



November 2016

STUDENT LOANS

Oversight of Servicemembers' Interest Rate Cap Could Be Strengthened

GAO Highlights

Highlights of [GAO-17-4](#), a report to the Ranking Member, Committee on Homeland Security and Governmental Affairs, U.S. Senate

Why GAO Did This Study

SCRA helps servicemembers financially by capping interest rates on student loans during active duty. As of May 2016, about 1.3 million servicemembers were on active duty. The number of active duty servicemembers with student loans is unknown, as is the number eligible for the rate cap who may not have received it. GAO was asked to review implementation of the rate cap for servicemembers' student loans.

This report examines: (1) the number of servicemembers who received the cap for student loans (2) challenges that servicemembers face in doing so, and (3) the extent to which federal agencies oversee implementation of the cap. GAO analyzed data from 2008 through 2015 from the 10 federal student loan servicers; reviewed relevant federal laws, regulations, policies, and training materials; and interviewed representatives of the servicers and servicemember advocacy groups, and officials from DOD, Education, the CFPB and DOJ.

What GAO Recommends

GAO is making four recommendations, including that DOD improve the accuracy of SCRA information on student loans, and that CFPB and DOJ collaborate to ensure routine oversight of nonbank lenders and servicers, and seek additional authority, if needed. DOD disagreed and said it already provides accurate information. DOJ agreed and CFPB did not specifically agree, but said that all eligible servicemembers should receive the cap. GAO maintains that DOD's outreach materials are not always accurate and that routine oversight is necessary for nonbank lenders and servicers.

View [GAO-17-4](#). For more information, contact Melissa Emrey-Arras at (617) 788-0534 or emreyarrasm@gao.gov.

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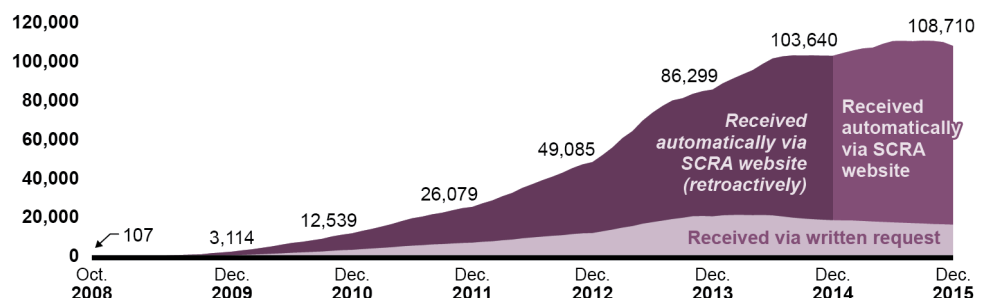
Oversight of Servicemembers' Interest Rate Cap Could Be Strengthened

What GAO Found

The Servicemembers Civil Relief Act (SCRA) provides servicemembers with an interest rate cap of 6 percent on student loans while they are on active duty. The number of servicemembers with federal student loans who received this rate cap increased as a result of the Department of Education (Education) requiring federal loan servicers to regularly use the Department of Defense's (DOD) SCRA website to identify eligible servicemembers and automatically apply the rate cap without requiring servicemembers to provide written notice of active duty (see figure). Using the automated process, some federal loan servicers identified borrowers who had been eligible for the rate cap as far back as 2008, when the SCRA rate cap first applied to federal loans, and retroactively applied the cap.

Number of Servicemembers with Federal Student Loans Who Received the Servicemembers Civil Relief Act (SCRA) Interest Rate Cap, October 2008 to December 2015

Total number of servicemembers



Source: GAO analysis of record-level data from the 10 federal loan servicers as of December 31, 2015. | GAO-17-4

Note: In December 2014 the Department of Education issued the final in a series of updates to its contracts with the 10 federal student loan servicers directing them to use the SCRA website on a monthly basis.

Servicemembers can face challenges obtaining the SCRA rate cap due to their failure to receive accurate information. Federal internal control standards state that agencies should externally communicate the information necessary to achieve their objectives. However, some servicemembers eligible for the cap may not receive it because information used by DOD to inform them about the cap is inaccurate: for example, some DOD information states that the rate cap does not apply to student loans. In addition, because the automated process to identify eligible servicemembers is not required for private student loans, servicemembers with private loans may be particularly at risk of not receiving the accurate information needed to obtain the cap themselves.

While Education monitors the application of the SCRA cap for federally owned or guaranteed student loans, there is a gap in oversight for private student loans. The Consumer Financial Protection Bureau (CFPB), four federal financial regulators of banks, and the Department of Justice (DOJ) each oversees aspects of private student loans or SCRA, but none has the authority to routinely oversee SCRA compliance at nonbank entities that handle private student loans. These nonbank entities include institutions of higher education and private companies. The resulting gap in oversight of SCRA compliance for these nonbank entities that make or service private student loans increases the risk that servicemembers will not receive a benefit for which they are eligible.

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Abbreviations

CFPB	Consumer Financial Protection Bureau
Direct Loans	William D. Ford Direct Loans
DMDC	Defense Manpower Data Center
DOD	Department of Defense
DOJ	Department of Justice
Education	Department of Education
FFEL	Federal Family Education Loans
SCRA	Servicemembers Civil Relief Act

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November 15, 2016

The Honorable Thomas R. Carper
Ranking Member
Committee on Homeland Security and Governmental Affairs
United States Senate

Dear Senator Carper:

The Servicemembers Civil Relief Act (SCRA) provides, among other benefits, a cap of 6 percent on the interest rate of previously incurred debt, including student loan debt. The benefit is provided during periods of active military service. As of May 2016, there were about 1.3 million servicemembers in active periods of military service. Although the number of servicemembers with student loans is unknown, there have been indications that those with student loans who are eligible for an interest rate of 6 percent were not always receiving this benefit. Specifically, the Department of Justice (DOJ) in 2014 reached a \$60 million settlement with one of the largest servicers of federal student loans for alleged violations of the SCRA interest rate cap that affected almost 78,000 servicemembers.¹ Subsequent reports of possible violations raise questions as to whether other servicemembers may not have been receiving a benefit for which they are eligible.

The Ranking Member of the Senate Committee on Homeland Security and Governmental Affairs requested that GAO examine issues related to

¹The Department of Education contracts with student loan servicers to administer federal student loans. The Department of Justice consent order resolved allegations contained in the United States' complaint that defendants Navient Solutions, Inc., Navient DE Corporation, and Sallie Mae Bank, (collectively "Defendants") violated the Servicemembers Civil Relief Act (SCRA), 50 U.S.C. §§ 3901-4043, with respect to student loans they owned or serviced, which includes loans owned or guaranteed by the Department of Education and private student loans. The settlement included a \$60 million settlement fund for compensation due to borrowers, as well as a civil penalty of \$55,000. The Federal Deposit Insurance Corporation—one of four financial regulators of banks—also entered into consent orders with Sallie Mae Bank and Navient Solutions, Inc. for engaging in unsafe and unsound and deceptive practices and for inadequate disclosure to customers, including misrepresenting aspects of SCRA and violating the 6 percent interest rate cap for eligible loans. Navient Solutions, Inc. and Navient DE Corporation were formerly known as Sallie Mae, Inc., and SLM DE Corporation.

implementation of the SCRA interest rate cap for student loans. This report answers the following questions: (1) How many servicemembers have received the SCRA interest rate cap for their student loans; (2) what challenges do servicemembers face obtaining the cap; and (3) to what extent do federal agencies oversee implementation of the cap?

To describe how many servicemembers have received the SCRA interest rate cap on their federally-owned and guaranteed student loans, we reviewed aggregate data from the Department of Education's (Education) National Student Loan Data System and analyzed record-level data from the 10 federal student loan servicers—the companies contracted to service loans owned by Education during the period of our review—for the period October 2008 (the beginning of the first full fiscal year that SCRA was applied to student loans owned by Education) through December 2015 (the most recent available data).² We also reviewed aggregate data from six private student lenders, who together accounted for about two-thirds of outstanding private student loan debt as of March 31, 2016.³ These data included the number of private student loans, borrowers, and outstanding loan balances overall and for those receiving the SCRA cap, as of September 30, 2014, September 30, 2015, December 31, 2015, and March 31, 2016 (the most recent available data).⁴ We determined these data to be sufficiently reliable for the purposes of this report by reviewing information about the data and interviewing knowledgeable officials.

²Aspire was an eleventh federal student loan servicer until September 2015. Because Aspire was still servicing federal loans when we began our review in May 2015, we included it in our interviews with federal student loan servicers. However, Aspire was no longer servicing federal loans when we submitted our data request to the servicers in January 2016, so we did not include it in our record-level data request. Instead we received record-level data on the federal student loans that had been serviced by Aspire from the Missouri Higher Education Loan Authority, the loan servicer that took over Aspire's federal loan portfolio and one of the 10 current federal loan servicers. One of the other federal loan servicers stopped servicing such loans as of August 2016. (For additional information about federal loan servicers, see appendix I.)

³For additional information about the 6 lenders' data, see appendix I.

⁴We requested data from the 6 private lenders as of September 2014 and September 2015 because these dates aligned with the two final fiscal years for which we requested data from the federal loan servicers. We also requested data from December 2015 and March 2016 as they were the two most recent quarters available when we submitted our request.

To identify challenges servicemembers face obtaining the cap, and whether the challenges differ for those with private student loans, we interviewed officials from advocacy groups that represent veterans and servicemembers. We also conducted semi-structured interviews with representatives of the 10 federal loan servicers and spoke with officials from the Department of Defense (DOD)—whose secretaries for each military branch are responsible for informing servicemembers about their SCRA benefits.⁵ In addition, we reviewed relevant agency publications, including outreach materials used to inform servicemembers about the cap, and compared this information to the current requirements for the SCRA interest rate cap on student loans. To determine how federal agencies, including Education, the Consumer Financial Protection Bureau (CFPB), and DOJ, oversee implementation of the SCRA interest rate cap, we interviewed agency officials, reviewed relevant federal laws and regulations, and policies, procedures, and guidance on the cap, and assessed whether there are any gaps in overseeing the SCRA rate cap for student loans, using a federal framework for assessing effective regulatory systems.⁶ (See appendix I for additional detail on scope and methodology.)

We conducted this audit from May 2015 through November 2016, 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.

⁵50 U.S.C. §§ 3915 and 3916. These 10 loan servicers also service federally-guaranteed (commercial) and private student loans, and our interviews with them included questions about their entire student loan portfolio.

⁶Although this report also includes information on the responsibilities of the four prudential financial regulators—Federal Deposit Insurance Corporation, Board of Governors of the Federal Reserve System, National Credit Union Administration, and the Office of the Comptroller of the Currency—related to the SCRA interest rate cap for student loans, this information is primarily based on prior GAO work. See GAO, *Mortgage Foreclosures: Regulatory Oversight of Compliance with Servicemembers Civil Relief Act Has Been Limited*, GAO-12-700 (Washington, D.C.: July 17, 2012). The regulators were given an opportunity to provide comments on the draft report.

Background

The Servicemembers Civil Relief Act (SCRA), enacted in 2003 as a modernized version of the Soldiers' and Sailors' Civil Relief Act of 1940, provides protections for servicemembers to help them meet the unique circumstances they face when serving their country.⁷ SCRA provides protections to active-duty servicemembers in the event that their military service prevents them from meeting financial obligations. The act provides mortgage-related protections, including prohibiting foreclosures on active-duty servicemembers' homes without court orders. In addition, the act provides protections for other types of debt, such as credit cards and vehicle and student loans. During periods of active military service, the act caps interest rates and fees at 6 percent for debt incurred prior to active duty.⁸

Interest Rate Cap under SCRA

The interest rate cap covers full-time members of the Army, Navy, Air Force, Marine Corps, and Coast Guard, as well as Reservists, National Guard members, commissioned National Oceanic and Atmospheric Administration officers, and commissioned Public Health Service officers, while they are on active duty. For the purpose of the 6 percent interest rate cap, "interest" is defined to include service charges, renewal charges,

⁷Pub. L. No. 108-189, 117 Stat. 2835 (2003) (codified at 50 U.S.C. §§ 3901-4043). Under the act, the term "servicemember" means a member of the uniformed services, as that term is defined in 10 U.S.C. § 101(a)(5), which includes the Army, Navy, Air Force, Marine Corps, Coast Guard, and the commissioned corps of the National Oceanic and Atmospheric Administration and the Public Health Service. 50 U.S.C. § 3911(1).

⁸The term "period of military service" is defined as the period beginning on the date on which a servicemember enters military service and ending on the date on which the servicemember is released from military service or dies while in military service. 50 U.S.C. § 3911(3); see also 50 U.S.C. § 3917. "Military service" is defined, in the case of a servicemember who is a member of the Army, Navy, Air Force, Marine Corps, or Coast Guard, as active duty, as defined in 10 U.S.C. § 101(d)(1), and, in the case of a member of the National Guard, includes service under a call to active service authorized by the President or the Secretary of Defense for a period of more than 30 consecutive days under 32 U.S.C. § 502(f), for purposes of responding to a national emergency declared by the President and supported by federal funds. In the case of a servicemember who is a commissioned officer of the Public Health Service or the National Oceanic and Atmospheric Administration, military service is defined as active service. Military service also includes any period during which a servicemember is absent from duty on account of sickness, wounds, leave, or other lawful cause. 50 U.S.C. § 3911(2). The act's provisions include various types of debt—mortgage, credit card, vehicle loans—incurred by the servicemember or jointly by the servicemember and his or her spouse.

fees, or any other charges with respect to an obligation or liability.⁹ Any such interest above the 6 percent rate—whether it has yet accrued—is permanently forgiven, and the monthly payment amount going forward must be reduced by the amount of interest forgiven allocable to the period for which payment is made.¹⁰ The interest rate cap has applied to private student loans since 1942 under a provision of the Soldiers’ and Sailors’ Civil Relief Act of 1940, and to federally owned and guaranteed loans since the 2008 reauthorization and amendment of the Higher Education Act of 1965 (HEA).¹¹ During 2008-2016, interest rates for student loans owned by Education ranged between 3.4 and 7.9 percent, with rates above 6 percent in every year for at least some of these loans, while the most common interest rate for loans guaranteed, but not owned by Education was 6.8 percent, ranging from 5.6 to 8.5 percent.¹² Available data for private student loans show that fixed interest rates charged by 9 major lenders ranged from about 3 to 19 percent, with an average starting interest rate of 7.8 percent (see appendix I for additional information on student loan interest rates).¹³

⁹50 U.S.C. § 3937(d)(1). Servicemembers who are eligible for and receiving other military benefits that result in loan interest rates at or under 6 percent, such as the hostile pay benefit of no interest accrual, authorized under 20 U.S.C. § 1087e(o), would not also receive the SCRA interest rate cap.

¹⁰50 U.S.C. § 3937(a)(2) and (a)(3).

¹¹The Higher Education Opportunity Act, Pub. L. No. 110-315 § 422(g), 122 Stat. 3078, 3230 (2008), amended §428(d) of the Higher Education Act of 1965, to specify that the interest rate cap provided for in section 207 of the Servicemembers Civil Relief Act (SCRA), 50 U.S.C. § 3937, applies to federal student loans, effective retroactively to August 14, 2008.

¹²Interest rates are generally based on the year in which a student loan was disbursed. Interest rates for undergraduate subsidized loans owned by Education ranged from 3.4-6 percent from 2008-2016, while unsubsidized undergraduate rates ranged from 3.8-6.8 percent, remaining at 6.8 percent from 2008-2012. Interest rates for graduate student loans owned by Education were above 6 percent from 2008-2016, with the exception of unsubsidized graduate loans disbursed in 2013, 2015, and 2016, which had interest rates of 5.4, 5.8 and 5.3 percent. For loans guaranteed, but not owned by Education, interest rates for all undergraduate and graduate loans were 6.8 percent or higher, with the exception of subsidized undergraduate loans disbursed in 2008 and 2009, which had interest rates of 6 and 5.6 percent.

¹³Private student loans could have fixed or variable interest rates, and initial interest rates depend on the credit scores of borrowers. Borrowers with lower credit scores generally receive the highest interest rates.

Student Loans and Student Loan Servicers

Student loans play a crucial role in ensuring access to higher education for millions of students, and three types of student loans are or have been available through governmental and private sources: federal loans, commercial Federal Family Education Loans (FFEL), and private loans (see table 1).¹⁴

Table 1: Types of Student Loans for Funding Higher Education

Loan type	Loan details	Outstanding balance for all loans of each type as of March 31, 2016
1. Federal Loans		\$996.2 billion
William D. Ford Direct Loans (Direct Loans)	Owned by Education and made to students and families using federal funds.	\$896.6 billion
Federal Family Education Loans (FFEL)	Owned and guaranteed by Education and made to students and families by private and state lenders.	\$99.6 billion
2. Commercial FFEL Loans	Guaranteed by Education and made to students and families by private and state lenders.	\$250.6 billion
3. Private Student Loans	Owned and made to students and families by private and state lenders.	\$102.0 billion

Source: Department of Education (Education) and MeasureOne. | GAO-17-4

Note: FFEL program loans were originated by private and state entities, but Education has owned some of these loans since 2008, when the Higher Education Act was amended to give the Secretary of Education temporary authority to purchase FFEL loans from eligible lenders. The Ensuring Continued Access to Student Loans Act of 2008, Pub. L. No. 110-227, § 7b, 122 Stat. 740, 746-48 (codified at 20 U.S.C. § 1087i-1). Those loans that Education did not purchase were issued under the FFEL federal program although they are still owned by private and state lenders, and are often referred to as commercial FFEL loans. No new FFEL loans have been made since the authority to make or insure them was terminated as of July 1, 2010 by the SAFRA Act, Pub. L. No. 111-152, § 2201, 124 Stat. 1029, 1074 (2010).

¹⁴The Direct Loan program is the primary federal student loan program administered by Education. FFEL program loans were originated by private and state entities, but Education has owned some of these loans since 2008, when the Higher Education Act was amended to give the Secretary of Education temporary authority to purchase FFEL loans from eligible lenders. The Ensuring Continued Access to Student Loans Act of 2008, Pub. L. No. 110-227, § 7b, 122 Stat. 740, 746-48 (codified at 20 U.S.C. § 1087i-1). Those loans that Education did not purchase and that are still owned by private and state lenders are often referred to as commercial FFEL loans. Commercial FFEL loans are still federally-guaranteed against borrower default, death, permanent disability, or in limited instances, bankruptcy. No new FFEL loans have been made since the authority to make or insure them was terminated as of July 1, 2010 by the SAFRA Act, enacted as part of the Health Care and Education Reconciliation Act of 2010, Pub. L. No. 111-152, 124 Stat. 1029.

Student loan servicers are banks that service loans they make or nonbanks contracted to handle billing and repayments, inform borrowers about repayment options, and respond to customer inquiries. As of December 31, 2015, Education had contracts with 10 companies to service federal student loans, and all of these companies also service commercial FFEL loans.¹⁵ No new FFEL loans have been made since 2010, but there is about \$350.2 billion in outstanding FFEL loans. FFEL loans were originated by private or state entities, but Education has owned some of these loans since 2008 (referred to as federal loans in this report). Those that are still owned by private and state entities are often referred to as commercial FFEL loans (referred to as commercial FFEL loans in this report). The 10 companies that serviced federal loans as of December 2015, also each service some private student loans, which are student loans that are not owned or guaranteed by Education.

Identifying Servicemembers Eligible for the Interest Rate Cap on Their Student Loans

The SCRA interest rate cap applies to federal, commercial FFEL, and private student loans as long as at least one party to the loan is a servicemember with qualifying military service.¹⁶ Historically, as provided in SCRA, servicemembers had to contact their student loan servicer(s) and provide written notice and proof of an active-duty start date.¹⁷ The loan servicer would apply the cap to any loans that were (a) disbursed prior to active military service, and (b) had an interest rate above 6 percent.¹⁸ However, Education has since implemented new contract requirements for federal student loan servicers to automatically identify

¹⁵Overall, 21 entities currently service commercial FFEL loans, including 10 that are contracted by Education to service federal student loans. Other entities, such as banks and credit unions, may service commercial FFEL or private student loans they own, but the majority of student loans are serviced by the 10 companies that service federal and/or commercial FFEL loans under contract with Education, according to Education and CFPB officials.

¹⁶For federal and commercial FFEL student loans, the SCRA interest rate cap applies only during periods of active military service after August 14, 2008 that began after the date a loan was first disbursed. After this date, any student loan debt incurred prior to a period of active military service by the eligible servicemember or the servicemember and spouse jointly is eligible for the interest rate cap.

¹⁷50 U.S.C. § 3937(b).

¹⁸Consolidated loans are considered new loans and eligibility is based on when the consolidation occurred, not on when the underlying loans were first disbursed.

eligible servicemembers by matching their borrower files against DOD’s SCRA website to obtain information on active military service. The match identifies servicemembers who are starting active duty, in order for servicers to apply the cap and also those who come off active duty, in order for servicers to remove the cap. Since 2014, student loan servicers have had to match their files for borrowers with federal student loans against DOD’s SCRA website on a monthly basis to determine which borrowers have military service that qualifies them for the cap for federal student loans, and for what periods of time (we will refer to this process as the automatic eligibility check in this report).¹⁹ Education also issued regulations requiring the servicers of commercial FFEL loans to implement the automatic eligibility check as of July 1, 2016. As a result, written notice from servicemembers for the cap is no longer needed for federal or commercial FFEL loans, although servicemembers can still apply in writing. The automatic eligibility check is not required for private student loans (see table 2).

Table 2: Process Used to Identify Borrowers Eligible for the Servicemembers Civil Relief Act (SCRA) Rate Cap, by Loan Type

Loan type	Required automatic eligibility check via SCRA website to identify eligible borrowers
Federal Loans	Yes
Commercial Federal Family Education Loans (FFEL)	Yes
Private Student Loans	No

Source: Department of Education (Education) and MeasureOne. | GAO-17-4

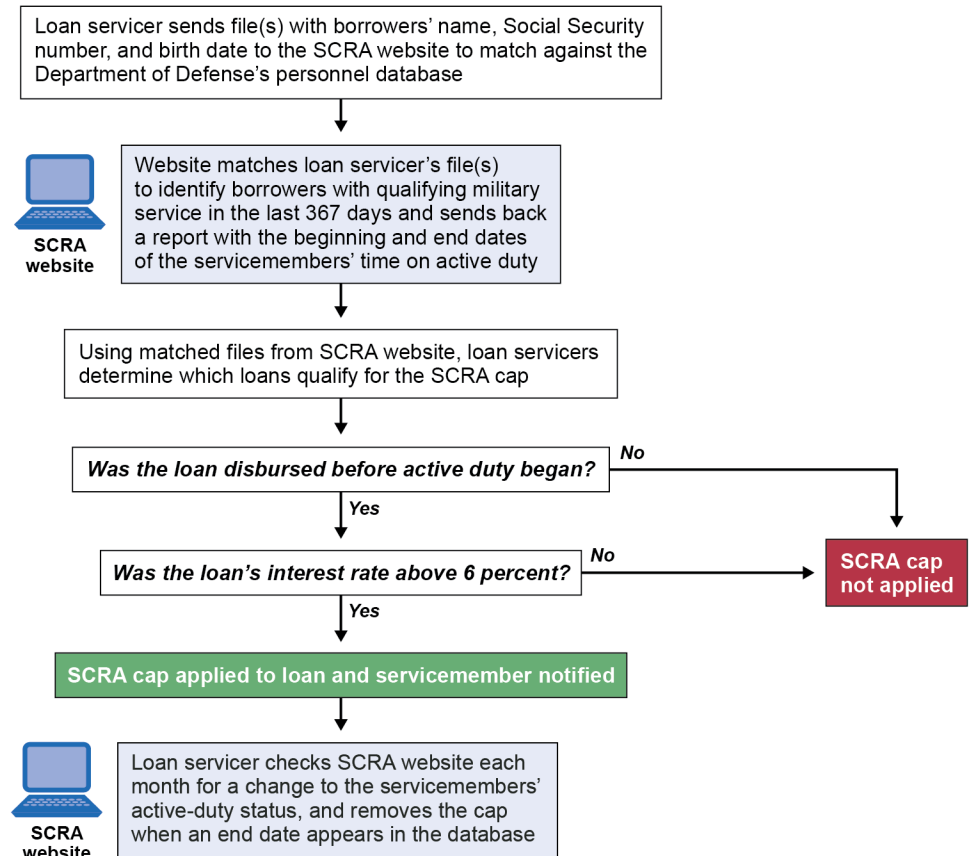
¹⁹Education issued a series of updates to its contracts with the 10 federal student loan servicers between December 2013 and December 2014 which directed them to use DOD’s Defense Manpower Data Center’s SCRA website to identify servicemembers with qualifying military service and federal loans eligible for the interest rate cap (automatic eligibility check). Education expected the servicers to have this process in place for federal student loans by January 2015. In addition, in August 2014, Education issued a guidance letter to all commercial FFEL student loan servicers authorizing and encouraging them to use the automatic eligibility check for commercial loans, a process that has been required for their commercial FFEL loans since July 1, 2016 under final regulations issued by Education on October 30, 2015. Student Assistance General Provisions, Federal Family Education Loan Program, and William D. Ford Federal Direct Loan Program, 80 Fed. Reg. 67,204, 67,237 (Oct. 30, 2015) (codified at 34 C.F.R. § 682.208(j)). In this report, we will refer to this process as being required by Education for federal loans as of 2014, and for commercial FFEL loans as of July 1, 2016.

Note: Education issued its final update to its contracts with student loan servicers on the required monthly automatic eligibility check in December 2014. Education expected the federal loan servicers to have the automated eligibility process in place for federal student loans by January 2015 and for commercial FFEL loans as of July 1, 2016, under final regulations issued by Education on October 30, 2015. Student Assistance General Provisions, Federal Family Education Loan Program, and William D. Ford Federal Direct Loan Program, 80 Fed. Reg. 67,204, 67,237 (Oct. 30, 2015) (codified at 34 C.F.R. § 682.208(j)).

The SCRA website can be used by anyone who inputs a borrower's identifying information to match DOD's information on a servicemember's periods of active military service. Users can submit one name for a match, or do batch matches for up to 250,000 names at one time, and the website should provide results within 24 hours, according to DOD. Servicers also have to notify each servicemember who receives the cap within 30 days and retain a record of the SCRA website match in the servicemember's file (see fig. 1).²⁰

²⁰34 C.F.R. § 682.208(j)(5). In addition, federal and commercial FFEL student loans are no longer subject to the 180-day rule, meaning the benefit can be applied even if the period of active duty ended more than 180 days earlier. See Student Assistance General Provisions, Federal Family Education Loan Program, and William D. Ford Federal Direct Loan Program, 80 Fed. Reg. 39,608, 39,614 (July 9, 2015).

Figure 1: Automated Eligibility Check to Identify Servicemembers Who Qualify for the Rate Cap on Their Student Loans



Source: GAO analysis of the Servicemembers Civil Relief Act (SCRA), the SCRA website users manual, and interviews with student loan servicers. | GAO-17-4

Federal Oversight for Student Loans and for Administering the SCRA Interest Rate Cap

DOD, Education, CFPB, and DOJ each play a role in overseeing servicemembers' student loans. DOD, Education, and DOJ also have roles with respect to SCRA's interest rate cap for servicemembers' student loans. Under SCRA, the DOD secretaries of each military branch have primary responsibility for ensuring that servicemembers receive notification of and information on their SCRA benefits, including for

student loans.²¹ In addition, DOD maintains the SCRA website, which is considered the official source of servicemembers' active-duty status for complying with SCRA. Education's Office of Federal Student Aid administers federal student aid programs, including loans, and oversees the performance of contracted student loan servicers that handle billing and other administrative tasks. It also has some responsibility for monitoring commercial FFEL student loan servicers since the loans are federally guaranteed.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) established CFPB and provided it with authority to supervise certain student loan lenders and servicers with respect to the enumerated federal consumer financial laws as defined by the Dodd-Frank Act. Specific to student loans, CFPB also collects borrower complaints about private student loans and has an internal focus, through its Ombudsman and Office of Servicemember Affairs, on issues affecting private student loan borrowers, including servicemembers and their families. However, because SCRA is not included in the enumerated federal consumer financial laws transferred to CFPB for oversight, the bureau does not

²¹50 U.S.C. §§ 3915 and 3916. The Secretaries include the Secretary of the Army, the Secretary of the Navy for the Navy, Marine Corps and the Coast Guard when it is operating as a service in the Navy, the Secretary of the Air Force, the Secretary of Homeland Security with respect to the Coast Guard when it is not operating as a service in the Navy, the Secretary of Health and Human Services with respect to Public Health Service commissioned officers, and the Secretary of Commerce with respect to commissioned officers of the National Oceanic and Atmospheric Administration. 50 U.S.C. § 3911(7). The majority of active-duty servicemembers serve under the DOD Secretaries of each branch. As of May 2016, there were about 1.3 million active-duty servicemembers across the Army, Navy, Air Force, and Marine Corps and about 39,838 in the Coast Guard. In addition, as of July 2016, there were, about 6,500 Public Health Service commissioned active-duty officers, and about 321 National Oceanic and Atmospheric Administration commissioned active-duty officers.

have specific oversight of SCRA compliance for private student loan lenders and servicers.²²

The four federal financial regulators for banks—Federal Deposit Insurance Corporation, Board of Governors of the Federal Reserve System, National Credit Union Administration, and the Office of the Comptroller of the Currency—oversee SCRA compliance in connection with student loan lending and servicing by banks, credit unions, institution-affiliated parties as defined in the Federal Deposit Insurance Act, and in certain instances third-party service providers under the Bank Service Company Act.²³ DOJ has the specific authority to enforce SCRA and accepts referrals from other federal agencies, including CFPB, for possible SCRA violations.²⁴

²²Pub. L. No. 111-203, Title X, 124 Stat. 1376, 1955 (2010) (codified at 12 U.S.C. §§ 5481-5603). “Enumerated consumer laws” is a defined term in the Dodd-Frank Act that includes over a dozen existing federal consumer protection laws, including the Truth in Lending Act, the Real Estate Settlement Procedures Act of 1974, and the Equal Credit Opportunity Act, and “Federal consumer financial law” is a defined term that includes the enumerated consumer laws as well as the provisions of Title X of the Dodd-Frank Act itself. 12 U.S.C. § 5481(12), (14). For these enumerated laws, the consumer financial protection functions from the Federal Reserve System, Federal Deposit Insurance Corporation, Federal Trade Commission, Department of Housing and Urban Development, National Credit Union Administration, Office of the Comptroller of the Currency, and Office of Thrift Supervision were transferred to CFPB to protect consumers who rely on banks, credit unions, and other providers of consumer financial products or services, such as mortgages and credit cards. The Federal Trade Commission retained its enforcement authority over nonbanks provided by the Federal Trade Commission Act which prohibits “unfair and deceptive acts or practices in or affecting commerce,” but it does not have the authority to conduct compliance examinations. In addition, the Federal Trade Commission also enforces specific consumer protection statutes but SCRA is not among them.

²³12 U.S.C. §§ 1752, 1756, 1813(u), 1818, 1820(b), and 1861-1867. See [GAO-12-700](#).

²⁴50 U.S.C. § 4041. This provision was added to SCRA in October 2010 by the Veterans’ Benefits Act of 2010, Pub. L. No. 111-275, § 303(a), 124 Stat. 2864, 2877.

Number of Servicemembers Who Received the SCRA Interest Rate Cap on Student Loans Has Increased

Number of Servicemembers with Federal Student Loans Who Received the Rate Cap Increased Dramatically with Automatic Eligibility Checks

The number of servicemembers with federal student loans who received the SCRA interest rate cap increased dramatically when Education required servicers of these loans to use an automated process to identify qualifying servicemembers and apply the cap to their eligible loans.²⁵ In particular, Education in 2014 required that federal loan servicers use the SCRA website each month to identify borrowers with qualifying periods of active military service and automatically apply the rate cap to their eligible federal loans, rather than requiring servicemembers to provide written notice of eligibility.²⁶ When some federal loan servicers began using the SCRA website, they identified servicemembers with active military service start dates as early as 2008, when the SCRA rate cap first applied to federal loans. These servicers then applied the cap to servicemembers'

²⁵Education issued a series of updates to its contracts with the 10 federal student loan servicers between December 2013 and December 2014 which directed them to use DOD's Defense Manpower Data Center's SCRA website to identify servicemembers with qualifying military service and federal loans eligible for the interest rate cap (automatic eligibility check). Education expected the servicers to have this process in place for federal student loans by January 2015.

²⁶Representatives from 8 of the 10 federal loan servicers told us they implemented these automatic eligibility checks between June and October 2014, as Education issued updates to the contracts, with the remaining 2 servicers implementing the website checks as of June 2015. Representatives from both servicers that implemented the automatic eligibility checks in 2015 said they required additional time to implement the change to their data systems in order to automatically apply the SCRA cap, and that Education was aware of their timing for implementing the website checks. If a servicemember's qualifying military service is open-ended, the SCRA website does not return a military service end date. Officials from all 10 federal loan servicers told us they remove the rate cap as soon as the SCRA website returns a military service end date.

eligible federal loans retroactively for those qualifying periods of service.²⁷ As a result, some servicemembers were eligible to receive the rate cap for months going forward and also retroactively for months in which they were previously eligible. Recently, in response to findings from a report issued by Education's Office of Inspector General, the agency required federal loan servicers to identify all servicemembers with qualifying military service back to August 2008, including those that were not identified in the initial website checks, and automatically apply the interest rate cap retroactively to their eligible federal loans by December 2016.²⁸

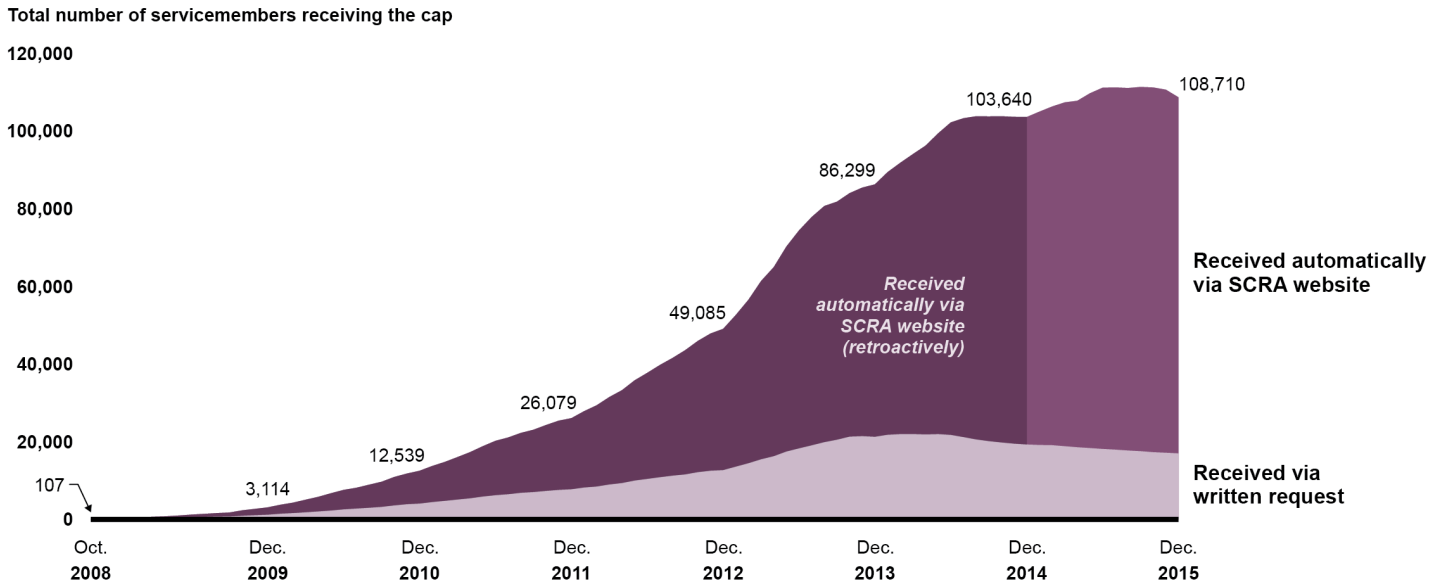
Data from the federal loan servicers show that the number of servicemembers who received the SCRA interest rate cap on their federal student loans for December 2015 was dramatically higher than for October 2008, with the increase driven by federal loan servicers using the SCRA website to identify qualifying servicemembers and automatically apply the cap to their eligible federal loans (see fig. 2).²⁹ (For additional information on servicemembers who received the cap, see appendix II.)

²⁷In 2014 Education began requiring federal loan servicers to match borrowers with federal student loans against the SCRA website using an initial query date of July 1, 2014. Because the SCRA website identifies servicemembers who have qualifying military service within 367 days of the servicer's query date, it identified servicemembers who had qualifying military service between June 29, 2013 and July 1, 2014. Education directed the federal loan servicers to automatically apply the interest rate cap back to the active duty begin date or August 14, 2008, whichever was more recent.

²⁸See Department of Education, *Office of Inspector General, Servicemembers Civil Relief Act*, (Washington, D.C.: February 29, 2016). In response to this Inspector General report and follow-up requests from Congress, Education has asked the federal student loan servicers to do a retroactive look back to grant the benefit to eligible servicemembers who did not receive the SCRA rate cap during the time in which they were eligible for the cap.

²⁹These counts reflect the number of servicemembers who received the rate cap at any point during the month, as well as those who received the cap retroactively for that month if they were identified at a later date as having been eligible. Because some loans were transferred between servicers during our review time frame, our numbers may include duplicate counts for borrowers who had the cap applied by more than one servicer. According to data from Education's National Student Loan Data System, 2 percent of federal loans were transferred in fiscal year 2009 and 5 percent were transferred in fiscal year 2015 (for additional information, see appendix I). While servicemembers no longer need to provide written notice of eligibility to receive the rate cap for federal loans, officials from a federal loan servicer that implemented the automatic website checks in 2014 said they continued to receive a number of written notices from servicemembers via email, mail, and fax in 2015.

Figure 2: Number of Servicemembers with Federal Student Loans Who Received the Servicemembers Civil Relief Act (SCRA) Interest Rate Cap for Each Month, by Identification Method, October 2008 to December 2015



Source: GAO analysis of record-level data from the 10 federal loan servicers as of December 31, 2015. | GAO-17-4

Note: Of the 107 servicemembers who received the SCRA rate cap for October 2008, 49 servicemembers received the SCRA rate cap via written notice, and 58 received it via an automated process using the SCRA website. In December 2014 the Department of Education issued the final in a series of updates to its contracts with the 10 federal student loan servicers directing them to use DOD’s SCRA website on a monthly basis.

Financial Impact of the SCRA Interest Rate Cap on Three Hypothetical Servicemembers

All three servicemembers borrow \$40,000 in federal loans at 6.8 percent interest—the most common pre-cap interest rate for federal loans—and repay the loans under the 10-year standard repayment plan.

- Borrower A received the rate cap for 24 months, beginning after 7 years in repayment.
Total reduction in payment: \$172
- Borrower B received the rate cap for 24 months, beginning after 1 year in repayment.
Total reduction in payment: \$611
- Borrower C received the rate cap for 40 months, beginning after 1 year in repayment.
Total reduction in payment: \$942

Source: GAO analysis. | GAO-17-4

The sidebar illustrates the potential financial impact of the interest rate cap on an individual servicemember’s federal student loan.

Some of the servicers had sought to implement the automatic website checks earlier. For instance, in June 2011, four trade associations representing student loan servicers jointly requested permission from Education to conduct SCRA website eligibility checks. Education denied the request, stating that the act specifically required servicemembers to apply in writing for the rate cap. Then DOJ, in its 2014 settlement with a federal loan servicer for potential violations, interpreted SCRA as allowing the servicer to use the SCRA website to confirm borrowers’ eligibility and

to ascertain active-duty begin and end dates.³⁰ Education officials said because SCRA is under DOJ's enforcement jurisdiction, they deferred to DOJ's decision to allow the servicers to use the SCRA website.

Number of Servicemembers with Commercial FFEL Loans Who Received the Rate Cap Increased with Early Implementation of Automatic Eligibility Checks

The number of servicemembers with commercial FFEL loans who received the SCRA interest rate cap also increased after most federal student loan servicers began using the SCRA website to automatically identify borrowers with active military service qualifying them for the rate cap and apply it to their eligible commercial FFEL loans. Loan servicers were not required to use the website checks for commercial FFEL loans until July 1, 2016, and could instead require written notice from servicemembers until that date. But Education authorized and encouraged servicers to use the automatic website checks for commercial FFEL loans when it required them for federal student loans in 2014.³¹ When some federal loan servicers began using the SCRA website for borrowers with commercial FFEL loans, they identified

³⁰DOJ's consent order with one of the federal loan servicers prior to Education's requirement for loan servicers to automatically identify eligible federal and commercial FFEL borrowers still required borrowers to provide proof of military service. It stated that the one servicer shall accept military orders as written notice of eligibility for the SCRA interest rate cap via facsimile, mail, or overnight delivery; shall accept, in lieu of military orders, any letter on official letterhead from a servicemember's commanding officer that sets forth the full name and Social Security number or date of birth of the servicemember and the dates of military service, and shall accept servicemembers' requests for a military deferment or forbearance as written notice of eligibility for reduced interest rates pursuant to SCRA. This servicer was also directed to create an online intake form that would be accepted as written notice of eligibility for the rate cap. Once a borrower provides notice of military service—through the online intake form or otherwise—the servicer would check the SCRA website to confirm eligibility and apply the cap, using the website to identify beginning and end of active-duty dates.

³¹Student Assistance General Provisions, Federal Family Education Loan Program, and William D. Ford Federal Direct Loan Program, 80 Fed. Reg. 67,204, 67,237 (Oct. 30, 2015) (codified at 34 C.F.R. § 682.208(j)); Office of Federal Student Aid, *Improved Administration of the Servicemembers Civil Relief Act for Borrowers Under the William D. Ford Direct Loan and Federal Family Education Loan Programs*, DCL ID: GEN-14-16 (Aug. 25, 2014). Representatives from 8 of the 10 federal loan servicers said they implemented the automatic eligibility checks for commercial FFEL loans between July 2014 and June 2015, more than a year ahead of schedule. Of the remaining 2 servicers, one implemented the automatic eligibility checks for commercial FFEL loans on July 1, 2016, and the other did so in August 2016. Representatives from the servicer that implemented the automatic eligibility checks in August 2016 said they required additional time to implement the change to their data system in order to automatically apply the SCRA cap.

servicemembers with active military service start dates as early as 2008, when the SCRA rate cap first applied to commercial FFEL loans, and applied the cap retroactively for those qualifying periods of service. As a result, some servicemembers were eligible to receive the rate cap on a commercial FFEL loan for months going forward and also retroactively for months in which they were previously eligible.³²

According to data from the federal loan servicers, who serviced at least 77 percent of the outstanding balance of commercial FFEL loans as of December 31, 2015, the number of servicemembers who received the SCRA interest rate cap on their commercial FFEL loans for December 2015 was much higher than the number who received the cap for October 2008, with the increase mostly driven by federal loan servicers using the SCRA website to identify qualifying servicemembers and automatically apply the cap to their eligible commercial FFEL loans (see fig. 3).³³ (For additional information on servicemembers who received the cap, see appendix II.)³⁴ Data were not readily available on the remaining share of

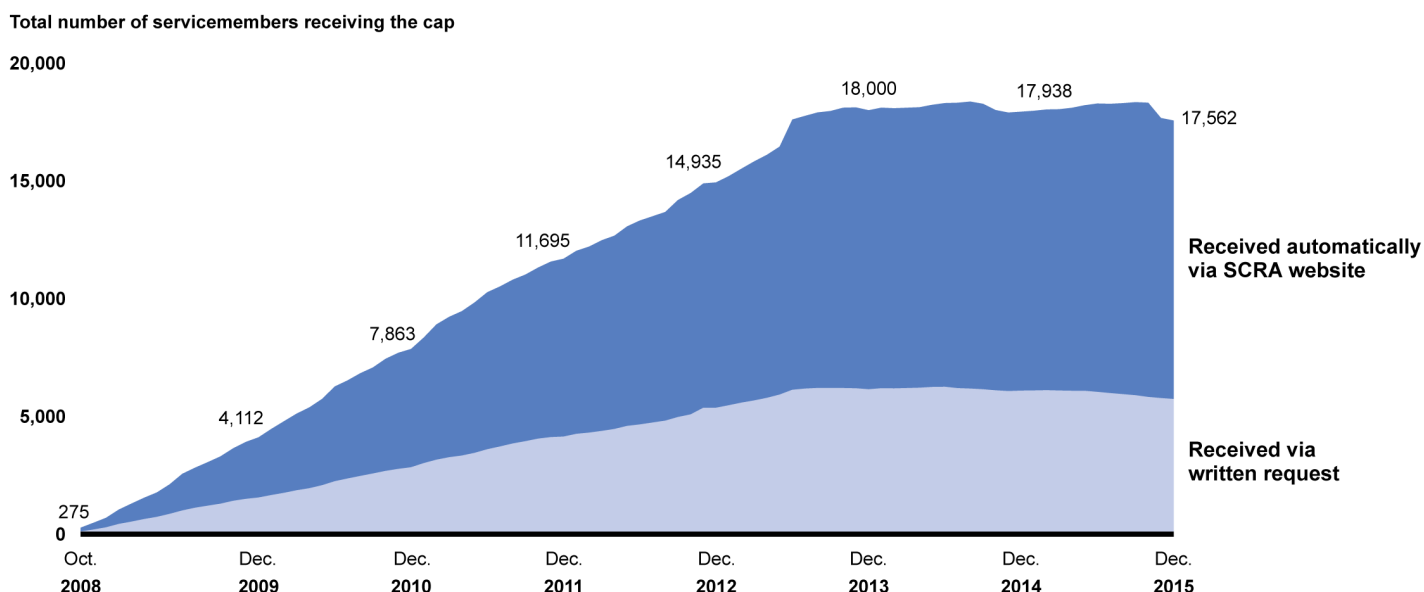
³²In 2016, when Education required that by December 31, 2016, federal loan servicers retroactively apply the interest rate cap to the eligible federal loans of all servicemembers with active duty start dates as early as mid-2008, it was still determining the process for retroactively granting the SCRA cap to all qualifying servicemembers' eligible commercial FFEL loans.

³³Data on the commercial FFEL loans serviced by one of the federal student loan servicers are not included in our calculation of the percentage of the commercial FFEL market serviced by the federal loan servicers because Education officials did not provide us with these data. This servicer's commercial FFEL loans are included in our analysis of servicemembers with commercial FFEL loans who received the SCRA rate cap, because the servicer provided us with these record-level data.

³⁴These monthly counts of the number of servicemembers who received the rate cap via the SCRA website include servicemembers who received the rate cap during the month in which they were actually eligible, as well as those who received the cap retroactively for that month. Data on the share of commercial FFEL loans serviced by federal loan servicers is from Education's National Student Loan Data System. Because some loans were transferred between servicers during our review time frame, our numbers may include duplicate counts for borrowers who had the cap applied by more than one servicer. According to data from Education's National Student Loan Data System, 12 percent of commercial FFEL loans were transferred between servicers in fiscal year 2009 and 3 percent were transferred in fiscal year 2015. (For additional information, see appendix I.) As with federal loans, servicemembers no longer need to provide written notice to receive the rate cap for commercial FFEL loans. Nevertheless, officials from a federal loan servicer that implemented the automatic website checks in 2014 said they continued to receive a number of written notices from servicemembers in 2015.

the commercial FFEL market serviced by non-federal loan servicers. In addition, the number of outstanding commercial FFEL loans decreased from 2008 to 2015, primarily due to the termination of Education's authority to make or insure FFEL loans, effective July 1, 2010.³⁵

Figure 3: Number of Servicemembers with Commercial Federal Family Education Loans (FFEL) Who Received the Servicemembers Civil Relief Act (SCRA) Interest Rate Cap for Each Month, by Identification Method, October 2008 to December 2015



Source: GAO analysis of record-level data from the 10 federal loan servicers as of December 31, 2015. | GAO-17-4

Note: We calculated these monthly counts of servicemembers using data on commercial FFEL loans from the federal loan servicers, who serviced at least 77 percent of the outstanding loan balance of commercial FFEL loans as of December 31, 2015. Data were not readily available on the remaining share of the commercial FFEL market. While loan servicers were not required to use the website checks for commercial FFEL loans until July 1, 2016, representatives from 8 of the 10 federal loan servicers said they implemented the automatic eligibility checks for commercial FFEL loans between July 2014 and June 2015. Of the remaining 2 servicers, one implemented the automatic eligibility checks for commercial FFEL loans on July 1, 2016 and the other did so in August 2016.

³⁵According to data from Education's National Student Loan Data System, in fiscal year 2009, there were 48,893,421 commercial FFEL loans that had an outstanding balance at any point during the year and were serviced by the federal loan servicers or had been transferred to Education's defaulted loan information system. In fiscal year 2015, there were 28,021,050 such commercial FFEL loans.

Number of Servicemembers with Private Loans Who Received the Rate Cap Also Increased

Although the automatic eligibility check for the SCRA interest rate cap is not required for private student loans, the number of servicemembers who received the cap on at least one of their private loans increased for 6 lenders who have voluntarily implemented automatic SCRA website checks. The number of servicemembers who received the cap on at least one of their private student loans more than doubled, from 14,970 to 33,309 from September 2014 to March 2016, according to data from 6 lenders who together accounted for 65 percent of the private student loan market.³⁶ According to the 6 lenders, the servicers they use for their private student loans all began voluntarily using the SCRA website to check for eligible servicemembers as of June 2015.³⁷ Because limited data are available on loan servicing for the private student loan market not covered by the 6 lenders (about 35 percent), it is unclear how many servicemembers are receiving the cap for any private loans handled by the other servicers.³⁸

³⁶We received aggregate private student loan data from the 6 lenders via a private-sector company that represents them. The data show that as of March 31, 2016, these 6 lenders held \$66.5 billion in outstanding private student loans, or 65 percent of the \$102 billion in outstanding private student loan debt. Because borrowers may have private student loans with more than one of the 6 lenders, the counts of servicemembers who received the rate cap likely include some who were counted more than once. Because 2014 was when Education required that federal loan servicers use the SCRA website checks for federal student loans on a monthly basis, we collected these data on private student loans beginning with the end of fiscal year 2014 and ending with the second quarter in fiscal year 2016 to see if the number of borrowers receiving the cap for private loans was also increasing over this period. (For additional information, see appendixes I and II).

³⁷According to the 6 lenders, all but one of these servicers implemented the automatic eligibility checks as of December 2014, with the final servicer implementing them as of June 2015. Some of the 6 lenders service their own private loans, while others contract with one or more loan servicers to service them. In addition, representatives from the 10 federal loan servicers said they were also voluntarily using the SCRA website as of August 2016 for the private loans they serviced. While we collected data on the share of the private loan market serviced by these 10 federal loan servicers, and on the number of borrowers and loans who received the SCRA rate cap, because 3 of the 10 federal loan servicers also service some loans for the 6 private lenders, we were not able to determine the extent of the overlap in private loans.

³⁸Banks are not required to report granular data on student loans to federal financial regulators. Instead, banks report a data field called "other consumer loans" which can include real estate loans and auto loans as well as student loans.

Servicemembers Face Challenges Obtaining the SCRA Interest Rate Cap for Student Loans

Servicemembers Receive Inaccurate Information about the Cap

Consumer information provided to servicemembers about the SCRA interest rate cap is sometimes inaccurate. Under SCRA, the military branch secretaries have primary responsibility for ensuring that servicemembers receive pertinent information on their SCRA benefits.³⁹ However, a key source of information for servicemembers, DOD's Military OneSource website, incorrectly states that the SCRA cap does not apply to commercial FFEL student loans incurred prior to active military service. Further, DOD provided us with 8 documents it uses to inform servicemembers, military legal aid attorneys, officials who examine financial institutions, and others about servicemembers' SCRA benefits. Our review of these documents, prepared by various offices and branches within DOD, found that all contained significant inaccuracies. For example, 6 of the 8 documents specify that the servicemember must provide written notice to obtain the cap and provide military orders, and 3 of those 6 say that the request must be made within 180 days of the end of military service—requirements that no longer apply to federal or commercial FFEL loans. In addition, 2 of the 8 documents specifically state that the SCRA rate cap does not apply to student loans. Inaccurate information could be especially problematic for servicemembers with private student loans because, unlike for federal and commercial FFEL loans, servicers of private student loans are not required to automatically identify and apply the cap to borrowers' eligible loans.

³⁹SCRA requires that servicemembers receive written notice of the benefits provided under SCRA as well as information on SCRA rights and protections during initial orientation training and at other times a military branch secretary considers appropriate. 50 U.S.C. §§ 3915 and 3916. DOD officials told us they discuss the SCRA interest rate cap with servicemembers as part of DOD's financial awareness training, and that SCRA is part of its training for military legal aid attorneys and others who work with servicemembers on financial benefits.

In acknowledging these inaccuracies, DOD officials told us that the department needs to work across functional areas and military installations to ensure that DOD information on the SCRA rate cap is correct and uniform for all servicemembers. DOD recently combined many of its financial readiness initiatives under one office, which officials said they expect to result in more accurate and consistent SCRA materials across military installations, but the effect of this consolidation is not yet known. Federal internal control standards state that agencies should externally communicate the information necessary to achieve their objectives, but inaccurate information about the SCRA rate cap not only falls short of those standards, it may also prevent some servicemembers who have private student loans from receiving a benefit for which they are eligible.⁴⁰

Eligible Servicemembers Are at Risk of Not Receiving the Rate Cap for Some Private Student Loans

There is a risk that not all servicemembers who are eligible for the SCRA interest rate cap are receiving it on their private student loans for several reasons. First, the automatic eligibility check is not required for private loans, so the extent to which the rate cap is being applied to servicemembers' private student loans is unknown. The private student loan market comprised approximately \$102 billion in student loans, about 7.6 percent of the total student loan market, as of March 31, 2016. The 6 lenders of private student loans for whom we received data are voluntarily identifying eligible servicemembers and providing the rate cap through the automatic eligibility check. Our analysis of data from these 6 lenders showed that the number of borrowers receiving the SCRA rate cap on private student loans more than doubled once these servicers started using the automated process. These lenders' loans represent about 65 percent of the private student loan market, or about \$66 billion as of March 2016. Information on the remaining 35 percent of the private student loan market, or about \$36 billion as of March 2016, was not available with regard to whether the lenders or servicers use the automated process.

Second, representatives from the four veteran service organizations we spoke with told us that the SCRA interest rate cap is not well publicized

⁴⁰GAO, *Standards for Internal Control in the Federal Government*, [GAO/AIMD-00-21.3.1](#) (Washington, D.C.: November 1999).

and that many servicemembers are not aware of the benefit. One representative said that while implementation of the automatic eligibility checks has been relatively smooth for federal and commercial FFEL loans, it has caused confusion because of the different requirement to obtain the same rate cap for private loans. Although SCRA states that during active military service the interest rate of a servicemember's debt shall not exceed 6 percent, those servicemembers with private student loans are at risk of not receiving the cap if they do not know how to obtain it and their loan servicer does not automatically apply it.

There are also indications that private student loans may be more susceptible to SCRA rate cap violations than other types of loans. In DOJ's 2014 settlement with one of the federal student loan servicers, nearly three-fourths of DOJ's settlement of borrower claims—about \$45 million—went to borrowers with private student loans, while just one-fourth went to servicemembers with federal loans or commercial FFEL loans.⁴¹ In 2015, Education, the CFPB, and the Department of the Treasury issued a joint policy stating that common student loan servicing functions should be consistent for all student loans.⁴² However, without a requirement that loan servicers automatically identify eligible servicemembers and apply the interest rate cap for private student loans, servicemembers with private loans may not be receiving the interest rate cap for which they are eligible in a manner consistent with those who have federal and commercial FFEL loans.

DOJ has proposed changes to SCRA's statutory language to explicitly allow a servicemember's oral rather than written notice of eligibility to obtain the interest rate cap.⁴³ Additionally, the proposal would eliminate the provision that servicemembers provide the creditor a copy of their

⁴¹According to CFPB officials, their referral of one of the federal student loan servicers to DOJ for possible SCRA violations was one of the reasons for DOJ's investigation of the servicer.

⁴²Consumer Financial Protection Bureau, Department of Education, Department of the Treasury, *Joint Statement of Principles on Student Loan Servicing* (September 2015).

⁴³The rate cap for an obligation or liability of the servicemember would have to be requested not later than 180 days after the date of the servicemember's termination or release from military service.

military orders.⁴⁴ While these changes, if enacted, would remove the burden on servicemembers with private loans of having to provide written notice of their military status, they would still need to be aware of the cap and orally provide notice of their status to their loan servicer. Alternatively, requiring the automatic eligibility check for private student loans would better ensure that all servicemembers with private student loans are receiving a benefit for which they are eligible and that the interest rate cap is applied consistently across all types of student loans.

Federal Agencies Use Various Mechanisms to Oversee Application of the Interest Rate Cap for Student Loans, but Limitations Exist

Education Oversees Application of the Rate Cap for Federal Loans and Commercial FFEL Loans, but Lacks a Systematic Way to Track Complaints

Education, as part of its oversight of federal student loan servicers, uses a variety of mechanisms to oversee how servicers apply the SCRA interest rate cap for federal student loans and commercial FFEL loans held by eligible servicemembers. However, Education does not systematically track SCRA-specific borrower complaints.

Education's SCRA Oversight Mechanisms

Education has established several mechanisms to oversee whether federal student loan servicers are properly applying and removing the rate cap for federal and commercial FFEL student loans:

⁴⁴According to DOJ officials, on Nov. 10, 2015, DOJ transmitted its Servicemembers Legislative Package for the 114th Congress. This proposed process is different from the requirements of DOJ's 2014 settlement with one of the federal loan servicers, and is also different from the automatic eligibility check that is being used for federal and commercial FFEL student loans in that the servicemember would be able to provide oral notice of eligibility for the cap instead of written notice of eligibility.

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- **Reviews of federal loan servicers:** In February 2015, Education indicated it created a loan servicer monitoring group of 10 monitors and 1 supervisor to oversee servicing activity for federal student loans.⁴⁵ This group reviews borrower accounts, and implementation of the SCRA rate cap is one of its core functions. The first set of reviews in 2015 found that 332 of the 335 borrower accounts reviewed had correctly processed rate caps under the automatic eligibility check, according to the review reports. Servicers did not correctly process 3 accounts: in 2 cases borrowers were not notified that their rate had been reduced, and in 1 case the rate reduction was applied retroactively to a date prior to when the loan was eligible for the cap. The second set of reviews was completed in April 2016, and the review reports show that all 300 reviewed borrower accounts had the rate cap properly applied, had correct beginning and end dates (if applicable), and had borrowers who were notified about application of the cap.
 - **Data reporting:** Federal student loan servicers provide Education with monthly reports of all federal student loan borrowers who fall into a “Service Members category,” which includes servicemembers who are SCRA eligible.⁴⁶ In addition, servicers report weekly to Education the date they applied the rate cap for each servicemember who is receiving the cap, the date the cap was ended, and the date the servicemember was notified of the cap. Education is using this information to track the number of borrowers who have military service qualifying them for the rate cap.
 - **Technical assistance for loan servicers:** In early 2015, when working with loan servicers to implement the automatic eligibility check for federal loans, Education hosted conference calls with the servicers and reached out to DOD for clarification when needed. Representatives of 7 of the 10 federal student loan servicers said such calls were useful, and two also noted that they also have a

⁴⁵This group is named the “Kansas City Servicer Monitoring Team” and is part of the Office of Federal Student Aid’s Business Operations Group, which is separate from the Program Compliance group.

⁴⁶The “Service Members category” includes borrowers who are receiving the SCRA interest rate cap or those who are eligible but whose loans are already at or under 6 percent, as well as servicemembers who are in a military service or post-active-duty deferment period, or who are receiving the hostile pay benefit of no interest accrual while serving in hostile areas.

liaison at Education whom they can contact about questions or challenges. According to Education officials, the agency is continuing to provide technical assistance on the website match, such as working on updated guidance for servicers to help resolve non-matches due to marital or hyphenated last names. In addition, Education officials explained that staff listen to a sample of incoming and outgoing calls between servicers and servicemember borrowers, to ensure accuracy and completeness of provided information. Feedback is provided to servicers through meetings and a written report, and servicers make required changes or provide employee training to correct deficiencies, Education officials said.

- Agency-wide oversight board: Education has an internal board comprised of staff from different units and groups within Education's Office of Federal Student Aid (e.g., Chief Financial Officer, Program Compliance Staff) that has met periodically since 2012 to coordinate loan servicer monitoring activities. The agenda for the October 2014 monthly meeting included implementation of the automatic eligibility check for federal loans.
- Program compliance reviews: Education included implementation of the automatic eligibility check as part of its review of the loan servicers that had an annual compliance review scheduled in 2015 or 2016 to look at how the federal student loan servicers were implementing the revised automatic eligibility check.⁴⁷ In the three review reports provided to GAO, one servicer did not properly apply the SCRA rate

⁴⁷These reviews are conducted by the Office of Federal Student Aid's Office of Program Compliance. In addition to the 2015 and 2016 annual compliance reviews, in 2014 and 2015, Education conducted reviews to specifically examine how well each federal and commercial student loan servicer was implementing the SCRA interest rate cap under the old process, in which borrowers had to provide written notice of eligibility for the rate cap and provide a copy of military orders. According to Education officials, these reviews found that the servicers were appropriately implementing the SCRA rate cap based on written requests from borrowers. According to agency officials, the agency has conducted annual compliance reviews of the 4 Title IV servicers since 2010, and of the 6 not-for-profit servicers since 2013, when they first started servicing federal student loans, as part of its monitoring strategy. These reviews are done on site at the servicer's physical location, and generally focus on loan originations, conversions from in school status to repayment, deferment, forbearance, income-driven repayment, and the SCRA. One official noted that Education reviewed the 4 Title IV servicers and the not-for-profits that service at least 300,000 borrower accounts annually, and the not-for-profits that service fewer than 300,000 account during the first year each entity reaches 100,000 accounts, and then as requested by the Office of Federal Student Aid. According to Education officials, in FY17 Education will review all the federal student loan servicers.

Education's Process for Tracking Student Loan Complaints

cap for a reservist who had been called to active duty military service. No other SCRA-related issues were identified for these three servicers in the reports.⁴⁸

In addition to these efforts, Education tracks and resolves borrower complaints about federal and commercial FFEL student loans it receives directly, but does not track the number of SCRA-specific complaints. Education officials said they generally receive complaints from borrowers who believe their issue was not satisfactorily resolved by a servicer or who are reluctant to submit a complaint to a servicer. Until July 1, 2016, Education recorded borrower complaint information through a dozen different systems within the agency, including the Ombudsman's complaint tracking system and the Office of Program Compliance's Complaint Tracking System.⁴⁹ While borrowers could contact Education with SCRA-related complaints, officials said the agency did not specifically track the number of SCRA complaints it received across all its complaint systems.⁵⁰

In March 2015, the President signed a Student Aid Bill of Rights which required Education by July 1, 2016 to develop and implement a simple

⁴⁸A member of a reserve component who is ordered to report for military service is eligible for certain SCRA protections, including the loan cap, during the period beginning on the date of the member's receipt of the order and ending on the date on which the member reports for military service (or, if the order is revoked before the member reports, on the date on which the order is revoked). 50 U.S.C. § 3917(a).

⁴⁹For related information, see GAO, *Federal Student Loans: Education Could Improve Direct Loan Program Service and Oversight*, [GAO-16-523](#) (Washington, D.C.: May 16, 2016). The Office of Federal Student Aid Ombudsman uses informal dispute resolution processes to address complaints about the federal student aid programs, including the Direct Loan program. According to Education officials, the agency also receives complaints, referrals, and inquiries regarding student loan programs through its Program Compliance Complaint Tracking System. Complaints originate from several sources, including borrowers, loan servicers, and schools.

⁵⁰According to Education officials, the Ombudsman's tracking system has a field identified as "Special Category" which is used on a situational basis to highlight certain types of complaints. "SCRA" is included on this list, and will be selected when a complainant specifically references being denied SCRA benefits, or if the Ombudsman determines that those benefits have been denied to a complainant. However, this tracking depends on a complainant mentioning SCRA, or an Ombudsman's determination of a complaint as SCRA-related. Education's other student loan complaint tracking systems did not track SCRA-related complaints. The Program Compliance Complaint Tracking System generally handles complaints against institutions of higher education.

process for borrowers to file complaints and for Education to track their resolution.⁵¹ The agency completed design of the new system and started using it in July 2016. While the system is designed to generate more robust, standardized information on borrower complaints, Education officials said it does not systematically track SCRA-related complaints.

Under the new system, when complainants enter their contact information online, they can choose to self-identify as “a servicemember or veteran” using a check box, as appropriate, but this is an optional data field. There are also two options in a drop-down menu categorizing complaint type that Education officials said are appropriate for SCRA-related complaints: “Military and Veteran Benefits” and “Loan Interest Rate,” but neither is specific to SCRA complaints. In addition, there is a blank text box in which complainants could opt to specify that their issue is SCRA related. Education officials said they could determine the volume of SCRA complaints by running a report on complaints with “SCRA” in the text box. However, this approach relies on borrowers to enter SCRA in the text box. Also, not all servicemembers may know how to refer to the rate cap benefit by its actual name or acronym.

While Education has taken steps to improve and streamline how it tracks borrower complaints, without a way to systematically identify SCRA-related complaints Education will not be able to evaluate the effectiveness of its efforts to oversee these benefits or be able to use this information to improve service to borrowers who are servicemembers. For example, the agency will not know if the frequency of SCRA complaints for commercial FFEL loans decreased as servicers implemented the automatic eligibility check for these loans. In addition, federal internal control standards state that an agency’s management should analyze and discuss information related to achieving agency goals.⁵² One of Education’s strategic objectives is to provide superior service and information to borrowers, and not having information on the extent of SCRA-related complaints can hinder the agency’s ability to provide this level of customer service. In addition, Education has identified having a unified borrower complaint

⁵¹Presidential Documents, Memorandum of March 10, 2015–Student Aid Bill of Rights to Help Ensure Affordable Loan Repayment, 80 Fed. Reg. 13,475, 13,475-76 (March 13, 2015).

⁵²[GAO/AIMD-00-21.3.1](#).

tracking system as a key mechanism to enhance oversight and customer service.⁵³ However, Education will not be able to fully respond to servicemembers' SCRA-related issues without knowing details about or frequency of these types of complaints.

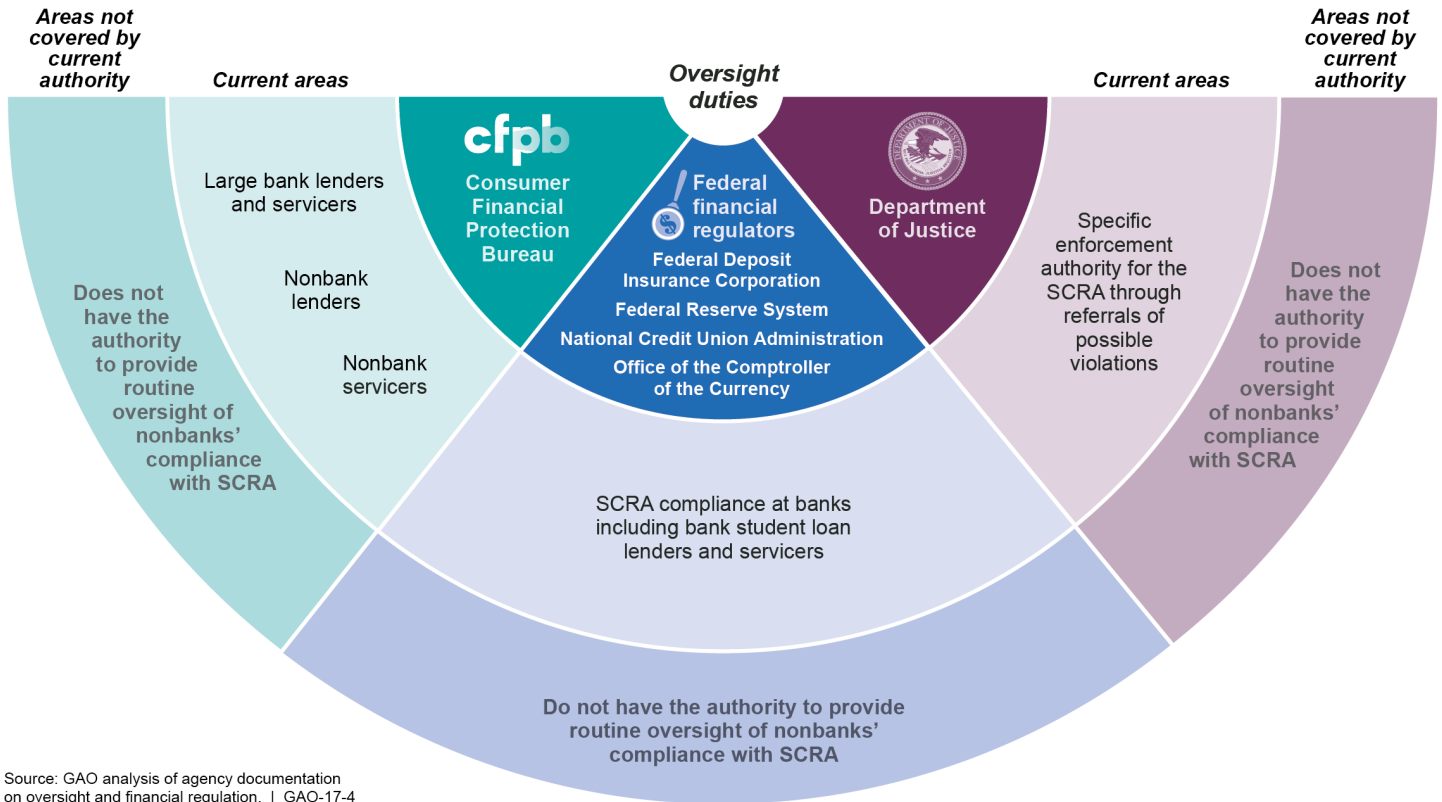
Defined Roles of Multiple Agencies Leave a Gap in SCRA Oversight

The current roles of CFPB, the four federal financial regulators, and DOJ with regard to SCRA compliance result in an oversight gap because no agency is currently authorized to routinely oversees SCRA compliance for private student loans made or serviced by nonbank lenders and servicers (see fig. 4). By routine oversight, we are referring to onsite reviews to specifically look for instances of noncompliance with SCRA by nonbank private student loan lenders and servicers. Nonbank lenders include institutions of higher education and private companies that are not banks. According to CFPB, the nonbank student loan servicers include the seven largest student loan servicers.⁵⁴ While the proportion of private student loans that are made or serviced by nonbanks is unknown, as of March 2016, the total private student loan market had an outstanding balance of about \$102 billion, and available data show that interest rates on such loans can range from about 3 to 19 percent. While Education routinely monitors the application of the SCRA cap for federal and commercial FFEL loans, it does not do so for any private loans serviced by these companies.

⁵³Department of Education, *Strengthening the Student Loan System to Better Protect All Borrowers* (Washington, D.C.: Oct. 1, 2015).

⁵⁴Nonbank servicers include the 10 companies that Education contracts with to service federal student loans, all of which also service private student loans.

Figure 4: Private Student Loan Oversight Responsibilities of Federal Agencies for the Servicemembers Civil Relief Act (SCRA)



Source: GAO analysis of agency documentation on oversight and financial regulation. | GAO-17-4

Note: CFPB has supervisory authority over entities that are insured depository institutions and credit unions (and the affiliates of those depository institutions and credit unions) with assets of more than \$10 billion for the enumerated consumer financial protection laws, and the authority to supervise other nonbank student loan lenders and certain large nonbank servicers (those with over 1 million borrower accounts, regardless of whether the loans are private, federal, or commercial FFEL). 12 U.S.C. §§ 5515 and 5514(a)(1)(D). However, CFPB does not have the authority to oversee SCRA compliance because SCRA is not one of the enumerated consumer financial protection laws. The four federal prudential financial regulators have broad examination and enforcement authority for insured depository institutions and credit unions with assets of \$10 billion or less (small banks), as well as general supervisory authority, including supervision for the enumerated consumer financial protection laws. Through their general supervisory authority, the four federal financial regulators can also take action to enforce SCRA compliance at all depository institutions and credit unions, regardless of asset size, and at the depository institutions' institution-affiliated parties. However, they do not have the authority to oversee SCRA compliance for nonbank private student loan lenders or servicers, unless those entities are acting on behalf of the regulated entities, or, in certain instances, other third-party service providers to regulated entities. 12 U.S.C. §§ 1752, 1756, 1813(q), (u) 1820(b), 1861-1867, and 5516(a)-(d).

As part of its oversight responsibility, CFPB collects borrowers' student loan complaints and reports on issues facing private student loan borrowers, including military borrowers, through its Ombudsman and

Office of Servicemember Affairs. CFPB also oversees the student loan lending and servicing operations of large banks and their affiliates (large bank lenders and servicers), nonbanks that make private student loans (nonbank lenders), and certain large nonbank student loan servicers (nonbank servicers) for compliance with certain federal consumer financial laws, through onsite examinations.⁵⁵ However, because SCRA is not one of the federal consumer financial laws whose oversight was transferred to CFPB, the bureau does not have the authority to routinely oversee SCRA compliance by student loan lenders and servicers, and does not inspect SCRA compliance during its onsite reviews.⁵⁶

The four federal financial regulators—Federal Deposit Insurance Corporation, Board of Governors of the Federal Reserve System, National Credit Union Administration, and Office of the Comptroller of the Currency—have broad authority to review the banking activities of regulated entities’—insured depository institutions, credit unions, and their affiliates—including compliance with certain applicable laws, such as

⁵⁵12 U.S.C. §§ 5515 and 5514(a)(1)(D); see also 12 U.S.C. § 1813(u). CFPB has supervisory authority over entities that are insured depository institutions and credit unions with assets of at least \$10 billion—large bank student loan lenders and servicers. CFPB also has the authority to supervise other nonbank student loan lenders and certain large nonbank servicers (those with over 1 million borrower accounts, regardless of whether the loans are private, federal, or commercial FFEL). Defining Larger Participants of the Student Loan Servicing Market, 78 Fed. Reg. 73,383, 73,395-97 (Dec. 6, 2013) (codified at 12 C.F.R. § 1090.106(b)).

⁵⁶12 U.S.C. § 5481(12), (14). The SCRA is not included among the enumerated federal consumer financial laws for which the Dodd-Frank Act gives the CFPB exclusive authority to conduct compliance examinations at insured depository institutions and credit unions with total assets of greater than \$10 billion. 12 U.S.C. §§ 5481(12), (14) and 5515. CFPB officials said if they come across possible SCRA violations during reviews of bank student loan lenders or servicers, they would refer the matter to DOJ, or one or more of the four federal financial regulators for banks—Federal Deposit Insurance Corporation, Federal Reserve System, National Credit Union Administration, or Office of the Comptroller of the Currency.

SCRA.⁵⁷ According to agency officials, they also have enforcement authority over institution-affiliated parties, and in certain instances, over third-party service providers, including reviewing compliance with the SCRA rate cap for student loans.⁵⁸ However, the regulators do not have the authority to routinely oversee whether nonbank student loan lenders or servicers comply with the SCRA rate cap for private student loans.⁵⁹

⁵⁷These four agencies are referred to as the federal prudential regulators and they have broad supervisory and enforcement authority over insured depository institutions and credit unions. For the enumerated consumer financial protection laws, these regulators oversee compliance by depository institutions and credit unions with assets of \$10 billion or less, with CFPB overseeing compliance at institutions larger than \$10 billion. However, because SCRA was not among the enumerated consumer protection laws transferred to CFPB, through their general supervisory authority the four financial regulators can take actions to enforce SCRA compliance at the depository institutions, savings associations, and credit unions that they oversee, and at their institution-affiliated parties. However, the federal financial regulators do not have jurisdiction over nonbank private student loan lenders or servicers, unless those servicers are acting on behalf of depository banks, savings associations, or credit unions. The Federal Deposit Insurance Corporation supervises Federal Deposit Insurance Corporation-insured state-chartered banks that are not members of the Federal Reserve System, as well as state savings associations, their institution-affiliated parties, and in certain circumstances other third-party service providers. The Board of Governors of the Federal Reserve System supervises state-chartered banks that opt to be members of the Federal Reserve System, bank holding companies, savings and loan holding companies, and the nondepository institution subsidiaries of those depository institutions, and savings and loan holding companies. The National Credit Union Administration charters and supervises federally chartered credit unions and insures deposits in federal and most state-chartered credit unions. The Office of the Comptroller of the Currency charters and supervises national banks and federal savings associations. See [GAO-12-700](#).

⁵⁸12 U.S.C §§ 1813(u), 1820(b)(4), and 1861-1867.

⁵⁹According to Federal Deposit Insurance Corporation and Federal Reserve System officials, the agencies do not have oversight responsibility of nonbank student loan lenders that they do not supervise, as previously described, but may have some enforcement authority over nonbank servicers if they are affiliated with depository institutions, as defined in section 3(u) of the Federal Deposit Insurance Act, or as subject to the Bank Service Company Act. According to Federal Deposit Insurance Corporation and Federal Reserve officials, if, in the course of their oversight of regulated institutions they become aware of a possible SCRA violation by a third party service provider, they might designate that party as an affiliate of the bank and investigate for possible enforcement action, but they do not regularly oversee the activities of nonbank student loan lenders and servicers. Similarly, the Office of the Comptroller of the Currency would have oversight authority over nonbank subsidiaries of national banks and federal savings associations, according to agency officials.

DOJ has specific authority to enforce SCRA based on referrals of possible violations, but does not conduct onsite reviews of student loan lenders or servicers to check for SCRA compliance, including lenders and servicers of private student loans.⁶⁰ According to DOJ officials, they ask servicemembers to first go through DOD's military legal assistance system to resolve SCRA complaints, including those concerning private student loans. If the military system is unable to resolve the complaint, it is referred to DOJ, which may open a formal investigation and/or file a lawsuit. However, referrals from DOD would only capture cases in which a servicemember knew about the rate cap for private student loans and believed that it had been erroneously denied. Currently, because of the statutorily defined roles of each agency, no agency can routinely oversee SCRA compliance by certain nonbank private student loan lenders and servicers by, for example, conducting onsite file reviews. Because of this, there is a risk that SCRA violations for private student loans will go undetected, potentially leaving some servicemembers without a benefit for which they are eligible.

While CFPB has written agreements in place with the four federal financial regulators and with DOJ for interagency coordination related to oversight, these agreements do not provide for routine SCRA oversight for private loans connected with nonbank lenders and servicers. This may be because none of these agencies currently has the authority to routinely oversee SCRA compliance at nonbank private student loan lenders and servicers. Because CFPB, the federal financial regulators, and DOJ each have a role in the oversight of either private student loans or the SCRA rate cap, any of these agencies could potentially be in a position to assume responsibility for the oversight of SCRA compliance by nonbank private student loan lenders and servicers. However, additional statutory changes may be required to give these, or any other agencies, additional authority to conduct routine oversight of SCRA compliance at nonbank private student loan lenders and servicers. CFPB and DOJ could communicate this need to the Congress.

In prior work, we developed a framework for crafting and assessing an effective financial regulatory system that stated such systems should be

⁶⁰50 U.S.C. § 4041. This provision was added to SCRA in October 2010. See Veterans' Benefits Act of 2010, Pub. L. No. 111-275, § 303(a), 124 Stat. 2864, 2877-78.

appropriately comprehensive, and cover all activities that pose risks to consumer protection, including closing any gaps in oversight.⁶¹ The lack of routine oversight of nonbank private student loan lenders and servicers related to SCRA compliance increases the risk that some servicemembers will not receive a benefit for which they are eligible, even though SCRA was designed to provide financial protection for all active-duty servicemembers.

Conclusions

The number of servicemembers receiving the SCRA interest rate cap for their federal and commercial FFEL student loans has greatly increased since student loan servicers began using an automatic eligibility check to identify those who are eligible. Nonetheless, some servicemembers continue to face challenges in obtaining the cap. They receive inaccurate SCRA information from DOD. In addition, if servicemembers have private student loans, their loan servicer is not required to use the automatic eligibility check to identify them. As a result, servicemembers are at risk of not always getting the rate cap benefit for which they are eligible. If DOJ were to update its proposed SCRA changes by requiring private loan servicers to use the automatic eligibility check to identify eligible borrowers, this could lead to legislative action that would provide consistent treatment for all eligible servicemembers regardless of type of student loan.

Education's new borrower complaint system simplifies the complaint process for consumers, but lacks the ability to track SCRA complaints systematically. Without a systematic way to track complaints about the rate cap, Education will not be certain whether servicemembers continue to experience problems, making it difficult for Education to meet its strategic goal of providing superior service. Oversight of compliance with SCRA is also dispersed across multiple agencies, each of which has limitations on its authority. Consequently, there is no routine oversight of SCRA compliance for nonbank private student loan lenders and servicers. The resulting lack of routine oversight for nonbank lenders and servicers increases the risk that SCRA violations for private student loans

⁶¹GAO, *Financial Regulation: A Framework for Crafting and Assessing Proposals to Modernize The Outdated U.S. Financial Regulatory System*, [GAO-09-216](#) (Washington, D.C.: Jan. 8, 2009).

will go undetected and that some servicemembers may not benefit from the rate cap for which they are eligible.

Recommendations for Executive Action

1. To help ensure quality information is conveyed to servicemembers about how the Servicemembers Civil Relief Act (SCRA) interest rate cap applies to student loans, we recommend the Secretary of Defense direct the secretaries of each service branch, and work with other secretaries as appropriate, to ensure that all information about the SCRA interest rate cap for student loans is accurate when provided to servicemembers and to those who work with servicemembers to help them obtain SCRA benefits, including information contained in outreach materials.
2. To ensure that all eligible servicemembers with student loans receive the SCRA interest rate cap, we recommend the Attorney General direct the Department of Justice to consider modifying its proposed changes to SCRA to require use of the automatic eligibility check for private student loans.
3. To enhance customer service, we recommend the Secretary of Education direct the Office of Federal Student Aid to identify ways to modify the data collected in its unified borrower complaint system to allow the agency to more precisely identify and analyze complaints specifically about the SCRA interest rate cap.
4. To better ensure that servicemembers with private student loans benefit from the SCRA interest rate cap, we recommend that the Director of the Consumer Financial Protection Bureau and the Attorney General of the Department of Justice coordinate with each other, and with the four federal financial regulators, as appropriate, to determine the best way to ensure routine oversight of SCRA compliance for all nonbank private student loan lenders and servicers. If CFPB and DOJ determine that additional statutory authority is needed to facilitate such oversight, CFPB and DOJ should develop a legislative proposal for Congress.

Agency Comments and Our Evaluation

We provided a draft copy of this report to DOD, Education, CFPB, DOJ, and the four federal financial regulators for review and comment. We also provided relevant report sections to the federal student loan servicers and the private-sector company representing the 6 private lenders, for technical comments. DOD's comments are reproduced in appendix III, Education's in appendix IV, CFPB's in appendix V, and DOJ's are in appendix VI. Of the four federal financial regulators, the National Credit Union Administration provided formal comments, which are reproduced in

appendix VII, while the other three other regulators provided technical comments. We incorporated technical comments in the report as appropriate.

In its written comments, DOD disagreed with our recommendation, saying it was unnecessary because the department was already providing accurate information about the SCRA interest rate cap for student loans. DOD said that information provided in 6 of the 8 documents GAO reviewed is accurately based on statute whereas Education's updated requirement to automatically apply the cap is based on policy which could change in the future. Moreover, the automated process applies only to federal and commercial FFEL student loans in contrast to other types of debt. DOD said that providing information based on statute rather than policy would cause less confusion and was a better approach than what we recommend. With regard to Education's automated process, we note that Education formalized this approach through federal regulations that became effective as of July 2016, which currently legally requires servicers to use this process for all federal and commercial FFEL loans. In addition, DOD said it was unable to verify whether DOD's Military OneSource website still inaccurately states that the SCRA rate cap does not apply to commercial FFEL loans. However, when we searched the website using the term "SCRA," we still found this inaccuracy as of October 26, 2016. DOD said it would look into a means of verifying website information, but in the meantime, it is satisfied that its training provides correct information. Given that Military OneSource is a key source of information for servicemembers and that, as we note in this report, 2 of the 8 documents DOD provided state that the SCRA rate cap does not apply to student loans, we continue to believe that servicemembers are not always receiving accurate and up-to-date information about how the SCRA rate cap applies to student loans.

In its written comments, Education said it is committed to accurately tracking the types of complaints it receives. While Education believes its new feedback system and monitoring efforts allow it to identify SCRA-related issues by conducting keyword searches using a variety of terms, the agency said that it will respond to GAO's recommendation by creating a complaint subcategory specifically for SCRA under the "Military and Veterans Benefits" category. Education added that it had not previously created a specific complaint category for SCRA given that military members may be unfamiliar with the term. We share Education's concern in ensuring complaints are captured regardless of whether the service member has knowledge of the SCRA term. However, as we point out in this report, one of the challenges with Education's keyword search

process is that it may miss relevant loan complaints where SCRA is not specifically mentioned. In implementing our recommendation by creating a subcategory for SCRA complaints, we encourage Education to use simple language to describe what an SCRA complaint is, rather than rely on the servicemember's knowledge of the acronym. We believe doing so would help servicemembers note concerns related to their student loan interest charges and active duty status, and allow Education to appropriately capture this information and resolve any issues.

In its written comments, CFPB did not specifically agree or disagree with our recommendation to provide oversight of SCRA compliance among nonbank private lenders and servicers, but acknowledged that it shares GAO's interest in maximizing SCRA protections. CFPB said that while it will continue its strong collaboration with relevant federal agencies, existing interagency agreements could not be used to coordinate oversight of SCRA compliance because these agreements would not create the statutory authority CFPB would need to oversee SCRA. Based on CFPB's comments, we modified the recommendation by removing the suggestion that oversight could be accomplished by updating interagency coordination agreements. Although CFPB does not currently have authority over nonbank lenders and servicers, the bureau said it has other tools at its disposal, including sharing information with other agencies about SCRA-related complaints or possible violations. We believe, however, that referring complaints does not take the place of regular oversight and that CFPB and DOJ can take additional steps toward that end. We therefore encourage both agencies to work together to determine the best way to ensure routine oversight of SCRA compliance for all nonbank private student loan lenders and servicers, and to consider developing a legislative proposal seeking additional statutory authority, as needed, should they determine that step to be necessary.

In its written comments, DOJ neither agreed nor disagreed with our second recommendation and agreed with our fourth recommendation.

- With respect to requiring use of the automatic eligibility check for private student loans, DOJ said that its current package of proposed legislative changes provides benefits to servicemembers with all kinds of loans, including private student loans. Rather than requiring servicemembers to submit written notice and a copy of military orders, they need only give oral or written notice of eligibility for the cap to their creditors. However, as we stated in the report, servicemembers with private student loans would still need to be aware of the rate cap in order to give notice, whether written or oral. Therefore, we

encourage DOJ to consider updating its current proposal to require use of the automatic eligibility check by all student loan lenders and servicers. Not only would this ensure that servicemembers with private student loans receive a benefit for which they are eligible, but also that the interest rate cap is applied consistently across all types of student loans.

- With respect to coordinating oversight with CFPB, and the four federal financial regulators, as appropriate, DOJ agreed with this recommendation and believes the agency is in full compliance; therefore they believe the recommendation should be closed. DOJ said the agency already coordinates extensively with CFPB and the financial regulators concerning SCRA compliance, through such mechanisms as referrals from CFPB for any SCRA-related violations and access to its consumer complaint database, and that it will continue to build upon them. While these mechanisms are commendable, we believe they do not constitute exercising routine oversight of nonbank private student loan lenders and servicers who are not affiliated with a depository institution. Therefore, we cannot close the recommendation as DOJ suggests. We believe that additional interagency coordination, including working with CFPB to seek additional statutory authority, as needed, is necessary to ensure routine SCRA compliance.

In its written comments on our fourth recommendation, the National Credit Union Administration (NCUA), one of the four federal financial regulators, agreed that additional interagency coordination around SCRA compliance for private student loans would be useful, especially for certain third-party service providers who may lend money for or service private student loans. NCUA noted that it does not currently have authority to provide routine oversight of SCRA compliance by these entities.

In its technical comments, the Federal Deposit Insurance Corporation proposed that GAO delete the fourth recommendation. In their view, oversight of nonbank private student loan lenders and servicers cannot be accomplished by updating existing interagency agreements since the agency lacks statutory authority to oversee these entities. As noted earlier, we modified the recommendation accordingly to address a similar comment received from CFPB. We underscore the need for CFPB and DOJ to work together to ensure the routine oversight of SCRA compliance for all nonbank student loan lenders and servicers, which they may determine requires them to seek additional statutory authority, to

ensure that all eligible servicemembers receive the interest rate cap for their private student loans.

We are sending copies of this report to the appropriate congressional committees, the Secretary of Defense, Secretary of Education, Director of the Consumer Financial Protection Bureau, Attorney General of the United States, Chairman of the Federal Deposit Insurance Corporation, Chair of the Board of Governors of the Federal Reserve System, Chairman of the National Credit Union Administration, Comptroller of the Currency, and to other interested parties. In addition, the report will be available at no charge on GAO's website at <http://www.gao.gov>.

If you or your staff have any questions about this report, please contact me at (617) 788-0534 or emreyarrasm@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made key contributions to this report are listed in appendix VIII.

Sincerely yours,



Melissa Emrey-Arras, Director
Education, Workforce, and Income Security Issues

Appendix I: Objectives, Scope, and Methodology

This report examines: (1) How many servicemembers have received the Servicemembers Civil Relief Act (SCRA) interest rate cap for their student loans? (2) what challenges do servicemembers face obtaining the cap? and (3) to what extent do federal agencies oversee implementation of the cap?

We used multiple methodologies to conduct this study. To obtain information on servicemembers receiving the SCRA cap, we used data from the 10 federal student loan servicers, the Department of Education (Education), and six private student lenders.¹ To identify challenges servicemembers face obtaining the cap and assess the extent to which federal agencies oversee implementation of the rate cap, we interviewed officials and reviewed documentation from the Department of Defense (DOD), Education, the Consumer Financial Protection Bureau (CFPB), and the Department of Justice (DOJ). We also interviewed representatives of the 10 student loan servicers who are contracted by Education to service federal student loans, from four advocacy groups that represent servicemembers, and from one trade group representing servicers. In addition, we reviewed relevant federal laws and regulations. We used the above methodologies and a review of federal internal control standards and standards for assessing financial regulatory systems, as well as Education's strategic objectives to determine whether the information provided to servicemembers about the SCRA rate cap is accurate, whether the challenges faced by servicemembers are different for those with private student loans, whether Education tracks SCRA-specific complaints, and whether there are any gaps in the oversight of the SCRA interest rate cap for student loans.

We conducted this audit from May 2015 through November 2016, in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain

¹Aspire was an eleventh federal student loan servicer until September 2015. Because Aspire was still servicing federal loans when we began our review in May 2015, we included it in our interviews with the federal student loan servicers. However, Aspire was no longer servicing federal loans when we submitted our data request to the federal loan servicers in January 2016, so we did not include them in our record-level data request. Instead we received record-level data on the federal student loans that had been serviced by Aspire from the Missouri Higher Education Loan Authority, the loan servicer that took over Aspire's federal loan portfolio. One of the other federal loan servicers stopped servicing such loans as of August 2016.

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.

Analysis and Review of Data

To describe how many servicemembers received the SCRA interest rate cap on their student loans, we analyzed record-level data from the 10 federal student loan servicers—the companies contracted to service loans owned by Education—on borrowers with federal loans or commercial Federal Family Education Loans (FFEL) for the period October 2008 (the beginning of the first full fiscal year that SCRA was applied to student loans owned by Education) through December 2015 (the most recent available data).² The 10 federal loan servicers as of December 31, 2015, were: Cornerstone, EdFinancial, Granite State, Great Lakes, Missouri Higher Education Loan Authority, Navient, Nelnet, Oklahoma Student Loan Authority Servicing, Pennsylvania Higher Education Assistance Agency/FedLoan, and the Vermont Student Assistance Corporation Federal Loans. Specifically, for borrowers who received the cap on at least one of their loans, we analyzed data provided by the 10 loan servicers to determine (1) whether the cap was applied on the basis of a written notification of eligibility from the servicemember or on the automatic eligibility check; (2) the type of loan (i.e., federal or commercial FFEL); (3) the duration of the cap; (4) loan interest rates prior to borrowers receiving the cap; and (5) loan disbursement amounts. We also used these analyses to examine how the SCRA interest rate cap may affect total loan costs for servicemembers.

We also reviewed the interest rates for federal, commercial FFEL, and private student loans from 2008 to 2016, to make sure that interest rates

²Federal loans include Direct Loans, which are made to students and families using federal funds and therefore owned by Education, and Education-owned Federal Family Education Loans (FFEL), which were made to students and families by private and state lenders and are owned and guaranteed by Education. Commercial FFEL loans are loans that were made to students and families by private and state lenders and guaranteed by Education. We requested that servicers identify unique loans in their record-level data using a servicer-specific account number. Because some loans were transferred between servicers during our review time frame, our numbers may include duplicate counts for borrowers who had the cap applied by more than one servicer.

were over 6 percent for each type of loan during at least some of the period of time covered by our review (see tables 3 and 4).

Table 3: Selected Interest Rates by Loan Type, Federal Loans and Commercial Federal Family Education Loans (FFEL), 2008-2016

Loan type	Loan disbursement date	Examples of interest rates and ranges
Federal loans		
Subsidized Undergraduate	July 2008-June 2016	3.4-6%
Subsidized Undergraduate	July 2016-June 2017	3.8%
Unsubsidized Undergraduate	July 2008-June 2013	6.8%
Unsubsidized Undergraduate	July 2013-June 2016	3.9-4.7%
Unsubsidized Undergraduate	July 2016-June 2017	3.8%
Subsidized Graduate	July 2008-June 2013	6.8%
Unsubsidized Graduate	July 2008-June 2013	6.8%
Unsubsidized Graduate	July 2013-June 2016	5.4-6.2%
Unsubsidized Graduate	July 2016-June 2017	5.3%
Commercial FFEL loans		
Subsidized Undergraduate	July 2008-June 2010	5.6-6%
Unsubsidized Undergraduate	July 2008-June 2010	6.8%
Subsidized Graduate	July 2008-June 2010	6.8%
Unsubsidized Graduate	July 2008-June 2010	6.8%

Source: GAO analysis of Department of Education's documentation of student loan interest rates. | GAO-17-4

Note: Subsidized loans are available based on financial need, while unsubsidized loans are available regardless of financial need. As of July 1, 2012, graduate and professional students were no longer eligible to receive subsidized loans. No new FFEL Program Loans have been made since July 1, 2010.

Table 4: Selected Interest Rates for Private Student Loans, December 2011

Private loans	As-of date	Examples of interest rates and ranges		
		Low end	High end	Average
Sample of variable rate loans	December 2011	2.98-3.55%	9.5-19%	7.8%
Sample of fixed rate loans	December 2011	3.4%	13.99%	NA

Source: Consumer Financial Protection Bureau, *Private Student Loans, Report to the Senate Committee on Banking, Housing, and Urban Affairs, the Senate Committee on Health, Education, Labor, and Pensions, the House of Representatives Committee on Financial Services, and the House of Representatives Committee on Education and the Workforce*, (August 2012). | GAO-17-4

Note: Interest rates for private loans vary widely based on credit score, and variable rates may range from the low to the high end.

We reviewed aggregate data from Education's National Student Loan Data System on the number of borrowers with federal loans who were receiving the SCRA cap as of October 1, 2014, October 1, 2015, and December 31, 2015, and compared these data to the data we received from the 10 federal loan servicers. In addition, we reviewed aggregate data on the total number of federal and commercial FFEL loans open each year, from fiscal year 2009 through the first quarter of fiscal year 2016, and the outstanding balance of commercial FFEL loans as of December 31, 2015 to describe the size of the commercial FFEL loan market.³ We also reviewed information provided by Education on loan transfer rates between servicers to determine the extent to which loan transfers occur. Because some loans were transferred between servicers during our review's time frame, our numbers may include duplicate counts for borrowers who had the cap applied by more than one servicer. According to data from Education's National Student Loan Data System, 2 percent of federal loans were transferred in fiscal year 2009 and 5 percent were transferred in fiscal year 2015. In addition, 12 percent of commercial FFEL loans were transferred between servicers in fiscal year 2009 and 3 percent were transferred in fiscal year 2015.

With regard to private student loans, we reviewed aggregate data from 6 private student lenders, who together accounted for 65 percent of outstanding private student loan debt as of March 31, 2016, via MeasureOne, a private-sector company representing the lenders. The 6 lenders are: Citizens Bank, N.A.; Discover Bank; Navient; PNC Bank, N.A.; Sallie Mae Bank; and Wells Fargo Bank, N.A. Specifically, we reviewed aggregate data on the number of private student loans, borrowers, and outstanding loan balances serviced by these servicers overall, and for those receiving the SCRA cap, as of September 30, 2014, September 30, 2015, December 31, 2015, and March 31, 2016 (the most

³This is important contextual information for commercial FFEL loans because overall, 21 entities currently service commercial FFEL loans, including the 10 loan servicers that are also contracted by Education to service federal student loans. The number of federal and commercial FFEL loans made to borrowers shifted from October 2008 to December 2015. According to aggregate data from Education's National Student Loan Data System, in fiscal year 2009, there were 28,503,683 federal loans and 48,893,421 commercial FFEL loans that had an outstanding balance at any point during the year and were serviced by the federal loan servicers or had been transferred to Education's defaulted loan information system. In fiscal year 2015, there were 161,538,894 such federal loans and 28,021,050 such commercial FFEL loans. No new FFEL loans have been made since Education's authority to make or insure them was terminated as of July 1, 2010.

recent available data). Because 2014 was when Education required that federal loan servicers use the automatic eligibility checks for federal student loans on a monthly basis, we collected data from the end of fiscal years 2014 and 2015, and for each quarter after the end of 2015, from the private loan servicers to see if the number of borrowers receiving the cap for private loans was also increasing over this period of time. We also asked these servicers whether they implemented the automatic eligibility check for the private loans they service over this time frame, and if so, when they first began using it and how often they use it to identify eligible servicemembers.

We determined that data from each of these sources were sufficiently reliable for the purposes of this report by electronically testing the data for missing data, outliers, and errors; by reviewing existing information about the data and the systems that produced them; and by interviewing knowledgeable loan servicer and Education officials, as appropriate. In the case of the private student loan data, we sent data reliability questions for the 6 lenders to MeasureOne, who forwarded them to the lenders. MeasureOne then collected the lenders' written responses and forwarded them to us.

Interviews

To learn how the 10 federal student loan servicers identify and work with eligible servicemembers to apply the interest rate cap and about any related challenges, we conducted semi-structured interviews between October 2015 and January 2016 with representatives of the federal student loan servicers who together serviced all federal student loans as of December 31, 2015.⁴ We also interviewed an official with the National Council of Higher Education Resources—one of four trade associations whose membership includes student loan servicing companies—about their attempt in 2011 to obtain permission from Education to use the SCRA website to obtain active-duty dates. This group also participates in

⁴These 10 loan servicers also service commercial FFEL and private student loans, and our interviews with them included questions about their entire student loan portfolio. We also conducted an interview with representatives from Aspire, a loan servicer that was still servicing federal loans when we began our review in May 2015, but stopped servicing federal loans as of September 2015.

the Student Loan Ombudsman's Caucus.⁵ To identify challenges servicemembers face obtaining the cap, we spoke with officials from DOD, Education, and CFPB, and with representatives of four advocacy groups that were selected to provide representation of both currently active servicemembers and veterans, and based on suggestions from agency officials and experts in this area: American Legion, Military Officers Association of America, Student Veterans of America, and Military.com. We also interviewed Education, CFPB, and DOJ officials to clarify the role of each agency with respect to overseeing implementation of the SCRA interest rate cap for student loans.

Review of Federal Laws, Regulations, and Other Relevant Documentation

To determine how the federal loan servicers are supposed to be applying the cap for eligible borrowers and how Education, CFPB, and DOJ oversee implementation of the SCRA interest rate cap, we reviewed relevant federal laws and regulations, and policies, procedures, and guidance for the cap, as well as Education's contracts with and monitoring plans for the federal student loan servicers. To learn about the challenges servicemembers face in obtaining the SCRA cap, we reviewed complaints submitted to CFPB by servicemembers and reports from CFPB that discuss such challenges. To identify possible challenges servicemembers encounter concerning the cap, we also reviewed relevant agency publications and websites, including materials used by DOD and Education to inform servicemembers about the cap. Finally, we reviewed documentation, such as memoranda of understanding, related to interagency coordination concerning the cap, including the Joint Statement of Principles on Student Loan Servicing issued jointly by Education, CFPB, and the Department of the Treasury in September 2015.

⁵Student Loan Ombudsman Caucus, which is an informal coalition of individuals from Education, CFPB, and loan servicers who meet bi-monthly and share information about issues and questions related to student loans, promotes consistent loan servicing practices, provides feedback to Education on student aid legislation, and works to identify and analyze trends in student loans.

Appendix II: Additional Data from Federal Loan Servicers and Private Lenders

Table 5: Number of Servicemembers with Federal Loans and Commercial Federal Family Education Loans (FFEL) Who Received the Servicemembers Civil Relief Act (SCRA) Interest Rate Cap for Each Month, by Identification Method, Selected Months from October 2008 to December 2015

Month	Federal loans			Commercial FFEL loans		
	Received automatically via SCRA website	Received due to written notice of eligibility	Total	Received automatically via SCRA website	Received due to written notice of eligibility	Total
October 2008	58	49	107	160	115	275
January 2009	250	181	431	609	433	1,042
April 2009	447	371	818	1,038	733	1,771
July 2009	779	659	1,438	1,700	1,121	2,821
October 2009	1,409	946	2,355	2,229	1,415	3,644
January 2010	2,315	1,469	3,784	2,807	1,659	4,466
April 2010	3,769	2,060	5,829	3,433	1,950	5,383
July 2010	5,358	2,796	8,154	4,166	2,361	6,527
October 2010	7,331	3,611	10,942	4,762	2,685	7,447
January 2011	9,292	4,473	13,765	5,333	3,016	8,349
April 2011	11,899	5,446	17,345	6,132	3,337	9,469
July 2011	14,616	6,489	21,105	6,796	3,722	10,518
October 2011	16,972	7,349	24,321	7,265	4,055	11,320
January 2012	19,656	8,214	27,870	7,771	4,258	12,029
April 2012	23,912	9,372	33,284	8,207	4,465	12,672
July 2012	28,902	10,878	39,780	8,758	4,739	13,497
October 2012	33,801	12,176	45,977	9,398	5,085	14,483
January 2013	39,059	13,597	52,656	9,730	5,473	15,203
April 2013	48,694	16,288	64,982	10,320	5,787	16,107
July 2013	58,804	19,088	77,892	11,580	6,180	17,760
October 2013	62,710	21,331	84,041	11,904	6,203	18,107
January 2014	67,645	21,805	89,450	11,914	6,194	18,108
April 2014	74,370	21,894	96,264	11,909	6,217	18,126
July 2014	82,126	21,204	103,330	12,118	6,199	18,317
October 2014	84,023	19,815	103,838	11,900	6,105	18,005
January 2015	85,851	19,170	105,021	11,875	6,100	17,975
April 2015	89,242	18,581	107,823	12,016	6,087	18,103
July 2015	93,298	17,967	111,265	12,282	5,989	18,271
October 2015	93,940	17,313	111,253	12,494	5,825	18,319
December 2015	91,699	17,011	108,710	11,822	5,740	17,562

Source: GAO analysis of record-level data from the 10 federal loan servicers as of December 31, 2015. | GAO-17-4

Appendix II: Additional Data from Federal Loan Servicers and Private Lenders

Note: These monthly counts are presented in figures 2 and 3 in this report and include servicemembers who received the cap for months going forward and also retroactively for months in which they were previously eligible. Because some loans were transferred between servicers during our review time frame, these counts may include duplicates if a borrower had the cap applied by more than one servicer. Federal loan servicers handled at least 77 percent of the outstanding loan balance of commercial FFEL loans as of Dec. 31, 2015. Data were not readily available on the remaining share of the commercial FFEL market.

Table 6: Selected Statistics of the Number of Months Servicemembers' Federal Loans and Commercial Federal Family Education Loans (FFEL) Loans Had the SCRA Interest Rate Cap Applied, October 1, 2008 to December 31, 2015

Type of loan	Number of loans receiving the cap	Mean	25th percentile	50th percentile (median)	75th percentile
Federal	475,276	21	6	16	33
Commercial FFEL	67,578	32	10	28	52
Total	542,854	22	6	17	34

Source: GAO analysis of record-level data from the 10 federal loan servicers as of December 31, 2015. | GAO-17-4

Note: Because some loans were transferred between servicers during our review time frame, these counts may include duplicates if a borrower had the cap applied by more than one servicer. Federal loan servicers handled at least 77 percent of the outstanding loan balance of commercial FFEL loans as of Dec. 31, 2015. Data were not readily available on the remaining share of the commercial FFEL market.

Table 7: Selected Statistics of Federal Loan and Commercial Federal Family Education Loan (FFEL) Interest Rates Prior to Having the SCRA Cap Applied, October 1, 2008 to December 31, 2015

Type of loan	Number of loans receiving the cap	Mean	25th percentile	50th percentile (median)	75th percentile
Federal	475,276	6.738	6.8	6.8	6.8
Commercial FFEL	67,578	6.722	6.8	6.8	6.8
Total	542,854	6.736	6.8	6.8	6.8

Source: GAO analysis of record-level data from the 10 federal loan servicers as of December 31, 2015. | GAO-17-4

Note: Because some loans were transferred between servicers during our review time frame, these counts may include duplicates if a borrower had the cap applied by more than one servicer. Federal loan servicers handled at least 77 percent of the outstanding loan balance of commercial FFEL loans as of Dec. 31, 2015. Data were not readily available on the remaining share of the commercial FFEL market.

Table 8: Selected Statistics of Disbursement Amounts for Federal Loans and Commercial Federal Family Education Loans (FFEL) that Had the SCRA Rate Cap Applied, October 1, 2008 to December 31, 2015

Type of loan	Number of loans with the cap applied	Mean	25th percentile	50th percentile (median)	75th percentile
Federal	475,276	\$4,819	\$2,000	\$3,000	\$5,500
Commercial FFEL	67,578	\$4,807	\$2,029	\$3,500	\$5,435
Total	542,854	\$4,817	\$2,000	\$3,000	\$5,500

Source: GAO analysis of record-level data from the 10 federal loan servicers as of December 31, 2015. | GAO-17-4

Note: Because some loans were transferred between servicers during our review time frame, these counts may include duplicates if a borrower had the cap applied by more than one servicer. Federal loan servicers handled at least 77 percent of the outstanding loan balance of commercial FFEL loans as of Dec. 31, 2015. Data were not readily available on the remaining share of the commercial FFEL market.

Table 9: Selected Statistics of Disbursement Amounts for Servicemembers with Federal Loans and Commercial Federal Family Education Loans (FFEL) Who Received the SCRA Rate Cap, October 1, 2008 to December 31, 2015

Type of loan	Number of servicemembers receiving the cap	Mean	25th percentile	50th percentile (median)	75th percentile
Federal	171,894	\$12,325	\$3,000	\$6,000	\$12,100
Commercial FFEL	29,163	\$10,322	\$3,500	\$6,625	\$11,000
Total	201,057	\$12,034	\$3,000	\$6,000	\$12,000

Source: GAO analysis of record-level data from the 10 federal loan servicers as of December 31, 2015. | GAO-17-4

Note: Because some loans were transferred between servicers during our review time frame, these counts may include duplicates if a borrower had the cap applied by more than one servicer. Federal loan servicers handled at least 77 percent of the outstanding loan balance of commercial FFEL loans as of Dec. 31, 2015. Data were not readily available on the remaining share of the commercial FFEL market.

Appendix II: Additional Data from Federal Loan Servicers and Private Lenders

Table 10: Outcomes of Eligibility Determinations for the SCRA Rate Cap, Broken Out by Loan Type and Method for Determining Eligibility, October 2008 to December 2015

Type of loan	How eligibility was determined	Total number of loans	Loan had SCRA cap applied (interest rate adjusted to 6 percent or below) ^a	Eligible for SCRA cap, but interest rate already at or below 6 percent	Eligible for SCRA cap, but interest rate history incomplete ^b	Denied ^c
Federal	SCRA website search	715,133 (100%)	360,553 (50%)	264,315 (37%)	30,622 (4%)	59,643 (8%)
	Written notice of eligibility	383,130 (100%)	109,186 (29%)	69,192 (18%)	23,813 (6%)	180,939 (47%)
Total		1,098,263	469,739	333,507	54,435	240,582
Commercial Federal Family Education Loans (FFEL)	SCRA website search	81,074 (100%)	44,488 (55%)	35,364 (44%)	602 (1%)	620 (1%)
	Written notice of eligibility	45,683 (100%)	21,483 (47%)	12,560 (28%)	1,058 (2%)	10,582 (23%)
Total		126,757	65,971	47,924	1,660	11,202
Total		1,225,020	535,710	381,431	56,095	251,784

Source: GAO analysis of record-level data from the 10 federal loan servicers as of December 31, 2015. | GAO-17-4

Note: Row percentages may not add to 100 percent due to rounding. Because some loans were transferred between servicers during our review time frame, these counts may include duplicates if a borrower had the cap applied by more than one servicer. Federal loan servicers handled at least 77 percent of the outstanding loan balance of commercial FFEL loans as of Dec. 31, 2015. Data were not readily available on the remaining share of the commercial FFEL market.

^aBecause the counts in this column are based on the dates servicers determined servicemembers' eligibility for the rate cap, and not on the dates the servicemembers actually received the cap, the counts differ from the counts of loans with the cap applied in tables 6 through 9 in this appendix.

^bWhile loans in this category were eligible for the SCRA interest rate cap, because some servicers had incomplete interest rate histories for some of their loans, we were not able to determine whether these loans had the cap applied or whether the loan's interest rate was already at or below 6 percent.

^cDenials include instances when a servicemember's qualifying military service was less than 30 days, had concluded by the time they took out student loans, or was still ongoing when the loan was disbursed. In addition, a servicer may deny the cap to a servicemember if their loan was paid off before August 14, 2008, the first day that the SCRA interest rate cap applied to federal and commercial FFEL loans.

Table 11: Number of Servicemembers with Private Student Loans Held by 6 Private Lenders Who Received the Servicemembers Civil Relief Act (SCRA) Interest Rate Cap, as of Selected Dates

Date	Number of servicemembers receiving the cap	Number of loans receiving the cap	Outstanding loan balance of loans receiving the cap
September 30, 2014	14,970	30,090	\$329,215,039
September 30, 2015	31,302	57,916	\$600,769,825
December 31, 2015	32,838	60,711	\$611,924,892
March 31, 2016	33,309	61,518	\$619,386,743

Source: GAO review of aggregate data from six private lenders. | GAO-17-4

Note: These borrower counts could contain duplicates if a borrower had loans with more than one of the 6 lenders.

Appendix III: Comments from the Department of Defense



OFFICE OF THE UNDER SECRETARY OF DEFENSE
4000 DEFENSE PENTAGON
WASHINGTON, D.C. 20301-4000

October 26, 2016

Ms. Melissa Emrey-Arras
Director, Education, Workforce, and Income Security
U.S. Government Accountability Office
441 G Street, NW
Washington DC 20548

Dear Ms. Emrey-Arras,

This is the Department of Defense (DoD) response to the GAO Draft Report GAO-17-4, "STUDENT LOANS: Oversight of Servicemembers' Interest Rate Cap Could be Strengthened," dated September 22, 2016 (GAO Code 131361).

Attached is DoD's proposed response to the subject report. My point of contact is Lieutenant Colonel Reggie D. Yager, who can be reached at reggie.d.yager.mil@mail.mil and 703-697-3387.

Sincerely,

A handwritten signature in blue ink, appearing to read "Paul E. Kantwill".

Paul E. Kantwill
Director, Office of Legal Policy

Attachment: as stated.

GAO DRAFT REPORT DATED SEPTEMBER 22, 2016
GAO-17-4 (GAO CODE 131361)

“STUDENT LOANS: OVERSIGHT OF SERVICEMEMBERS' INTEREST RATE CAP
COULD BE STRENGTHENED ”

DEPARTMENT OF DEFENSE COMMENTS
TO THE GAO RECOMMENDATION

RECOMMENDATION 1: To help ensure quality information is conveyed to servicemembers about how the Servicemembers Civil Relief Act (SCRA) interest rate cap applies to student loans, we recommend the Secretary of Defense direct the secretaries of each service branch, and work with other secretaries as appropriate, to ensure that all information about the SCRA interest rate cap for student loans is accurate when provided to servicemembers and to those who work with servicemembers to help them obtain SCRA benefits, including information contained in outreach materials.

DoD RESPONSE: Non-concur.

The recommended directive is entirely unnecessary because the Department is already providing accurate information and current practice is far better at protecting servicemembers than GAO's proposed change.

DoD provides accurate information. There are two categories of purported inaccuracies identified in the report. The first category of errors relates to what is required by the servicemember to obtain the interest rate cap. The second category relates to what student loans are covered by the SCRA.

With respect to the first category of inaccuracies, what is required to obtain the cap, GAO asserts on page 15 that “6 of the 8 documents [reviewed by GAO and prepared by various offices within DoD] specify that the servicemember must request the [interest rate] cap and provide military orders, and 3 of those 6 say that the request must be made within 180 days of the end of military service – requirements that no longer apply to federal or commercial FFEL loans.” By law, however, “[i]n order for an obligation or liability of a servicemember to be subject to the interest rate limitation in subsection (a), the servicemember *shall* provide to the creditor written notice and a copy of the military orders calling the servicemember to military service and any orders further extending military service, not later than 180 days after the date of the servicemember's termination or release from military service.” 50 U.S.C. § 3937(b) (emphasis added). Although the Department of Education (Education) currently requires federal student loan lenders to automatically apply the interest rate cap to any creditors in the Department's SCRA database, this is a matter of policy and only applicable to federal loans, not private loans. In short, it is the unanimous opinion of this office and the Service Chiefs of Legal Assistance that the documents at issue accurately state the law and represent the better approach.

With respect to the second category of inaccuracies, what student loans are covered, the report asserts on page 15 that the Military OneSource (MOS) website “incorrectly states that the SCRA cap does not apply to commercial FFEL student loans incurred prior to active military service.” We were unable to verify if this statement is still on MOS. What is clear, however, is that the legal assistance chiefs for each of the Military Departments are providing training that the interest rate cap applies to student loans and it can be difficult, in the current electronic era, to eliminate any outdated versions from resurfacing even years later. The Department will look into a means of verifying MOS’ data on legal assistance matters but the Department is satisfied the Military Departments are, in fact, training correctly on the SCRA.

No directive is needed; current practice is superior to GAO’s recommended practice. There are two reasons current practice is superior to GAO’s recommended practice. First, there is no meaningful risk with continuing to teach what the law requires, rather than Education’s policy. Whether or not the servicemember submits a written request, the lender must currently apply the interest rate cap. If Education policy changes under a new President or Secretary, however, the servicemember who requests the cap in writing still gets the cap (i.e., current practice) whereas the servicemember who relies on Education policy does not (i.e., GAO’s proposed practice). There is, therefore, simply no harm in instructing servicemembers to follow the law.

Second, there is harm in instructing servicemembers as proposed by GAO. By way of example, imagine a servicemember with five different loans eligible for the SCRA interest rate cap: an FFEL student loan, a private student loan, a car loan, and two credit cards, all incurred prior to active military service. By law, in order to receive the interest rate cap on these loans, the servicemember is supposed to request it for all of the loans. It is a simple standard: request the cap as required by the SCRA. GAO would prefer that we train on two standards and instruct servicemembers that some loans require a written request and some do not. In doing so, we inject unnecessary confusion and risk servicemembers misunderstanding which loan is automatic and which requires a written request. GAO acknowledges the problem with confusing standards on page 17. Their proposal, however, prefers confusion over simplicity. If servicemembers follow current practice, there is no risk of confusion and they will receive all SCRA caps to which they are entitled.

RECOMMENDATION 2: To ensure that all eligible servicemembers with student loans receive the SCRA interest rate cap, we recommend the Attorney General direct the Department of Justice to consider modifying its proposed changes to SCRA to require use of the automatic eligibility check for private student loans.

DoD RESPONSE: No position. DoD takes no position on recommendations targeted at another executive agency.

RECOMMENDATION 3: To enhance customer service we recommend the Secretary of Education direct the Office of Federal Student Aid to identify ways to modify the data collected

in its unified borrower complaint system to allow the agency to identify and analyze complaints specifically about the SCRA interest rate cap.

DoD RESPONSE: No position. DoD takes no position on recommendations targeted at another executive agency.

RECOMMENDATION 4: To better ensure that service members with private student loans benefit from the SCRA interest rate cap, we recommend that the Director of the Consumer Financial Protection Bureau and the Attorney General of the Department of Justice coordinate with each other, and with the four federal financial regulators, as appropriate, to oversee SCRA compliance by nonbank private student loan lenders and servicers. For example, this could be accomplished by updating interagency coordination agreements. If the agencies determine that they need additional statutory authority to facilitate such oversight, the agencies should develop a legislative proposal and provide it to Congress.

DoD RESPONSE: No position. DoD takes no position on recommendations targeted at another executive agency.

Appendix IV: Comments from the Department of Education



October 6, 2016

Ms. Melissa Emrey-Arras
Director
Education, Workforce, and Income Security Issues
Government Accountability Office
441 G Street, NW
Washington, DC 20548

Dear Ms. Emrey-Arras:

Thank you for providing the Department of Education (Department) with an opportunity to review and respond to the draft of the Government Accountability Office (GAO) report, *STUDENT LOANS: Oversight of Servicemembers' Interest Rate Cap Could be Strengthened* (GAO-17-4).

The Department of Education is committed to ensuring servicemembers receive the benefits to which they are entitled and streamlining the processes they need to navigate to qualify for those benefits. That is why we required our federal student loan servicers to perform automated matching of their borrower files against the Department of Defense's (DoD's) website after the Department of Justice clarified its interpretation of the Servicemembers Civil Relief Act (SCRA) in 2014. As noted in your report, this practice allows servicers to proactively apply the SCRA benefit for eligible military borrowers without relying on the military borrower to make an explicit request. So far, we are pleased that the newly instituted process has helped servicers to better and more consistently identify borrowers eligible for the SCRA benefit. In addition, as noted in your report, on October 30, 2015, we issued new regulations to require lenders in the Federal Family Education Loan Program to use the DoD's website and added new regulations to the Direct Loan Program to better implement the new process. Those regulations went into effect on July 1, 2016.

We have also taken a number of steps, described in your report, to ensure servicers are adhering to the required matching process. One of those steps is to monitor the complaints that are being submitted by borrowers through the FSA Feedback System. We did not create a specific complaint category for SCRA because we were concerned that military members may not be familiar with the term. Instead, as you note in your report, we created a 'Military and Veterans Benefit' complaint category that we believed would be more intuitive to borrowers. Our intent was to then conduct keyword searches to identify SCRA-related complaints by using a variety of keywords. For example, we recently conducted a keyword search using the terms 'SCRA,' 'Servicemembers Civil Relief Act,' 'interest rate reduction,' and 'interest rate cap.' In addition, we evaluated all of the complaints received under the 'Military and Veterans Benefit' category. Using those criteria we did not find any complaints logged to date related to SCRA. Using this approach, we believe our new feedback system and our monitoring of complaints does

830 First St. N.E., Washington, DC 20202
StudentAid.gov

Ms. Melissa Emrey-Arras
Page 2

allow us to systematically track SCRA-related complaints, regardless of whether the complainant uses the term "SCRA" in any complaint submitted.

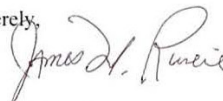
We are committed to accurately tracking the types of complaints we receive to improve the overall borrower experience, gauge the success of recent changes, and drive servicing improvements. While we believe our new feedback system and our monitoring of complaints allows us to identify the extent to which borrowers may experience SCRA-related issues, we will nonetheless adopt the recommendation GAO made to the Department. This will allow borrowers familiar with the specific term "SCRA" to label or categorize their complaint accordingly. We will continue, however, to monitor complaints submitted to identify SCRA-related issues, regardless of how complainants may categorize them. The Department's response to the recommendation follows:

Recommendation: *To enhance customer service we recommend the Secretary of Education direct the Office of Federal Student Aid to identify ways to modify the data collected in its unified borrower complaint system to allow the agency to identify and analyze complaints specifically about the SCRA interest rate cap.*

Response: As noted above, the Department will create a complaint subcategory for SCRA under the 'Military and Veterans Benefit' category. In addition, we will continue to run periodic key word searches to identify complaints that may have been miscategorized by the complainant and recategorize them appropriately.

Thank you again for the opportunity to review and comment on the draft GAO report.

Sincerely,



James W. Runcie
Chief Operating Officer

Enclosure: Technical Comments

Appendix V: Comments from the Consumer Financial Protection Bureau



1700 G Street, N.W., Washington, DC 20552

October 18, 2016

Melissa Emrey-Arras
Director, Workforce and Income Security Issues
Government Accountability Office
441 G Street, NW
Washington DC, 20548

Dear Ms. Emrey-Arras:

Thank you for the opportunity to comment on the Government Accountability Office's (GAO) draft report, titled *Student Loans: Oversight of Servicemembers Interest Rate Cap Could be Strengthened (GAO-17-4)*. We greatly appreciate GAO's consultation and collaboration with the Consumer Financial Protection Bureau over the course of this engagement and believe that the report provides important information regarding oversight of the Servicemembers Civil Relief Act (SCRA) and federal government efforts to protect the men and women of the uniformed services from financial hardship while they are on active duty.

The Bureau agrees with the report's emphasis on the importance of the interest rate reduction to which servicemembers are entitled under SCRA, and is committed to ensuring that all of the Bureau's statutory authorities with respect to protection of servicemembers are implemented effectively. In particular, the Bureau appreciates the report's examination of the effectiveness of federal oversight of the protections afforded to servicemembers by SCRA's student loan interest rate cap for active duty servicemembers. As we understand it, the GAO's objective for this report was to understand the challenges faced by eligible servicemembers in demonstrating eligibility for the interest rate reduction to the level of the statutory cap, and to examine the extent to which federal agencies oversee implementation of the cap.

The Dodd-Frank Wall Street Reform and Consumer Protection Act gives the Bureau the authority to supervise private education lenders and certain student loan servicers for compliance with federal consumer financial law, which includes certain enumerated consumer laws. The Servicemembers Civil Relief Act is not among the enumerated consumer laws. Congress has, however, granted the Bureau the authority to supervise for compliance with and enforce the Military Lending Act, which provides servicemembers certain protections on consumer credit products. If Congress were to grant the Bureau authority to supervise for compliance with and enforce the Servicemembers Civil Relief Act, the Bureau would be empowered to address a range of issues related to interest rate protections for servicemembers.

Though the Bureau does not have authority to supervise for compliance with the SCRA's requirements, the Bureau has other tools available that provide visibility into supervised entities' SCRA compliance, and can provide opportunities to share information about possible violations with other agencies that have applicable authority. One of these tools is the Bureau's consumer

consumerfinance.gov

complaint function, which collects and resolves complaints from consumers about student loans and other financial products. Where Bureau staff identify SCRA-related complaints (as indicated by the information consumers provide) they may share possible SCRA violations with the Department of Justice (DOJ). The DOJ's recent \$60 million settlement with Salle Mae for violations of SCRA's interest rate cap, which was initially referred to the DOJ by the Bureau, serves as an example of the successful cooperation between the two agencies. In addition, to the extent Bureau examiners may come across possible violations of SCRA during onsite supervisory reviews, they may refer those matters to DOJ, state regulators, or one or more of the prudential regulators, as appropriate. The Bureau has written agreements (MOUs) in place for interagency coordination and information sharing with the DOJ, the federal prudential regulators, and most state regulators.

The Bureau acknowledges the GAO's recommendation that the Bureau and the DOJ consider whether changes in regulatory coordination MOUs could further strengthen oversight of SCRA's interest rate cap, and shares the GAO's interest in maximizing the effectiveness of SCRA's protections. However, the Bureau notes that agreements with other agencies would not create statutory authority not granted by Congress, specifically the authority to examine for SCRA compliance.

Nevertheless, the Bureau is committed to working with DOJ and federal financial regulators, when possible, to facilitate oversight of SCRA compliance. This commitment is reflected in the Bureau's ongoing collaboration with those agencies, described above. In addition, the Bureau recently gave the DOJ direct access to the Bureau's consumer complaint portal, facilitating the referral and enforcement of SCRA interest rate cap violations. As GAO recommends, the Bureau will continue this strong collaboration to enable and support all relevant federal agencies in using their respective authorities to identify and address SCRA violations as efficiently and effectively as possible.

We look forward to continuing to work with GAO as it monitors these efforts to ensure that the federal government fulfills the promises to our men and women in uniform that Congress made in passing SCRA.

Sincerely,



Hollister K. Petraeus
Assistant Director for Servicemember Affairs

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Appendix VI: Comments from the Department of Justice



U.S. Department of Justice

Civil Rights Division

Office of the Assistant Attorney General

Washington, D.C. 20530

OCT 13 2016

Melissa Emrey-Arras, Director
Education, Workforce, and Income Security Issues
441 G Street, NW
Washington, DC 20548

Re: Department of Justice's Response to Final Draft of GAO Report

Dear Ms. Emrey-Arras:

Thank you for the opportunity to review the final draft of the Government Accountability Office (GAO) report entitled "STUDENT LOANS: Oversight of Servicemembers' Interest Rate Cap Could be Strengthened." This draft report was reviewed by the Department of Justice's component that participated in the review. This letter constitutes the Department's formal comments. I request that the GAO include this letter in the final report.

Recommendation that the Attorney General Direct the Department of Justice to Consider Modifying its Proposed Changes to SCRA to Require Use of the Automatic Eligibility Check for Private Student Loans

The Department of Justice appreciates receiving GAO's recommendation related to its legislative proposals. We note that the Department's current package of proposed changes to the SCRA provides significant benefits to servicemembers with all kinds of loans, including private student loans. Rather than requiring servicemembers to submit written notice to the creditor and a copy of the military orders in order to benefit from the 6% interest rate cap, the Department's proposal would require servicemembers only to give oral or written notice. Upon receipt of oral or written notice, creditors on any type of loan, including private student loans, would have to conduct a search of the Department of Defense's records available through the Department of Defense Manpower Data Center. If a creditor confirms military service by such a search, it would be required to apply the 6% interest rate cap. The Department believes that these changes would significantly benefit all servicemembers with loans, including private student loans, while providing a uniform standard for all types of creditors. However, the Department will consider these changes to the SCRA in future legislative proposals and plans to obtain feedback from

stakeholders on how the Department can propose to improve the SCRA's protections for servicemembers.

Recommendation that the Attorney General Coordinate with the CFPB and the Four Federal Financial Regulators to Oversee SCRA Compliance by Nonbank Private Student Loan Lenders and Servicers

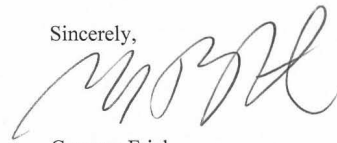
The Department of Justice concurs with this recommendation and believes we are in full compliance with the recommendation and that it can be closed. As explained below, extensive coordination is already occurring among the Department, the Consumer Financial Protection Bureau (CFPB), and the four federal financial regulators concerning SCRA compliance.

The Department of Justice already has in place a number of mechanisms to coordinate with the CFPB on SCRA issues, which cover any potential SCRA violations that the CFPB observes while exercising its examination authority over nonbank private student loan lenders. The Department already receives referrals of SCRA matters from the CFPB, meets regularly with the CFPB's Office of Servicemember Affairs, entered an interagency Memorandum of Understanding in December 2012 to facilitate information sharing on SCRA matters, and has obtained access to the CFPB's Consumer Complaint database. These mechanisms have been very successful, as is well demonstrated through the \$60 million settlement that the Department entered into with Sallie Mae in 2014 based on a referral from the CFPB. The Department will work to build upon these mechanisms.

Additionally, the Department of Justice already coordinates with the four financial regulators on SCRA matters, as demonstrated by the Department of Justice's settlement of several SCRA lawsuits simultaneously with resolutions of administrative actions brought by the Federal Deposit Insurance Corporation (Sallie Mae) or the Office of the Comptroller of the Currency (Wells Fargo Dealer Services and Capital One). As the final draft report acknowledges, the four federal financial regulators do not have statutory authority to examine nonbank private student loan lenders and servicers unaffiliated with a depository institution. Again, based on the extensive coordination already occurring among these agencies, the Department considers that it has complied with this recommendation and that it can be closed.

The extensive efforts that your staff has put into this report and the opportunity to work with them on this important issue are appreciated.

Sincerely,



Gregory Friel
Deputy Assistant Attorney General

Cc's: Meeta Engle
Assistant Director
Education, Workforce, and Income Security Issues
441 G Street, NW
Washington, DC 20548

Jennifer McDonald
Analyst-In-Charge
Education, Workforce, and Income Security Issues
441 G Street, NW
Washington, DC 20548

Appendix VII: Comments from the Prudential Financial Regulators



National Credit Union Administration

Office of the Chairman

October 3, 2016

SENT BY EMAIL

Ms. Meeta Engle
Assistant Director, Education, Workforce,
and Income Security Issues
U.S. Government Accountability Office
441 G Street, NW
Washington, DC 20548

Dear Ms. Engle:

The National Credit Union Administration reviewed the Government Accountability Office's draft report titled *Student Loans: Oversight of Servicemembers' Interest Rate Cap Could be Strengthened* (GAO-17-4). The report contains four recommendations, the fourth of which relates to NCUA supervision activities.

Specifically, the fourth recommendation proposes that the Director of the Consumer Financial Protection Bureau and the Department of Justice coordinate with each other, and with federal financial regulators, as appropriate, to oversee Servicemembers Civil Relief Act compliance by nonbank private student loan lenders and servicers. As an example, this recommendation states that CFPB and the Department of Justice could update interagency coordination agreements with federal financial regulators. It further suggests that the agencies make a legislative proposal to Congress if they determine that additional statutory authority is needed to facilitate oversight of nonbank private student lenders.

NCUA agrees that updated interagency coordination agreements could permit greater information sharing and improve Servicemembers Civil Relief Act oversight of nonbank private student lenders. CFPB routinely shares information of joint interest with NCUA under existing coordination agreements. Likewise, existing coordination agreements allow NCUA to discuss certain matters with the Department of Justice. Expansion or amendment of these agreements to cover data relevant to Servicemembers Civil Relief Act compliance, to the extent not already covered, would facilitate further coordination.

With respect to Servicemembers Civil Relief Act compliance for nonbank private student loan lenders and servicers, NCUA oversees federally insured credit unions. However, there are credit union service organizations¹ and other third-party vendors that credit unions sometimes rely upon to provide private student lending and servicing to their members. While NCUA may not directly regulate or supervise CUSOs, NCUA regulations require federally insured credit unions to have in place agreements with their CUSOs that allow NCUA access to CUSO books and

¹ In general, CUSOs are entities, owned wholly, or in part, by one or more credit unions in order to provide services to credit unions, credit union members, or both.

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**Appendix VII: Comments from the Prudential
Financial Regulators**

Ms. Meeta Engle
October 6, 2016
Page 2

records. Under these agreements, we conduct specialized CUSO reviews to identify potential risk to the safety and soundness of the credit union system. NCUA also may request that CUSO submit to a voluntary examination, but the CUSO may deny that request.

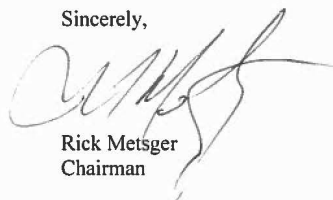
Currently, NCUA estimates the private student loan market participation of CUSOs is small. Based on information from NCUA's newly developed CUSO Registry, of 253 CUSOs offering lending services, we identified six CUSOs that offer student loan services. Five of those CUSOs identify student loan services as their primary business. While information in the CUSO Registry does not provide comprehensive data, and does not include information on other vendors that may provide private student lending services to credit unions, it provides a general idea of the scope of relevant activity in relation to NCUA.

Prior GAO reports noted NCUA lacks the authority to examine and take enforcement actions at CUSOs.² In contrast, NCUA's sister agencies—the Federal Reserve Board of Governors, the Federal Deposit Insurance Corporation, and the Office of the Comptroller of the Currency—have the authority to supervise and examine third-party vendors under the Bank Service Company Act. To address this regulatory blind spot, GAO recommended in a 2015 report and earlier reports that Congress consider amending the Federal Credit Union Act to grant NCUA the legislative authority to examine third-party service providers that provide services to credit unions and are not examined through the other federal banking agencies.³ NCUA concurred with these recommendations and sought such legislative authority.

In closing, NCUA will continue to monitor the activities of CUSOs within the current statutory framework and remains supportive of GAO's recommendation to Congress to extend NCUA's supervisory and enforcement authority over CUSOs. In responding to the GAO recommendation to request from Congress additional statutory authority, as appropriate, in coordination with CFPB, the Department of Justice, and other federal financial regulators, NCUA will also keep in mind prior GAO recommendations to provide NCUA with third-party vendor authority.

Thank you for the opportunity to comment.

Sincerely,



Rick Metsger
Chairman

² See, for example, *Cybersecurity: Bank and Other Depository Regulators Need Better Data Analytics and Depository Institutions Want More Usable Threat Information*, GAO-15-509.

³ See *Credit Unions: Financial Condition Has Improved, but Opportunities Exist to Enhance Oversight and Share Insurance Management*, GAO-04-91.

Appendix VIII: GAO Contact and Staff Acknowledgments

GAO Contact

Melissa Emrey-Arras, (617) 788-0534 or emreyarrasm@gao.gov

Staff Acknowledgments

In addition to the contact mentioned above, the following staff members made significant contributions to this report: Meeta Engle (Assistant Director), Jennifer McDonald (Analyst-in-Charge), Jeffrey G. Miller, and Jill Yost. Additional assistance was provided by Susan Aschoff, James Bennett, Mark Bird, Deborah Bland, Jessica Botsford, Brian Egger, Lawrence Evans, Brenda Farrell, Cody Goebel, Cynthia Grant, Kirsten Lauber, Sheila McCoy, John Mingus, Barbara Steel-Lowney, Michelle St. Pierre, Nicholas L. Weeks, Adam Wendel, and Rebecca Woiwode.

Related GAO Products

Federal Student Loans: Education Could Improve Direct Loan Program Customer Service and Oversight. [GAO-16-523](#). Washington, D.C.: May 16, 2016.

Financial Regulation: Complex and Fragmented Structure Could Be Streamlined to Improve Effectiveness. [GAO-16-175](#). Washington, D.C.: February 25, 2016.

Federal Student Loans: Key Weaknesses Limit Education's Management of Contractors. [GAO-16-196T](#). Washington, D.C.: November 18, 2015.

Federal Student Loans: Education Could Do More to Help Ensure Borrowers Are Aware of Repayment and Forgiveness Options. [GAO-15-663](#). Washington, D.C.: August 25, 2015.

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