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December 16, 2021

The Honorable Sandra Bruce
Inspector General
U.S. Department of Education
400 Maryland Ave, SW
Washington, DC 20202

Dear Inspector General Bruce:

On November 5, 2021, the Department of Education (Department) announced it would terminate its existing contract with all federally contracted private collections agencies (PCAs). That unexpected action has created questions and concerns for borrowers, industry stakeholders, and Congress – particularly as student loan repayment is set to begin on February 1, 2022.

While Chief Operating Officer Mr. Richard Cordray has stated that this action "should have minimal impact on borrowers," we are concerned this will not be the case.[1] Of the five business process operations (BPO) vendors who are expected to perform collections activities for the Department going forward, only one has collection experience and is licensed to undergo collection activities in the states in which they work. Moreover, these contractors are facing labor shortages due to the pandemic and will now be required to undertake new responsibilities with fewer resources.

There are approximately 7 million defaulted borrowers with federal student loans who will see payments and interest accrual resume despite not having made payments in nearly two years due to the repayment pause. As such, it is particularly troubling that the Department has taken this extraordinary action without providing the necessary information and assurance that it is prepared to address the array of unintended consequences resulting from the contract termination. In order to understand whether the Department has properly planned for the unintended consequences of this action, we request the OIG examine the Department's decision to terminate its contracts with PCAs, and include the following items in that examination:

[1] https://www.wsj.com/articles/biden-administration-to-sever-ties-with-student-loan-debt-collectors-11636079495

1. All economic and cost-benefit analysis which the Department used to arrive at its decision to terminate the use of PCAs.
2. The timeline of events that led up to the Department making this decision, what the key factors were that led them to terminate their contracts with PCAs, and who Department officials met with to help shape the plan.
3. The number of borrowers currently in default and the total dollar amount of defaulted student loan debt potentially subject to collection when the repayment pause expires as well as the trendline assumed for both defaulted borrowers and outstanding debt in default when this termination is complete.
4. Both from the perspective of the borrower and from the perspective of the government, what, if any, analysis was conducted regarding the following issues:
    a. The long-term costs to the government resulting from the lack of borrower service caused by the removal of the PCAs.
    b. The likelihood that those borrowers will fall back into default if the Department chooses to pursue some action to cancel debt or unilaterally remove borrowers out of default. And should borrowers re-default, the entity or entities the Department intends to work with to ensure borrower service maintains or improves upon that offered prior to the student loan repayment pause, and how the Department will measure the quality of service.
    c. The number of borrowers that successfully completed a rehabilitation since the passage of the CARES Act – which specifically called on the Department to ensure the availability for borrowers to rehabilitate their loans during the repayment pause - and what steps the Department has taken to ensure borrower education and success about rehabilitation.
    d. Any legal analyses conducted to ensure the Department complied with the *Debt Collection Improvement Act* when terminating the Department's contracts with PCAs.
    e. The processes the Department has taken or will undertake to ensure that the entities responsible for collections activities for federal student loans have the necessary expertise, security clearance, and licensing required to complete collections work.
    f. The Department's plan to address the shortfall in employees eligible to handle collections work in the place of the roughly 10,000 PCA employees who were terminated as a result of the Department's action, including whether the processes and procedures for obtaining a security clearance will be modified.
    g. The Department's plans and actions already taken to minimize borrower confusion as their account holder transitions, including the Department's

assumptions regarding changes in inbound and outbound call volume, answer time, and abandon rates.

h. The Department's plans related to BPOs regulatory compliance with the Consumer Financial Protection Bureau's Regulation F, which prescribes federal rules for debt collectors covered under the *Fair Debt Collection Practices Act*.

Please contact Chance Russell (chance.russell@mail.house.gov) of the Committee staff should you have any questions about the request. We look forward to your timely reply on this critical issue.

Sincerely,

Virginia Foxx

Julia Letlow

Virginia Foxx
Ranking Member
U.S. House Committee on Education and Labor

Julia Letlow
Member of Congress