

State Council of Higher Education for Virginia



**Annual Report of the  
Office of the Qualified  
Education Loan Ombudsman**

January 1, 2020



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## SUMMARY

The Code of Virginia directs the State Council of Higher Education for Virginia (SCHEV) to submit an annual report to the House Committees on Commerce and Labor and Education and the Senate Committees on Commerce and Labor and Education and Health on the implementation and overall effectiveness of the Office of the Qualified Education Loan Ombudsman (§ 23.1-232).

The following are the key findings from the 2019 annual report.

1. Since the initial staffing of the office in October 2018 and the official launch of services in January 2019, the Student Loan Advocate worked directly with 146 education loan borrowers.
2. Outreach efforts focused on developing and expanding the webpage ([www.schev.edu/studentloan](http://www.schev.edu/studentloan)) and participating in panels and conference presentations at state and national events.
3. Data collected on borrower cases identified key issues for Virginia education loan borrowers: understanding the complexity of the loans; troubleshooting eligibility problems with the Public Service Loan Forgiveness Program; and filing Borrower Defense to Repayment claims against Federal Student Aid for borrowers who felt defrauded or misled by their college or university.
4. Based on borrower complaints, the office generated a list of federal policy recommendations to address many of the issues that Virginia borrowers experience.
5. For Phase One (October 2018 – December 2019), the Qualified Education Loan Borrower Education Course consists of online learning modules. Phase Two requires additional funds to produce a more robust course-oriented format.



## PURPOSE OF THIS REPORT

This report fulfills the legislative requirement for the Office of the Qualified Education Loan Ombudsman (the Office), staffed by the Student Loan Advocate.

The General Assembly and Governor established the Office during the 2018 General Assembly session. An excerpt of the enabling legislation and purpose is included below along with expected annual reporting requirements (the full legislation is ~~included~~ in Appendix A).

### § 23.1-231. Office of the Qualified Education Loan Ombudsman established; duties.

A. The Council shall create within the agency the Office of the Qualified Education Loan Ombudsman. The Office of the Qualified Education Loan Ombudsman shall provide timely assistance to any qualified education loan borrower of any qualified education loan in the Commonwealth. All state agencies shall assist and cooperate with the Office of the Qualified Education Loan Ombudsman in the performance of its duties under this article.

### § 23.1-234. Reports.

On or before January 1, 2019, and annually thereafter, the Council shall submit a report to the House Committees on Commerce and Labor and Education and the Senate Committees on Commerce and Labor and Education and Health. The report shall address (i) the implementation of this article and (ii) the overall effectiveness of the Office of the Qualified Education Loan Ombudsman.

The report contains information on the requirements and duties of the office, including efforts to inform the public of the availability of the office, outcomes of the complaints and concerns registered with the office; progress toward meeting the concerns and needs of Virginia borrowers, and progress on the development of the Qualified Education Loan Borrower Education Course.



## OVERALL EFFECTIVENESS OF THE OFFICE OF THE QUALIFIED EDUCATION LOAN OMBUDSMAN

A formal press announcement occurred on January 22, 2019 to officially launch student loan advocacy services in Virginia. The following is a brief summary of activities since the last annual report on January 1, 2019.

### Office Activities

The primary function of the Student Loan Advocate is to provide assistance to qualified education loan borrowers who reside in the Commonwealth. Priority is given to borrowers with federal loans, but the office can assist private loan borrowers with identifying other available resources. Borrowers referred to the office are asked to complete the Student Complaint Form, which is located in the middle of the office's website ([www.schev.edu/studentloan](http://www.schev.edu/studentloan)) or in the footer on all SCHEV pages. Once the form is submitted, the Student Loan Advocate contacts the borrower and begins working on the particulars of the case.

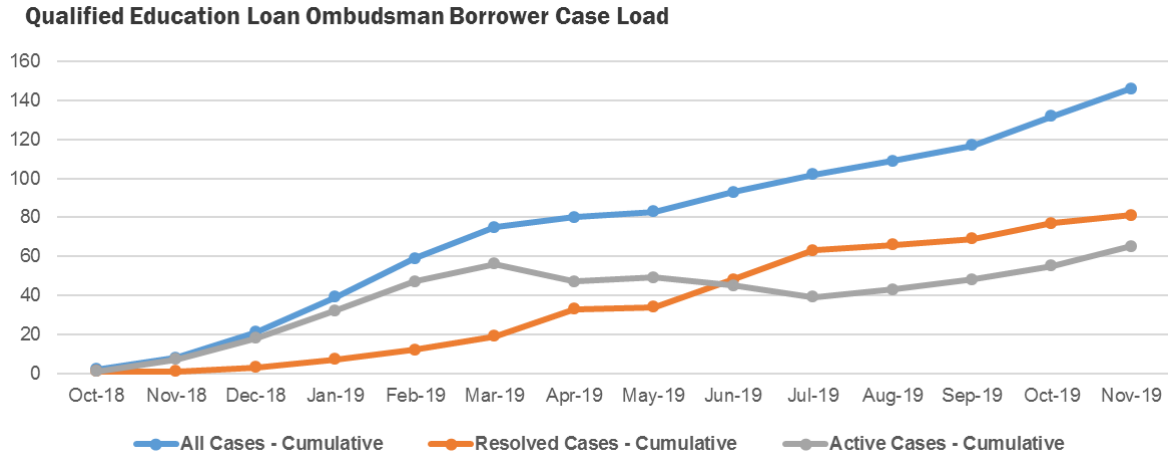
Since the issuance of the press release, multiple media interviews with the Student Loan Advocate generated interest in the services provided and resulted in an increase in new cases.

### Analysis of Borrower Cases

There are just over 1 million Virginians with some type of student loan debt, and the average debt they carry is almost \$37,000. As of August 2019, the 3-year loan default rate for Virginia was 9.8%, just below the national average of 10.1%, which has been trending downward in the last few years. At the 2019 Federal Student Aid (FSA) conference in December, U.S. Secretary of Education Betsy DeVos spoke about the 43% percent of student loans that were considered in "distress", meaning that they are delinquent, at risk of default or that borrowers are not paying both principal and interest. Borrowers in distress seek the assistance of Student Loan Advocates for help with understanding the complex nature of their loans. Currently, eight other states have an ombudsman office, and in many other states, establishing such an office is under legislative consideration or being implemented.

Between October 2018 and November 2019, the office handled 146 borrower cases related to student loans. The chart below illustrates the steady increase in cases seen in the program's first year.





Cases handled by the Student Loan Advocate have the following self-reported characteristics:

|                           |                        |                            |
|---------------------------|------------------------|----------------------------|
| <b>Type of College</b>    | Proprietary (38%)      | Public (29%)               |
| <b>Completion Status</b>  | Graduated (54%)        | Withdrawn (21%)            |
| <b>Type of Loan</b>       | Federal (71%)          | Private (5%)               |
| <b>Degree Program</b>     | BA and Above (55%)     | AS and Cert. (25%)         |
| <b>Primary Concern</b>    | Loan Forgiveness (54%) | College Situation (30%)    |
| <b>Average/Range Age</b>  | 46.1 Years             | (25.8 Years to 75.4 Years) |
| <b>Average/Range Debt</b> | \$71,800               | (\$2,500 to \$465,785)     |

Borrower cases came to the office from various sources, with emails directly to the Student Loan Advocate being the primary method, followed by completion of the Student Complaint Form available through the SCHEV website, and phone calls. In addition, state legislators, the Governor’s office, the Attorney General’s office and the Secretary of Education’s office referred borrowers to the program.

Without regulatory authority, the office relies on advocating for the borrower as its main service. So far, over 63% of cases have required contact with another entity to better understand the particulars of a borrower’s loan account and to collaborate on next steps for the borrower. This includes reaching out to loan servicers in 29% of the cases, and federal agencies (FSA/Consumer Federal Protection Bureau-CFPB) in 13% of the cases.



Of the 146 cases at the time of this report, 81 were resolved. Most of these cases closed after sharing requested information or clarifying the nature of the loan repayment schedules. Some involved borrowers from outside Virginia who were referred to the appropriate state or federal agency. Cases involving current students were referred to other SCHEV departments or Virginia agencies.

The most common assistance provided to borrowers was an increased understanding of payment plan options, in light of the 13 repayment plans currently active. At the top of the list of complaints was the Public Service Loan Forgiveness (PSLF) Program.

Borrowers contacted the office because they recently learned that they were ineligible for PSLF because they hold the wrong kind of repayment plan or the wrong kind of loans. For those with the wrong repayment plans, there is a Temporary Expanded PSLF program that borrowers can seek, but for those with the wrong loans, there is no current solution other than to reconsolidate into a Direct Consolidation Loan and re-start the 120 qualifying payment count.

The cases that remain open the longest are those of borrowers who submitted a Borrower Defense to Repayment (BDR) claim with FSA, a process for borrowers who feel they were defrauded or misled by their college or university. Nationally, there are more than 175,000 cases pending, and almost none of the cases have been ruled on in over a year. All of the borrowers who sought BDR assistance from the office have a claim related to a school closure.

The office has three cases of borrowers in Spousal Consolidation Loans in which there are no provisions for the loan to be separated once the loans are combined. For borrowers who are in spousal abuse or divorce situations, both borrowers are responsible for the full amount of the loans regardless of any divorce agreements. In addition, these loans do not qualify for any loan forgiveness programs. The chart below illustrates the steady increase in cases seen in the program's first year.

## **Outreach Efforts**

Throughout 2019, the Student Loan Advocate gave presentations at regional training sessions, state conferences and national conferences, providing information about student loans and serving as a resource for those seeking assistance. Collective attendance at these events was over 500. Highlights include:



- Great Aspirations Scholarship Program (GRASP) training session
- National Council of Higher Education Resources (NCHER) panel presentation
- SCHEV's Student Advisory Committee (SAC) presentation
- Virginia Association of Financial Aid Administrators (VASFAA) conference presentation
- Education Finance & Loan Symposium panel presentation
- State Higher Education Executive Officers (SHEEO) Policy conference presentation
- Virginia College Access Network (VCAN) Fall Training Workshop presentation, held in five locations across the Commonwealth
- Congressman Bobby Scott's Roundtable on Reauthorization of the Higher Education Act panel member
- Virginia Poverty Law Center (VPLC) Legal Aid conference presentation
- Protecting Virginia's Consumers: A Common Ground Conference Hosted by the Federal Trade Commission and the Virginia Office of the Attorney General panel presentation
- Virginia College Access Network (VCAN) conference presentation

## **Policy Recommendations**

The Student Loan Advocate analyzed data and identified trends in borrower complaints in order to provide policy recommendations on legislative changes that would provide relief to borrowers. The 146 cases analyzed to date indicate some common trends that point to policy recommendations. Currently, the state is limited on policy changes to address borrower concerns proactively, but the state can advocate for the federal government to implement the following policy changes:

- Revisit and improve the servicing contract requirements between the federal government and the student loan servicers.
- Simplify repayment plan options, because of confusion about the payment plan process.
- Fix the Public Service Loan Forgiveness application and approval process.
- Provide timely relief to borrowers with the wrong repayment plan, under the Temporary Expanded Public Service Loan Forgiveness (TEPSLF) program.





- Create a relief program for PSLF borrowers with the wrong type of loans who were not advised to convert to the correct type of loan.
- Resolve the more than 175,000 Borrower Defense to Repayment claims that are mostly related to school closures.
- Allow borrowers to separate loans that were initially consolidated through the Spousal Consolidation Loan program.
- Stop the practice of putting all defaulted loans into collections, because it increases the debt load for borrowers.
- Require annual loan counseling for students taking out loans, including a truth-in-lending statement.
- Create incentives for borrowers to pay off their loans early.
- Provide incentives for companies to assist borrowers with student loan repayment.

The state can assist the work of the Student Loan Advocate by taking two additional steps. The first is to provide funding for the legislatively mandated online education loan course. The reasons for additional funding are listed in the next section. The second is to encourage the partnership with the Virginia Department of Education to produce content in the Economics and Personal Finance course related to financing postsecondary education in general and student loans in particular. Providing this content to students while they consider options for funding higher education will ensure that they have the tools to make informed decisions and be wise consumers of student loans.



## DEVELOPMENT OF THE QUALIFIED EDUCATION LOAN BORROWER EDUCATION COURSE

The Code of Virginia charges the Office of the Qualified Education Loan Ombudsman to create and maintain an online course on education loans that is available to the public and covers key topics.

### § 23.1-233. Qualified education loan borrower education course.

On or before December 1, 2019, the Office of the Qualified Education Loan Ombudsman, in consultation with the Council, shall establish and maintain a qualified education loan borrower education course that shall include educational presentations and materials regarding qualified education loans. Topics covered by the course shall include, but shall not be limited to, key loan terms, documentation requirements, monthly payment obligations, income-driven repayment options, loan forgiveness programs, and disclosure requirements. The course shall be web-based and available to the public at any time. The Office of the Qualified Education Loan Ombudsman may also establish in-person classes.

The Qualified Education Loan Borrower Education Course provides self-help content for three primary audiences: future loan borrowers wanting to know the benefits and consequences of borrowing for their education; current college students preparing to begin the repayment process; and former students needing assistance with their student loans. The office conducted a Request for Information (RFI) and a Request for Proposals (RFP) process to identify vendors who could develop the content and provide a content hosting platform for the course.

After extensive review of submitted proposals, the committee decided that none of the vendors could provide the content and hosting needs by the deadline at a price point that was within the office's available funds. As a result of the lack of resources to produce the content externally and with limited curriculum design and hosting resources internally, the office proceeded with developing a more extensive web presence and downloadable PDF content utilizing the prescribed format for the education modules (Version 1.0) and will focus on identifying funding sources to expand the content delivery platform to meet the requirements of a course within a learning management system (Version 2.0). This is included in the SCHEV budget recommendations and as part of the agency request to the Governor's office. Version 2.0



has a projected release date of December 1, 2020. In addition, the Federal Student Aid website and mobile platform went through a major revision on December 22, 2019. The objective was to provide one web address, one phone number and one mobile app in order to address all student aid form submissions, questions and concerns from the beginning of the process to the final loan payment. As a result, borrowers have one portal of entry, after which the inquiry is routed to the appropriate department, which includes loan services. Instructions on how to access the new resources need to be revised and may coincide with the selection of an education course content developer and hosting platform who can provide those revisions.



## APPENDIX

### Code of Virginia Authorizing Language

#### § 23.1-231. Definitions.

As used in this article, unless the context requires a different meaning:

"Qualified education loan" means any qualified education loan obtained specifically to finance education or other school-related expenses. "Qualified education loan" does not include credit card debt, home equity loan, or revolving debt.

"Qualified education loan borrower" means (i) any current resident of the Commonwealth who has received or agreed to pay a qualified education loan or (ii) any person who shares responsibility with such resident for repaying the qualified education loan.

"Qualified education loan servicer" or "loan servicer" means any person, wherever located, responsible for the servicing of any qualified education loan to any qualified education loan borrower.

"Servicing" means (i) receiving any scheduled periodic payments from a qualified education loan borrower pursuant to the terms of a qualified education loan; (ii) applying the payments of principal and interest and such other payments, with respect to the amounts received from a qualified education loan borrower, as may be required pursuant to the terms of a qualified education loan; and (iii) performing other administrative services with respect to a qualified education loan.

#### § 23.1-232. Office of the Qualified Education Loan Ombudsman established; duties.

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B. The Office of the Qualified Education Loan Ombudsman shall:

1. Receive, review, and attempt to resolve any complaints from qualified education loan borrowers, including attempts to resolve such complaints in collaboration with



institutions of higher education, qualified education loan servicers, and any other participants in qualified education loan lending;

2. Compile and analyze data on qualified education loan borrower complaints as described in subdivision 1;

3. Assist qualified education loan borrowers to understand their rights and responsibilities under the terms of qualified education loans;

4. Provide information to the public, state agencies, legislators, and other persons regarding the problems and concerns of qualified education loan borrowers and make recommendations for resolving those problems and concerns;

5. Analyze and monitor the development and implementation of federal and state laws and policies relating to qualified education loan borrowers and recommend any changes the Office of the Qualified Education Loan Ombudsman deems necessary;

6. Review the complete qualified education loan history of any qualified education loan borrower who has provided written consent for such review;

7. Disseminate information concerning the availability of the Office of the Qualified Education Loan Ombudsman to assist qualified education loan borrowers and potential qualified education loan borrowers, as well as public institutions of higher education, qualified education loan servicers, and any other participant in qualified education loan lending, with any qualified education loan servicing concerns; and

8. Take any other actions necessary to fulfill the duties of the Office of the Qualified Education Loan Ombudsman as set forth in this article.

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