for postsecondary students. The database includes data on the various federal student loan programs.

this testimony. The NSLDS data we obtained allows us to count federal student loans and loan balances, but not the number of borrowers. Although Education maintains borrower-level data, we were only able to obtain aggregated data by loan type during the course of our analyses. These summary tables reported that about 1,000 of the more than 6 million Parent PLUS loans outstanding in fiscal year 2013 were to borrowers under the age of 25. According to Education, these cases resulted from a reporting issue where the date of birth of the Parent PLUS borrower was the reported as being the same as that of the student. We excluded these Parent PLUS loans from our analysis.

To understand the extent to which older Americans defaulted on federal student loans and the possible consequences of such a default, we relied on a number of data sources and agency documents related to federal student loans. To determine the extent to which older Americans have defaulted on federal student loans, we used data from the NSLDS summary tables we received from Education. To evaluate the consequences of default, we reviewed federal law, regulations, and agency documents describing the collection process for defaulted federal student loans, including offset of federal benefit payments through the Treasury Offset Program (TOP). We interviewed officials at Education involved in managing defaulted federal student loans, and we interviewed officials at Treasury, Education, and the Social Security Administration about the process for offsetting Social Security retirement, survivor, and disability benefits through the TOP. In addition, we interviewed Education officials and reviewed relevant documentation regarding Education’s debt collection policies and procedures; however, we did not audit their compliance with statutory requirements related to these activities.

To describe the extent of Treasury offset of Social Security Administration benefits for federal student loan debt, we used data on offset payments from the TOP for fiscal years 2001 through 2014. We assessed the reliability of this data by reviewing data documentation, conducting electronic testing on the data, and interviewing Treasury staff about the reliability of this data. Because the TOP data does not include the age of borrowers or the type of Social Security benefits that were offset, we obtained such information for relevant borrowers from the Social Security Administration’s Master Beneficiary Record using a match on Social Security numbers. We assessed the reliability of the data by reviewing data documentation, obtaining the computer code used to match borrowers to the Master Beneficiary Record, and interviewing the staff at the Social Security Administration who conducted the match. We determined that the data elements we used were sufficiently reliable for the purposes of this testimony. For about 0.25 percent of borrowers, we were unable to determine the borrower's age, and we excluded these borrowers from age-based analyses. For about 4.3 percent of offset payments, we were unable to determine the type of benefit, and we excluded these payments from the analysis of the type of benefit that was offset. To evaluate the extent to which Social Security benefits would have been offset if the $750 limit below which benefits are not offset had been adjusted for changes in the poverty threshold, we analyzed TOP data to impute the amount of a monthly Social Security benefit payment from the size of the offset that was taken from that payment. We then applied a modified set of rules for calculating an offset amount to the imputed benefit, changing the $750 limit to $1,072.50—the adjusted amount for the limit had it been indexed to the poverty threshold—to estimate, for 2013, whether the monthly benefit payment would have been offset had the offset limit increased at the rate of the poverty threshold.

Appendix II: GAO Contacts and Staff Acknowledgments

GAO Contact

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Staff Acknowledgments

In addition to the contact named above, Michael Collins (Assistant Director), Michael Hartnett, Margaret Weber, Christopher Zbrozek, and Lacy Vong made key contributions to this testimony. In addition, key support was provided by Ben Bolitzer, Ying Long, John Mingus, Mimi Nguyen, Kathleen van Gelder, Walter Vance, and Craig Winslow.

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Written Testimony

William Leith
Chief Business Operations Officer
Federal Student Aid
U.S. Department of Education

"Indebted for Life: Older Americans and Student Loan Debt"
U.S. Senate Special Committee on Aging

September 10, 2014

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

Questions for the Record

U.S. Senate Special Committee on Aging
"Indebted for Life: Older Americans and Student Loan Debt"
September 10, 2014
Questions for the Record
William Leith

Senator Bill Nelson, Chairman

Question:

For those student loans held by borrowers aged 65 and older, can you provide the average amount of time those loans have been outstanding? Can you also provide breakdowns by ages 55-64, 65-74, and 75 and older?

Response:

Per your request, Table 1 provides information on the student loan portfolio broken out by the age of the borrower, and the average age of their loans.

TABLE 1

Borrower Age (Years)	Average Age of Loan (Years)	Average Age of Outstanding $ Balance (Years)
<30	3.37	3.15
30-39	6.12	5.68
40-49	7.07	7.19
50-54	7.37	6.92
55-59	7.94	7.20
60-64	9.44	8.26
65-69	11.56	9.64
70-74	13.74	10.99
75+	16.39	12.58
55-64	8.44	7.58
65-74	12.04	9.94
65+	12.41	10.14

As of October 16, 2014, the average age of all open loans held by borrowers over 65 years old was 12.41 years. The dollar weighted average age of all loans by outstanding balance held by borrowers over 65 years of age is 10.14 years. The dollar weighted average age of loans was calculated based on open loans' outstanding balance. Lower balance outstanding loans and newer outstanding loans carry less weight than higher balance or older loans. For example, a 10-year-old loan for the amount of $10,000 is weighted twice as much as a 10-year-old loan for the amount of $5,000. The dollar weighted average age is lower than the average age, meaning in general, older loans are for smaller amounts.

Question:

According to GAO, it had planned to answer this question in its report, and Education began to gather the data that would have allowed GAO to do so. According to GAO, the process of gathering the data from Education's systems was so involved the data could not be ready to meet GAO timelines. What is Education doing to make sure that student loan data are collected, defined, and stored in ways that would allow meaningful analysis for student loan policy?

Response:

Federal Student Aid (FSA) works to respond to data requests from policymakers and the public whenever possible. The Department's current systems, however, are operational in function. Unfortunately, due to these limitations FSA was unable to provide the data requested by GAO in their required timeframe.

To improve our ability to access and analyze data without disruption to normal operations, FSA is actively developing an Enterprise Data Warehouse and Analytics (EDW&A) platform that will more easily allow for timely, accurate, and consistent analysis of Federal Student Aid data. EDW&A will incorporate data from a number of discrete production systems used at different stages of the student loan lifecycle. The EDW&A effort will be accomplished through a multi-phase approach over the next several years. The initial work was completed December 14, 2014. Historical servicing data from NSLDS dating back to 2004 will be added to EDW&A throughout 2015. FSA is also creating a comprehensive data dictionary and data governance process in conjunction with the development of EDW&A.

While the EDW&A platform is not yet complete, FSA strives to respond to specific data requests, and also makes information on the federal student loan portfolio available to the public through its Data Center on Studentaid.gov (https://studentaid.ed.gov/data-center). Information currently available on this site includes application volume reports, student loan portfolio data, program volume, default rates, composite financial scores, and contracts.

Senator Richard Blumenthal

Question:

I am a strong supporter of the existing program providing student loan forgiveness for borrowers who choose to enter public service professions or occupations. And the Federal Government created this program to encourage young people to enter public service. Unfortunately, older Americans do not have the chance to participate in this program, which was created in 2007, or did not prior to that.

Is there some way to make it available to them now, number one? And number two, as you may know, I proposed expanding this program so that some of the limits, for example, requiring that people be in the same job for an excessive number of years and borrowing, in effect, a periodic or a staged forgiveness program be eliminated, and that is why I have introduced legislation to eliminate, in effect, the current all or nothing structure. Could you give me your opinion of those ideas?

Response:

The Administration shares your support for the Public Service Loan Forgiveness (PSLF) program, and over the last few years we have worked diligently to ensure that federal student loan borrowers are aware of PSLF and the many other tools and resources available to them. Through enhanced communications with borrowers, new initiatives with non-profit organizations across the country, and partnerships with other Federal agencies, we have worked to raise the profile of PSLF along with the other resources and tools available to borrowers. In addition, several years ago the Administration released the optional PSLF Employment Certification Form, which allows borrowers to begin tracking their qualifying payments as they work towards applying for forgiveness.

The current terms of the PSLF program are established in statute. Under the Higher Education Act of 1965, as amended, borrowers may qualify for forgiveness of the remaining balance due on their Direct Loans only after they have made 120 qualifying payments on those loans while employed full-time by certain public service employers. Only payments made on an eligible loan after October 1, 2007, may be counted towards the required 120 payments. Therefore, the first forgiveness of loan balances will not be granted until October 2017. It is important to note that borrowers need not remain in the same job for ten years to receive forgiveness under PSLF, nor do they have to complete their ten years of public service consecutively. Any changes to the terms of the PSLF program would require an act of Congress.

In his FY 2015 Budget, President Obama proposed several reforms to the student loan programs that would impact PSLF. Specifically, he proposed preventing payments made under non-income driven repayment plans from being applied toward PSLF to ensure that loan forgiveness is targeted to students with the greatest need. In addition, the President's Budget proposed capping the amount a borrower can have forgiven under PSLF at the aggregate loan limit for independent undergraduate students to protect against institutional practices that may further increase student indebtedness, while ensuring the program provides sufficient relief for students committed to public service.

The Administration believes that PSLF is an important tool for encouraging people to pursue careers in public service. We look forward to continuing to work with Congress to identify ways in which this program may be strengthened, and the Department stands ready to implement any changes Congress and the President enact into law.

Senator Elizabeth Warren

Question:

An analyst at Compass Point ran the numbers and concluded that under the renegotiated contract, Navient, the Sallie Mae spinoff, would make an estimated $20 million extra every year going forward, even if it does not make a single change to treat any of its borrowers better or to comply with the law. I do not get this. When Navient breaks the law, they get a new contract from the Department of Education that lets them make more money if they keep right on with business as usual. What the heck is going on here, Navient is one of your biggest servicers. Someone else has been able to run the numbers based on what you have published, and shown that this servicer does not have to change a single thing and can make $20 million more a year by continuing to treat student borrowers badly? And you do not have any numbers on this? Before you renegotiated these contracts. Did it show that in general they were going to make more money for doing the same thing, or they were going to make a whole lot less money if they kept doing the same thing?

Response:

The renegotiated pricing and metrics put in place for the Department's eleven loan servicers earlier this year were designed to create more effective incentives for servicers to invest in improved counseling and outreach efforts to help borrowers manage their debt. The Department performed extensive analyses prior to implementing the new price and metrics. These analyses were informed by prior performance under the previous contract terms, data on the cost of servicing activities, and private and other public sector pricing information for similar activities. They also reflected the fact that new requirements, such as enhanced customer outreach and information resources for servicemembers, have been added to the agreements. A key change in the new pricing is a significant increase in the monthly price paid for borrowers who are in repayment and current on their accounts, and a corresponding decrease in the monthly price paid for borrowers in statuses such as forbearance and delinquency. In part, this recognizes the additional effort required to get and keep borrowers in the Pay As You Earn and other income-driven repayment plans, many of which did not exist at the time the original pricing was established in 2009. In general, our forecasts indicated that the new pricing would increase payments to the servicers by roughly 5 percent over the previous terms, assuming similar performance. Should servicers successfully reduce the use of forbearance and the incidence of delinquency and default, those payments could potentially increase further. Given the data we reviewed, we believe the potential for significant additional revenue tied to improved performance in customer satisfaction and improved counseling to help borrowers to keep them current on their accounts will create incentives for servicers to make greater investments in process and system upgrades and other efforts that will ultimately lead to better outcomes for borrowers. We will be closely monitoring the impact of these changes and will adjust the rates as early as next year if the desired outcomes are not achieved.

While we do not know the assumptions underlying the Compass Point analysis, their projected impact on servicer revenues is significantly higher than we estimate. This may reflect the fact that publicly available data on loan statuses by servicer do not use the same definitions used for the new pricing and metrics. These updates, such as redefining “current status” from 30 days delinquent or less to 5 days delinquent or less, are expected to reduce the impact of increases in specific payment categories that appear to be the key driver in Compass Point’s analysis. It also does not appear that the analysis took into account the cost to the servicers of providing additional services, such as expanded support for servicemembers, that are now required under the renegotiated agreements, which we expect will reduce overall net revenues.

Finally, it is important to be clear that there is no connection between the new pricing and metrics put in place earlier this year for the Department’s servicers and the ongoing review of our servicers’ compliance with contract requirements related to the Servicemembers Civil Relief Act (SCRA). The ongoing review is focused on specific questions related to SCRA compliance on each servicer’s portfolio of Department-held loans. The Department is currently reviewing Navient’s portfolio, and similar reviews will be undertaken for all other Department servicers in the coming months. Should these reviews determine that any of the Department’s loan servicers have violated any laws, regulations, policies, or other contractual terms and conditions, the Department will assess the findings and determine the most appropriate course of action. Remedies could include monetary relief, termination of the contract in whole or in part, or other appropriate corrective actions.