U.S. GOVERNMENT ACCOUNTABILITY OFFICE
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Washington, DC 20548

September 29, 2020

The Honorable Patty Murray
Ranking Member
Committee on Health, Education, Labor, and Pensions
United States Senate

Federal Student Loans: Supplemental Data on Income and Family Size Information for Income-Driven Repayment Plans

Dear Senator Murray:

As of March 2020, one-half of the $989 billion in outstanding William D. Ford Federal Direct Loans (Direct Loans) was being repaid by student loan borrowers using Income-Driven Repayment (IDR) plans. IDR plans are designed to make loan repayment more manageable by basing monthly payment amounts on borrowers' income and family size, extending repayment periods from the standard 10 years to up to 25 years, and forgiving any loan balances remaining at the end of the repayment period. The U.S. Department of Education (Education) administers the Direct Loan program and contracts with nine private loan servicers to handle billing and other tasks, including processing borrowers' applications for IDR plans.

Prior GAO work found that although IDR plans can benefit borrowers by reducing their monthly payment amounts, they may carry high costs for taxpayers and the government because of the possibility of loan forgiveness.[1] In June 2019, we also found indicators of potential fraud or error in the income and family size information for borrowers with approved IDR plans.[2] Our June 2019 report also identified weaknesses in Education's verification processes that limit its ability to detect potential fraud or error in IDR plans. While Education requires IDR applicants who report taxable income to provide documentation, such as tax returns or pay stubs, Education generally accepts borrower reports of zero income and borrower reports of family size without verifying this information. In addition, Education has not systematically implemented other data analytic practices, such as using data it already has to detect anomalies in income and family size that may indicate potential fraud or error.

To address these weaknesses, we recommended that Education (1) obtain data to verify income information for borrowers who report zero income on IDR applications, (2) implement data analytic practices and follow-up procedures to verify borrower reports of zero income, and (3) implement data analytic practices and follow-up procedures to verify borrowers' family size. Education generally agreed with our recommendations and has taken steps to implement them. As of August 2020, Education was planning for the implementation of legislation enacted in

[1]GAO, *Federal Student Loans: Education Needs to Improve Its Income-Driven Repayment Plan Budget Estimates*, GAO-17-22 (Washington, D.C.: Nov. 15, 2016).

[2]GAO, *Federal Student Loans: Education Needs to Verify Borrowers' Information for Income-Driven Repayment Plans,* GAO-19-347 (Washington, D.C.: June 25, 2019).

December 2019 that provides the department with statutory authority to access certain Internal Revenue Service (IRS) data for the purpose of determining eligibility for IDR plans, and had initiated a pilot program to conduct additional verification of information on IDR applications.[3] However, the verification pilot was put on hold as Education implemented student loan relief for borrowers under the CARES Act in response to the COVID-19 global pandemic.[4]

You asked us to provide you with additional information about the findings and analyses in our June 2019 report by the type of IDR application borrowers submitted and by loan servicer.[5] To provide more information on these topics, this report examines:

1. What was the distribution of IDR plans analyzed in *Federal Student Loans: Education Needs to Verify Borrowers' Information for Income-Driven Repayment Plans* (GAO-19-347) by type of application (new application, annual eligibility recertification, request for monthly payment recalculation), and how did GAO's findings about potential fraud or error vary by type of application?

2. What was the distribution of these IDR plans by loan servicer and how did GAO's findings about potential fraud or error vary by loan servicer?

To answer these questions, we analyzed the same data we used in the June 2019 report. Specifically, we analyzed data from Education's Enterprise Data Warehouse and Analytics (EDWA) database for borrowers with IDR plans approved between January 1, 2016 and September 30, 2017, the most recent data available at the time of our analysis for the June 2019 report. We disaggregated the data from our previous analyses of borrowers' income and family size information for two variables contained in the dataset—IDR application type and loan servicer—to examine whether indicators of potential fraud or error varied for borrowers with

[3]Section 3 of the Fostering Undergraduate Talent by Unlocking Resources for Education Act (FUTURE Act) provided Education with statutory authority to access certain Internal Revenue Service data for the purpose of determining eligibility for IDR plans, among other things. See Pub. L. No. 116-91, § 3, 133 Stat. 1189, 1189-92 (2019). Education could use such Internal Revenue Service data to implement our first recommendation. The Congressional Budget Office estimated that use of this authority to verify eligibility for IDR plans could result in over $2 billion in savings for 2020-2029. In January 2020, Education initiated a pilot program with three of its loan servicers to conduct additional verification of income or family size information for a random sample of borrowers each month. When initiated, the pilot focused on IDR borrowers who self-certified that they had no income or reported certain family sizes. According to Education, selected borrowers would be asked to provide documentation to their servicers to support the income or family size reported on their IDR application. If errors were identified, servicers would work with the borrowers to update their applications. If these reviews resulted in changes to a borrower's monthly payment amount, the borrower would be expected to begin paying the new amount within 60 days. According to Education, as of the end of March 2020 when the pilot was put on hold, participating servicers selected 48,855 borrowers for verification.

[4]On March 27, 2020, the CARES Act was enacted, which suspended student loan payments due, interest accrual, and involuntary collections for Direct and Federal Family Education Loans held by Education through September 30, 2020. See Pub. L. No. 116-136, § 3513, 134 Stat. 281, 404-05 (2020). According to Education, the Department suspended all IDR recertifications during this period. On August 8, 2020, the President issued a presidential memorandum directing the Secretary of Education to extend this relief to borrowers through December 31, 2020. Education reported that it will weigh options for resuming the pilot against other critical priorities and available resources, noting that its long-term strategy is to fully implement the authorities granted under the FUTURE Act. GAO will continue to monitor Education's actions in this area.

[5]Education maintains data on three types of IDR applications: (1) new applications, which includes borrowers who begin repayment on an IDR plan when they first enter repayment, change to an IDR plan from another type of repayment plan, or change from one IDR plan to another IDR plan; (2) recertification applications, which borrowers on IDR plans currently must submit annually in order to continue making payments based on their income and family size; and (3) requests for monthly payment recalculations, which borrowers on IDR plans may voluntarily request at any time based on changes in their income or family size.

different repayment circumstances. We assessed the reliability of these additional elements by reviewing relevant documentation, interviewing knowledgeable Education officials, and conducting electronic testing. We determined that these elements were sufficiently reliable for our purposes. Consistent with our June 2019 report, all of our analyses exclude data reported by one of Education's loan servicers, the Pennsylvania Higher Education Assistance Agency (PHEAA), based on data reliability issues we identified during that review.[6]

To disaggregate our income findings, we also used the same national quarterly wage data we obtained from the U.S. Department of Health and Human Services' National Directory of New Hires (NDNH) for the June 2019 report. [7] Specifically, we used the results of the match we conducted for that report using Education's data and NDNH quarterly wage data to determine if any borrowers who reported zero income had wages reported in NDNH in the same quarter in which their IDR plans were approved. A more detailed discussion of the methodology used to conduct these analyses, including our assessment of data reliability, is available in our June 2019 report.

In total, we analyzed data for about 878,500 approved IDR plans held by about 656,600 borrowers for our income analysis, and approximately 5 million approved IDR plans for over 3.5 million borrowers for our family size analysis.[8]

We conducted this performance audit from September 2019 through September 2020, in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

The Direct Loan program provides financial assistance to students and their parents to help pay for postsecondary education. After a prospective borrower applies for and is awarded a Direct Loan, Education disburses it through the borrowers' school and assigns it to one of nine contracted loan servicers. These loan servicers communicate with borrowers about the status of their loans and process borrowers' student loan payments and IDR plan applications, among other activities. The four largest loan servicers (Great Lakes, Navient, Nelnet, and the Pennsylvania Higher Education Assistance Agency) handled 96 percent of the outstanding

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[6]Specifically, during the course of our work for the June 2019 report, Education and the loan servicer identified instances where the servicer's internal data were changed for valid reasons but the changes were not reported to Education correctly.

[7]The NDNH is a federal system of records that includes individual employment, unemployment insurance, and quarterly wage information used primarily to assist state and tribal child support programs. The data residing in the NDNH includes records from State Directories of New Hires, quarterly wage and unemployment insurance data from the state workforce agencies, and new hire and quarterly wage data from federal agencies. The Office of Child Support Enforcement within the Department of Health and Human Services operates and manages the NDNH.

[8]The population included in the income analysis was limited to about 878,500 plans held by borrowers that reported zero income. We focused the income analysis on borrowers with zero income since they are not required to provide additional documentation of their income when submitting the IDR application. In contrast, the family size analysis included all IDR plans approved between January 1, 2016 and September 30, 2017 that were deemed sufficiently reliable.

balance of federal student loans being repaid with IDR plans as of December 2019.[9] The remaining five loan servicers are CornerStone, EdFinancial, Granite State, Missouri Higher Education Loan Authority, and Oklahoma Student Loan Authority Servicing.

There are a variety of IDR plans – including Income-Contingent Repayment, Income-Based Repayment, New Income-Based Repayment, Pay As You Earn, and Revised Pay As You Earn – and these plans have differences in eligibility requirements, how monthly payment amounts are calculated, and repayment periods before potential loan forgiveness. To participate in an IDR plan, borrowers must submit an application to their loan servicer that, among other things, includes information about their income, marital status, and family size. According to Education officials, loan servicers review the information borrowers submit on IDR applications to determine if borrowers are eligible for IDR plans. If the servicer determines that a borrower is eligible, the servicer enrolls the borrower in an IDR plan and calculates the borrower's monthly payment amount. To continue making monthly payment amounts based on income and family size, IDR borrowers currently must annually submit the IDR application form certifying their income and family size,[10] which servicers then use to update monthly payment amounts. If a borrower's income changes significantly prior to the borrower's annual recertification date, the borrower can use the same application form to request a recalculation of the monthly payment amount. However, borrowers are not required to report any such changes before their annual recertification date.

Fraud in federal programs occurs when individuals or entities intentionally misrepresent themselves in order to benefit from the programs. Fraud poses a significant threat to the integrity of federal programs and erodes public trust in government. Federal programs are at risk for fraud when individuals have both the opportunity and incentive to commit fraud. Although the occurrence of one or more cases of fraud indicates there is a fraud risk, a fraud risk can exist even if fraud has not yet been identified or occurred. In July 2015, GAO issued the Fraud Risk Framework, which provides a comprehensive set of components and leading practices that serve as a guide for agency managers to use when developing efforts to combat fraud in a strategic, risk-based way.[11]

Error also poses a risk to the integrity of federal programs. According to federal internal control standards, to maintain an effective internal control system, managers should use quality information to achieve agency objectives.[12] This includes obtaining information from reliable sources that is reasonably free from errors and communicating it externally to achieve objectives.

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[9]This percentage includes Direct Loans and Education-owned Federal Family Education Loans being repaid with IDR plans. As of March 2020, $498 billion in outstanding Direct Loans and $24 billion in Education-owned Federal Family Education Loans were being repaid with IDR plans.

[10]Section 4 of the FUTURE Act requires Education to establish and implement automatic recertification procedures for borrowers on IDR plans, using Internal Revenue Service data. See Pub. L. No. 116-91, § 4, 133 Stat. 1189, 1192-93 (2019). As of March 2020, Education had begun planning for implementation.

[11]GAO, *A Framework for Managing Fraud Risks in Federal Programs*, GAO-15-593SP (Washington, D.C.: July 2015).

[12]GAO, *Standards for Internal Control in the Federal* Government, GAO-14-704G (Washington, D.C.: September 2014).

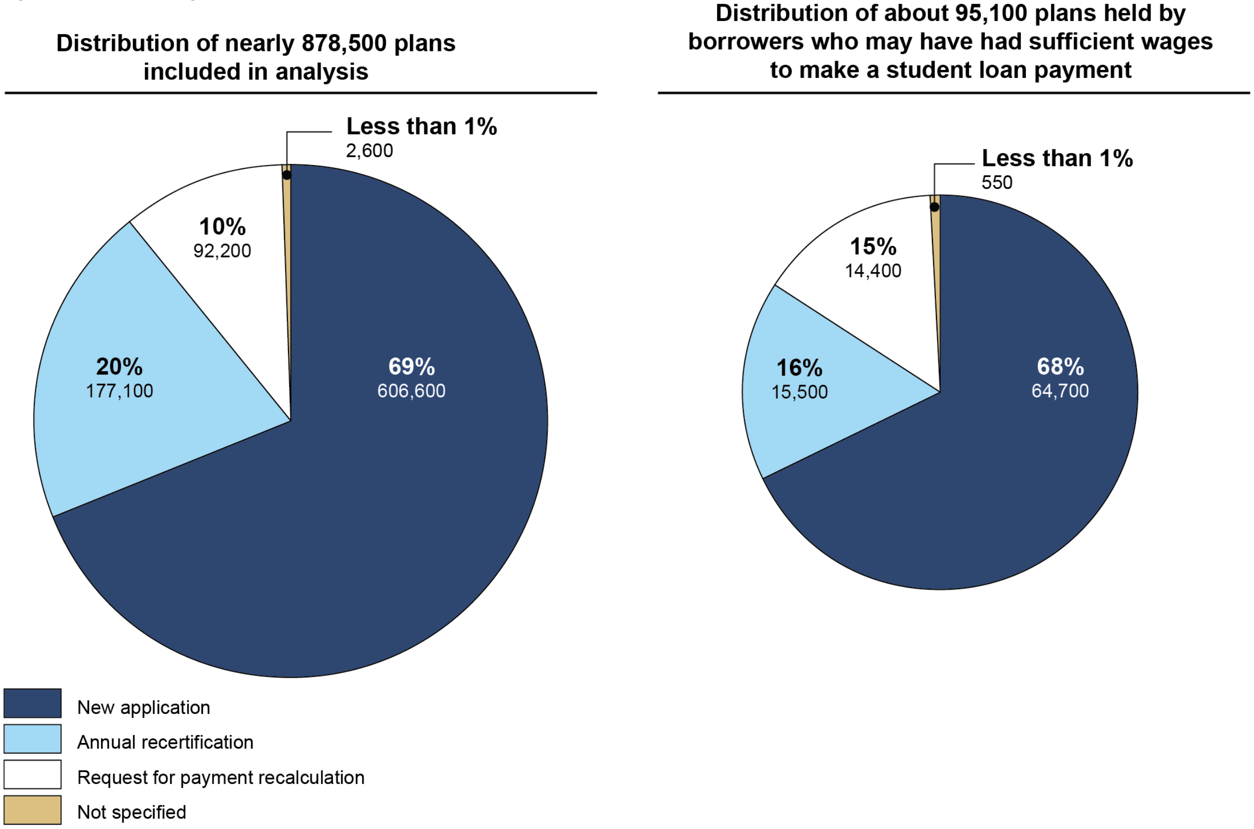
Distribution of IDR Plans by Type of IDR Application

Income Analysis by Type of Application

New applications accounted for just over two-thirds of about 95,100 plans held by borrowers who reported zero income yet may have had sufficient wages to make a student loan payment.[13] This is similar to the share of new applications in the overall population of nearly 878,500 plans we analyzed in our June 2019 report (see fig. 1).

[13]For the June 2019 report, we analyzed nearly 878,500 IDR plans that were approved between January 1, 2016 and September 30, 2017. We identified IDR borrowers who both (1) reported zero income on their IDR application, and (2) had wages recorded in NDNH during the same quarter in which their IDR plan was approved. We then estimated the annual wages for these borrowers by multiplying their wages for that quarter by four. This approach is similar to the methodology Education requires loan servicers to use to calculate annual wages when borrowers provide an alternative to a tax return to document their income on IDR applications. This methodology may understate or overstate income given that borrowers may not have earned the same amount in each of the four quarters. As stated in the June 2019 report, it is not possible to determine whether fraud or error occurred through data matching alone. We also explained that it is possible that some of the borrowers with IDR plans included in these results accurately reported zero income even though they had wages reported in NDNH in the same quarter in which their IDR application was approved. For example, a borrower may have earned wages at the start or end of a quarter, but was not earning wages at the time of submitting the IDR application. Because borrowers are only required to certify their income annually, such a scenario would not constitute fraud or error even though it would result in a match in our analysis.

Figure 1: Distribution of Income Driven Repayment (IDR) Plans Approved Based on Reports of Zero Income, by Application Type



Source: GAO analysis of U.S. Department of Education and U.S. Department of Health and Human Services data. | GAO-20-591R

Note: Percentages may not add to 100 due to rounding. Includes IDR plans that were approved between January 1, 2016 and September 30, 2017. Type of IDR application was not specified in the Department of Education's data for about 2,600 of 878,500 IDR plans (less than 1 percent) included in the overall income analysis, and about 550 of 95,100 IDR plans (less than 1 percent) held by borrowers who may have had sufficient wages to make a student loan payment. There are three types of IDR applications: (1) new applications, which includes borrowers who begin repayment on an IDR plan when they first enter repayment, change to an IDR plan from another type of repayment plan, or change from one IDR plan to another IDR plan; (2) recertification applications, which borrowers on IDR plans currently must submit annually in order to continue making payments based on their income and family size; and (3) requests for monthly payment recalculation, which borrowers on IDR plans may voluntarily request at any time based on changes in their income or family size.

GAO identified IDR borrowers who both (1) reported zero income on their IDR application, and (2) had wages recorded in the National Directory of New Hires (NDNH) during the same quarter in which their IDR plan was approved. In addition to new hire information, NDNH includes nationwide data reported by employers, states, and federal agencies on employees' quarterly wages. GAO estimated annual wages by multiplying borrowers' wages for that quarter by four. This approach is similar to the methodology the Department of Education requires loan servicers to use to calculate annual wages when borrowers provide an alternative to a tax return to document their income on IDR applications. This methodology may understate or overstate income given that borrowers may not have earned the same amount in each of the four quarters. GAO's estimates of borrowers' annual wages do not take into account other taxable income that is not reported in NDNH's quarterly wage data, or any pre-tax deductions that may apply when determining IDR plan payments. Some borrowers whose information is included in these results could have accurately reported zero income at the time of their IDR application and therefore would not have been required to make any payments.

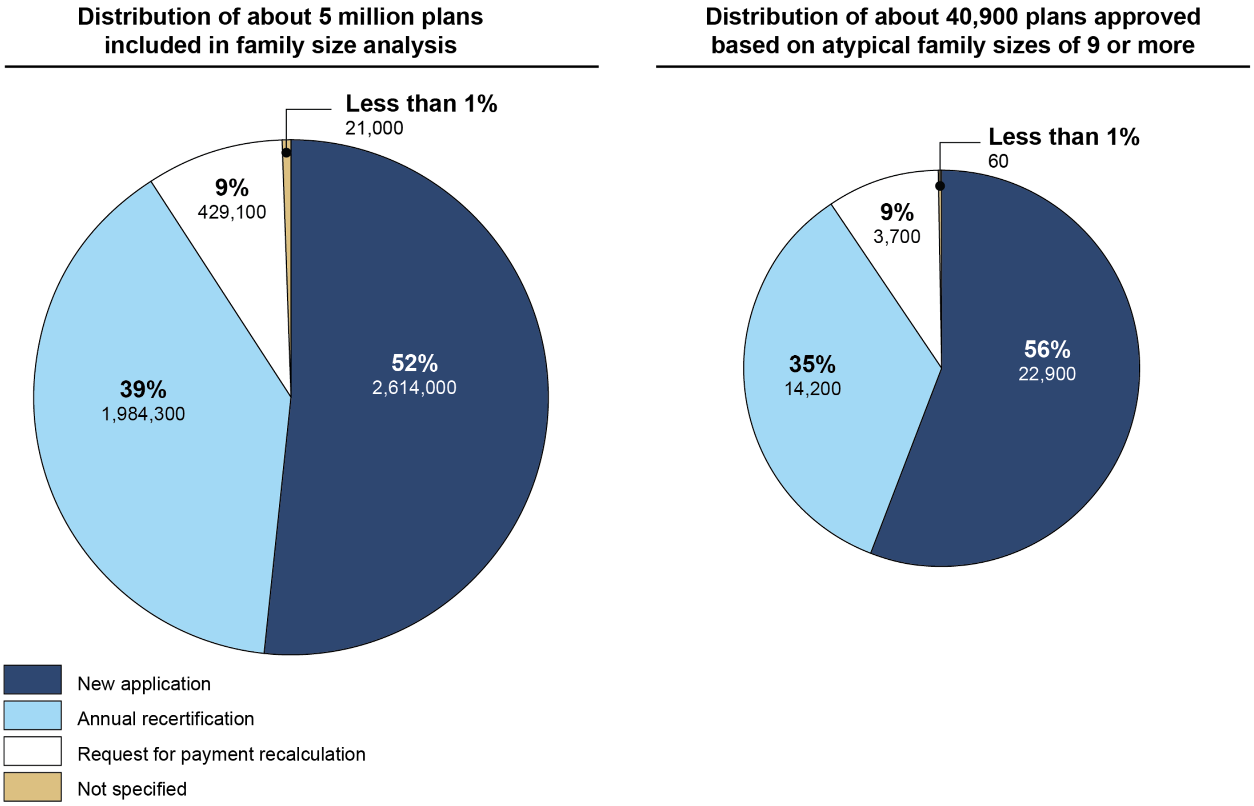
In our June 2019 report we found that about 95,100 approved IDR plans (11 percent of the nearly 878,500 plans we analyzed) were held by borrowers who reported having zero income, but may have had sufficient wages to warrant a monthly student loan payment.[14] Regarding the estimated annual wages of the borrowers who held the 95,100 plans, we found little variation in the distribution by application type. For example, 34 percent of all of these plans were held by borrowers who had estimated wages of $45,000 or more, ranging from 34 percent for new applications to 37 percent for annual recertifications and requests for payment recalculation.

Family Size Analysis by Type of Application

New applications accounted for more than one-half of about 40,900 plans that were approved based on atypical family sizes of nine or more. This is similar to the share of new applications in the overall population of approximately 5 million IDR plans we analyzed (see fig. 2). We considered IDR plans with family sizes of nine or more atypical or outliers because they comprised the top 1 percent of all family sizes in Education's data. However, as stated in our June 2019 report, because borrowers may have accurately reported family sizes of nine or more, it is not possible to conclude the existence of fraud or error in family size information for these IDR plans without additional verification or investigation.

[14]When we disaggregated these data by type of IDR application, we found some variation in the percentage of plans held by borrowers who reported zero income yet may have had sufficient wages to warrant a monthly student loan payment: 9 percent for annual recertification applications; 11 percent for new applications, and 16 percent for requests for a monthly payment recalculation. As stated in the June 2019 report, it is not possible to determine whether fraud or error occurred through data matching alone.

Figure 2: Distribution of Income-Driven Repayment (IDR) Plans Included in Family Size Analysis, by Application Type



Source: GAO analysis of U.S. Department of Education data. | GAO-20-591R

Note: Percentages may not add to 100 due to rounding. Includes IDR plans that were approved between January 1, 2016 and September 30, 2017. Type of IDR application was not specified in the Department of Education's data for about 21,000 of 5 million IDR plans (less than 1 percent) included in the overall family size analysis, including about 60 of 40,900 IDR plans (less than 1 percent) that were approved based on atypical family sizes of nine or more. There are three types of IDR applications: (1) new applications, which includes borrowers who begin repayment on an IDR plan when they first enter repayment, change to an IDR plan from another type of repayment plan, or change from one IDR plan to another IDR plan; (2) recertification applications, which borrowers on IDR plans currently must submit annually in order to continue making payments based on their income and family size; and (3) requests for monthly payment recalculation, which borrowers on IDR plans may voluntarily request at any time based on changes in their income or family size. While IDR plans with family sizes of nine or more were atypical in the data, borrowers with these larger family sizes may have accurately reported them.

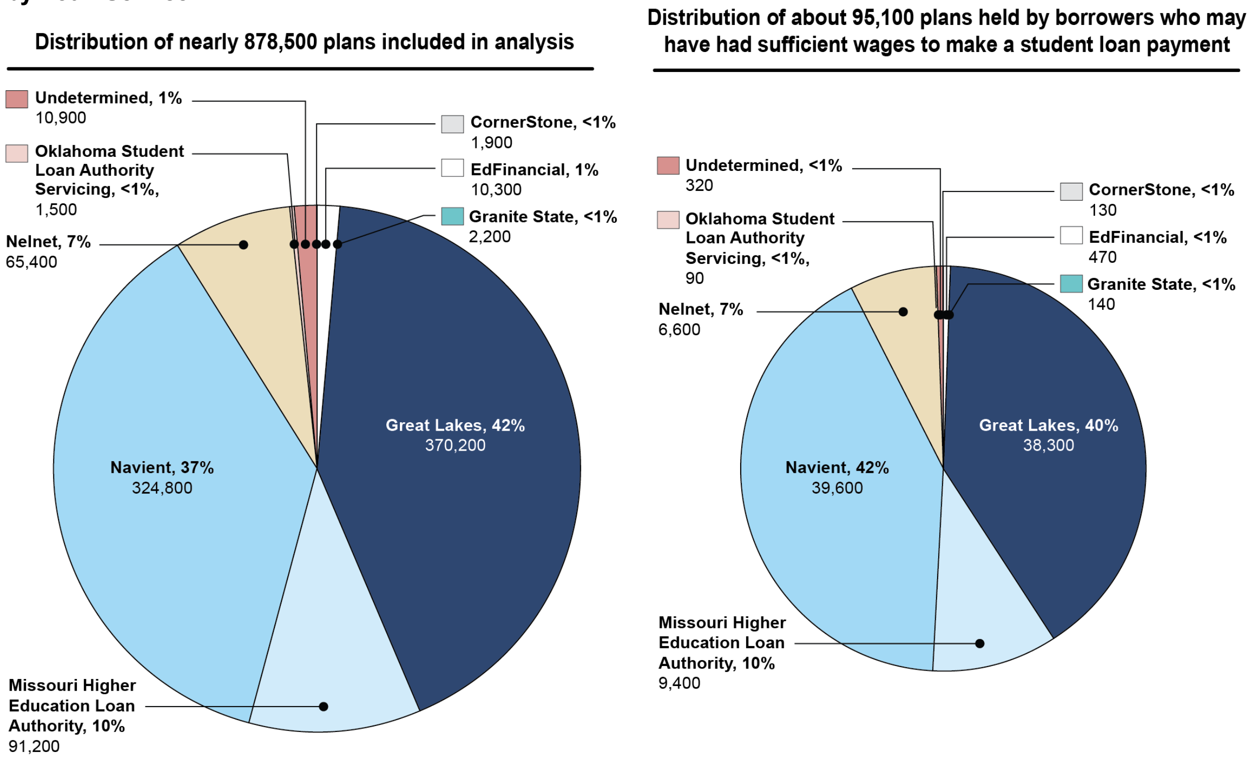
Similar to our findings in the June 2019 report, for each of the three IDR application types, over 90 percent of IDR plans were approved based on family sizes of one to five, and the share of IDR plans with family sizes of nine or more was 1 percent.

Distribution of IDR Plans by Loan Servicer

Income Analysis by Loan Servicer

Two of Education's largest loan servicers (Great Lakes and Navient) accounted for more than three-quarters of about 95,100 plans held by borrowers who reported having zero income yet may have had sufficient wages to make a student loan payment. This is similar to the share for these loan servicers in the overall population of nearly 878,500 plans we analyzed (see fig. 3).[15]

Figure 3: Distribution of Income-Driven Repayment (IDR) Plans Approved Based on Reports of Zero Income, by Loan Servicer



Source: GAO analysis of U.S. Department of Education and U.S. Department of Health and Human Services data. | GAO-20-591R

Note: Percentages may not add to 100 due to rounding. Includes IDR plans that were approved between January 1, 2016 and September 30, 2017. The figure excludes data reported by the Pennsylvania Higher Education Assistance Agency based on data reliability issues identified during the course of GAO's review. In addition, GAO was unable to determine the loan servicer that approved about 10,900 of the nearly 878,500 IDR plans (about 1 percent) included in the overall income analysis, or about 320 of 95,100 IDR plans (less than 1 percent) held by borrowers who may have had sufficient wages to make a student loan payment. For example, some IDR plans had more than one servicer associated with them during the time period covered by GAO's analysis.

GAO estimated annual wages based on National Directory of New Hires (NDNH) quarterly wage data for about 95,100 IDR plans (11 percent of nearly 878,500 plans GAO reviewed). In addition to new hire information, NDNH includes nationwide data reported by employers, states, and federal agencies on employees' quarterly wages. GAO's estimates of borrowers' annual wages do not take into account other taxable income that is not reported in NDNH's quarterly wage data, or any pre-tax deductions that may apply when determining IDR plan payments. Some borrowers whose information is included in these results could have accurately reported zero income at the time of their IDR application and therefore would not have been required to make any payments.

As previously discussed, in our June 2019 report we found that about 95,100 approved IDR plans (11 percent of the nearly 878,500 plans we analyzed) were held by borrowers who reported having zero income, but may have had sufficient wages to warrant a monthly student loan payment. When we disaggregated these data by loan servicer we found variation ranging

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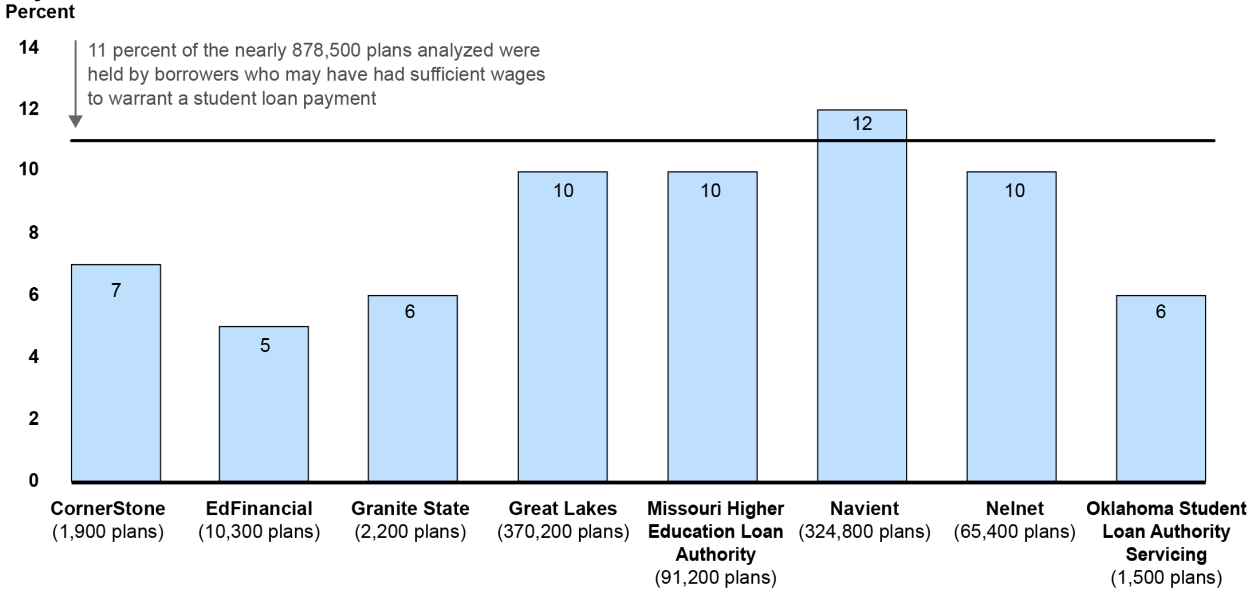
[15]It is not possible to determine the existence of fraud or error among the IDR plans included in any individual loan servicer's portfolio based on this analysis alone. Consistent with our June 2019 report, all of our analyses exclude data reported by one of Education's loan servicers, the Pennsylvania Higher Education Assistance Authority, based on data reliability issues we identified during that review. Specifically, during the course of our work for the June 2019 report, Education and the loan servicer identified instances where the servicer's internal data were changed for valid reasons but the changes were not reported to Education correctly.

from 5 percent of plans serviced by EdFinancial to 12 percent of plans serviced by Navient (see fig. 4).

Figure 4: Percentage of Loan Servicers' Income-Driven Repayment (IDR) Plans Held by Borrowers Whose Plans Were Approved Based on Reports of Zero Income, but Who May Have Had Enough Wages to Make Payments



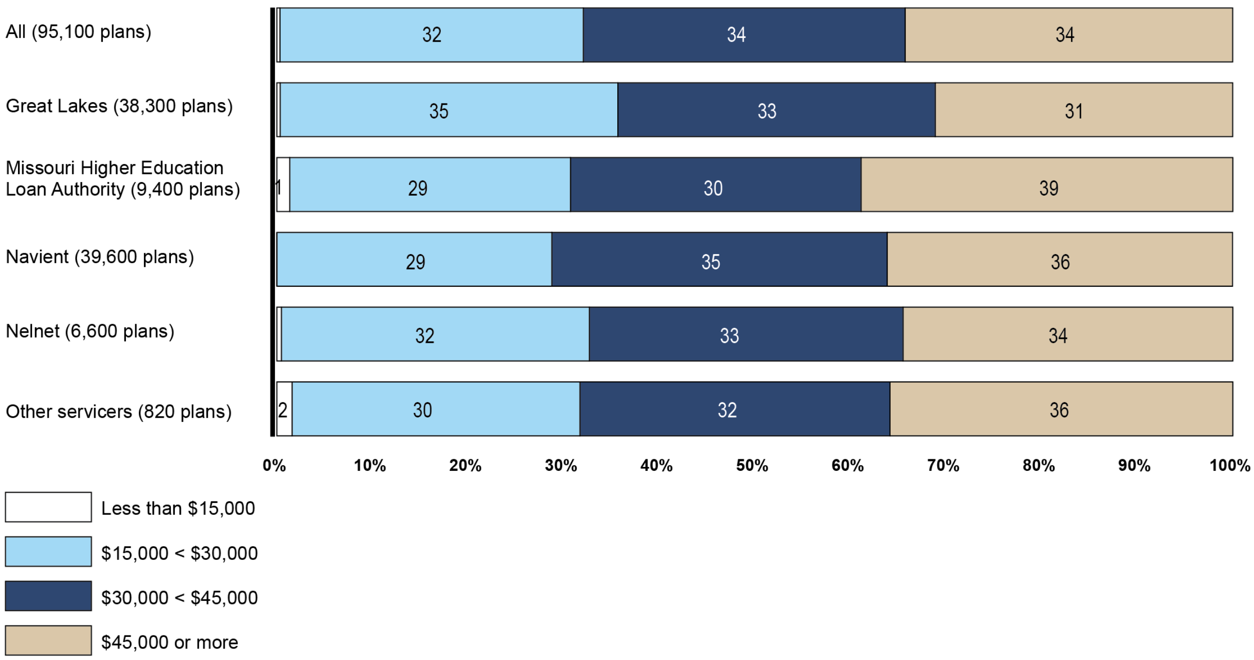
Source: GAO analysis of U.S. Department of Education and U.S. Department of Health and Human Services data. | GAO-20-591R

Note: Percentages may not add to 100 due to rounding. Includes IDR plans that were approved between January 1, 2016 and September 30, 2017. The figure excludes data reported by the Pennsylvania Higher Education Assistance Agency based on data reliability issues identified during the course of GAO's review. In addition, GAO was unable to determine the loan servicer that approved about 10,900 of nearly 878,500 IDR plans (about 1 percent) included in the overall income analysis, or about 320 of 95,100 IDR plans (less than 1 percent) held by borrowers who may have had sufficient wages to make a student loan payment. For example, some IDR plans had more than one servicer associated with them during the time period covered by GAO's analysis.

GAO estimated annual wages based on National Directory of New Hires (NDNH) quarterly wage data for about 95,100 IDR plans (11 percent of nearly 878,500 plans GAO reviewed). These plans correspond to about 76,200 borrowers. GAO's estimates of borrowers' annual wages do not take into account other taxable income that is not reported in NDNH's quarterly wage data, or any pre-tax deductions that may apply when determining IDR plan payments. Some borrowers whose information is included in these results could have accurately reported zero income at the time of their IDR application and therefore would not have been required to make any payments.

Regarding the estimated annual wages of the borrowers who held the 95,100 plans, we found some variation in the distribution of plans by loan servicer. For example, 34 percent of all such plans were held by borrowers who had estimated annual wages of $45,000 or more, ranging from 31 percent at Great Lakes to 39 percent at Missouri Higher Education Loan Authority (see fig. 5).

Figure 5: Distribution of Estimated Annual Wages for Income-Driven Repayment (IDR) Plans Held by Borrowers Whose Plans Were Approved Based on Reports of Zero Income, but Who May Have Had Enough Wages to Make Payments, by Loan Servicer



Source: GAO analysis of U.S. Department of Education and U.S. Department of Health and Human Services data. | GAO-20-591R

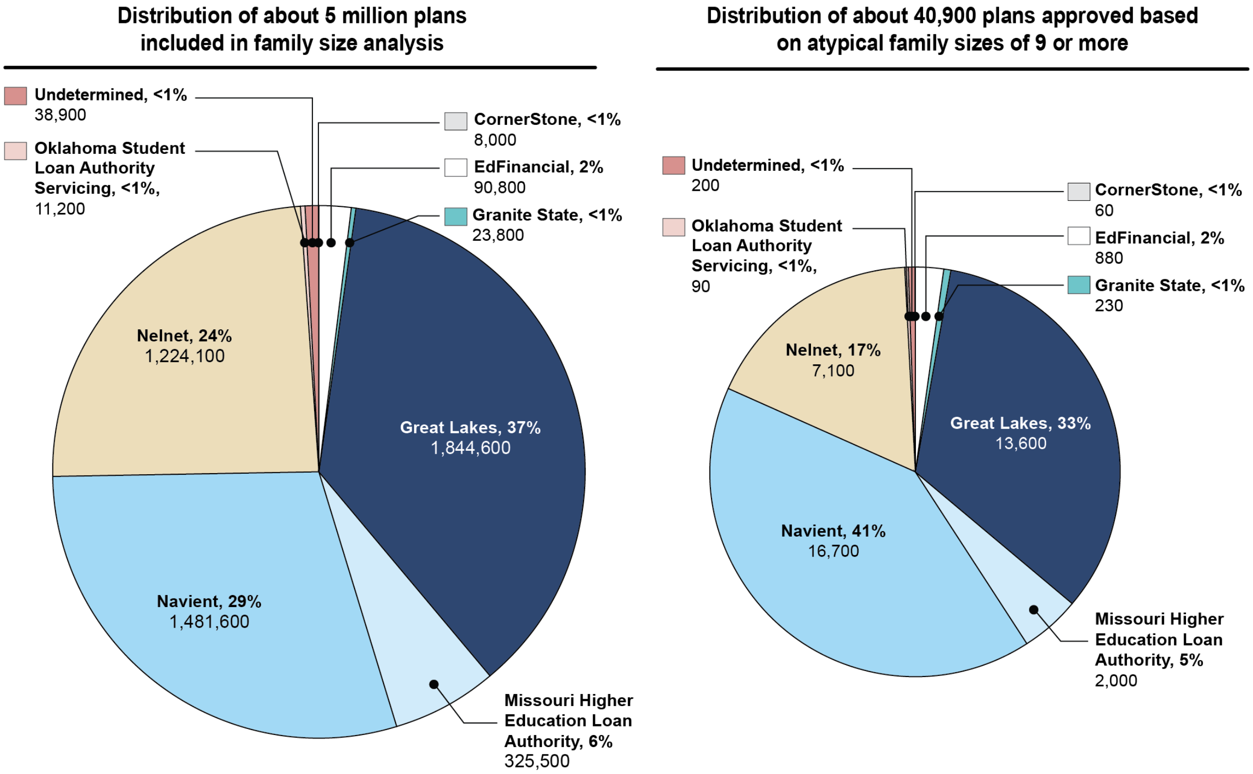
Note: Percentages may not add to 100 due to rounding. Includes IDR plans that were approved between January 1, 2016 and September 30, 2017. Data for other servicers—which includes CornerStone, EdFinancial, Granite State, and Oklahoma Student Loan Authority Servicing—were combined to prevent the identification of individual borrowers in categories with 10 or fewer observations for a given servicer. The figure excludes data reported by the Pennsylvania Higher Education Assistance Agency based on data reliability issues identified during the course of GAO's review. In addition, GAO was unable to determine the loan servicer that approved about 320 of 95,100 IDR plans (less than 1 percent) held by borrowers who may have had sufficient wages to make a student loan payment. For example, some IDR plans had more than one servicer associated with them during the time period covered by GAO's analysis.

GAO estimated annual wages based on National Directory of New Hires (NDNH) quarterly wage data for about 95,100 IDR plans (11 percent of nearly 878,500 plans GAO reviewed). NDNH includes nationwide data reported by employers, states, and federal agencies on employees' quarterly wages. GAO's estimates of borrowers' annual wages do not take into account other taxable income that is not reported in NDNH's quarterly wage data, or any pre-tax deductions that may apply when determining IDR plan payments. Some borrowers whose information is included in these results could have accurately reported zero income at the time of their IDR application and therefore would not have been required to make any payments.

Family Size Analysis by Loan Servicer

Three loan servicers (Great Lakes, Navient, and Nelnet) accounted for about 90 percent of about 40,900 plans that were approved based on atypical family sizes of nine or more. We found the share for these loan servicers was similar in the overall population of approximately 5 million IDR plans we analyzed (see fig. 6). We considered IDR plans with family sizes of nine or more atypical or outliers because they comprised the top 1 percent of all family sizes in Education's data. However, as stated in the prior report, because borrowers may have accurately reported family sizes of nine or more, it is not possible to conclude the existence of fraud or error in family size information for these IDR plans without additional verification or investigation.

Figure 6: Distribution of Income-Driven Repayment (IDR) Plans Included in Family Size Analysis, by Loan Servicer



Source: GAO analysis of U.S. Department of Education data. | GAO-20-591R

Note: Percentages may not add to 100 due to rounding. Includes IDR plans that were approved between January 1, 2016 and September 30, 2017. The figure excludes data reported by the Pennsylvania Higher Education Assistance Agency based on data reliability issues identified during the course of GAO's review. In addition, GAO was unable to determine the loan servicer that approved about 38,900 of 5 million IDR plans (less than 1 percent) included in the overall family size analysis, including about 200 of 40,900 IDR plans (less than 1 percent) that were approved based on atypical family sizes of nine or more. For example, some IDR plans had more than one servicer associated with them during the time period covered by GAO's analysis. While IDR plans with family sizes of nine or more were atypical in the data, borrowers with these larger family sizes may have accurately reported them.

Similar to our findings in the June 2019 report, at each of the eight servicers included in our review, over 90 percent of IDR plans were approved based on family sizes of one to five, and 1 percent were approved based on atypical family sizes of nine or more.

Agency Comments and GAO's Evaluation

GAO provided a draft of this report to the Departments of Education and Health and Human Services for review and comment. The Department of Health and Human Services provided technical comments, which we incorporated as appropriate.

In its comments, reproduced in the attached enclosure, Education stated that it recognizes the need to put more controls in place to ensure that borrowers are accurately reporting their income. Education also described some of the factors that affect its ability to verify IDR plan eligibility—including the lack of access to NDNH wage data and differences in how the Higher Education Act and federal tax code define family size—and noted steps it is taking to address the recommendations from our June 2019 report. Specifically, Education highlighted key efforts discussed in this report, including planning for the implementation of the FUTURE Act, which allows Education to access IRS income data for the purposes of verifying information on IDR applications. Education also noted that it plans to establish thresholds in the IDR application process that automatically flag potential issues in a borrower’s self-reported family size. In addition, Education discussed its pilot verification project that was put on hold in March 2020 following the enactment of the CARES Act. Education noted that under the pilot, loan servicers were required to request additional information from borrowers to verify family sizes greater than five; specifically, a statement listing each family member residing with the borrower and for whom the borrower pays at least 51 percent of the support.

Education also stated that it holds itself accountable for minimizing fraud and abuse, and acknowledged that borrowers and third-parties have provided incorrect information that has resulted in some borrowers paying less than they should according to their actual earnings and family size. However, the Department also asserted that Federal Student Aid data and the results of an Education Office of Inspector General (OIG) review indicated that examples of fraud are not as widespread as initially indicated in GAO’s June 2019 report. Education’s statement mischaracterizes the findings of our prior work. Specifically, our June 2019 report relied on data matching to identify indicators of potential fraud or error, and as stated in that report and this report, it is not possible to determine whether fraud or error occurred through data matching alone. As a result, we did not attempt to quantify the extent of fraud or error in IDR plan information in either the June 2019 report or this report. Further, according to information we received from the Education OIG, the June 2020 Education OIG review referenced in Education’s letter was an interim response to a referral we made following the issuance of the June 2019 report. We do not believe it is possible to draw generalizable conclusions about the extent of fraud or error in borrowers’ income or family size information on IDR applications based on this information since the Education OIG’s review is ongoing and any results are not projectable beyond the 50 cases reviewed. In addition to selecting several cases for further investigation, the OIG indicated it was referring a number of cases to Education’s Federal Student Aid office for additional review.

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If you or your staff have any questions about this report, please contact us at (617) 788-0534 or emreyarrasm@gao.gov or (202) 512-6722 or bagdoyans@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 include Debra Prescott (Assistant Director), Nancy Cosentino and Jeffrey G. Miller (Analysts in Charge), Mariana Calderón, Sarah Cornetto, Maria Gadel, Kelsey Kreider, John Mingus, Jessica Orr, Philip Reiff, Almeta Spencer, Rachel Stoiko, and Curtia Taylor.

Sincerely yours,

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

Seto J. Bagdoyan, Director
Forensic Audits and Investigative Service

Enclosure

Enclosure: Comments from the Department of Education

August 21, 2020

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 U.S. Department of Education (Department) with the opportunity to respond to the draft Government Accountability Office (GAO) report, "Federal Student Loans: Supplemental Data on Income and Family Size Information for Income-Driven Repayment Plans (IDR)" (GAO-20-591R). The Department appreciates the opportunity to respond and collaborate with GAO.

In the draft report, GAO examined additional information about the findings and analyses in its June 2019 report, disaggregating the information from the previous report by the IDR application type borrowers submitted and by loan servicer. In the initial study, GAO matched the Department's data on borrowers with IDR plans for Direct Loans who reported zero income with wage data obtained from the Department of Health and Human Services' National Directory of New Hires (NDNH) database. The Department does not have access to the wage data provided by NDNH, thus validating borrower wages in the same manner is not an option for Federal Student Aid (FSA).

FSA is an avid steward of taxpayer dollars, and as a performance-based organization, we hold ourselves accountable for minimizing fraud and abuse; and we agree that borrowers and third-parties have provided incorrect information and, as a result, pay less than the borrower should be based on his or her actual earnings and family size. As noted in the draft report, the Department has taken steps to implement the recommendations of the June 2019 report. This includes planning for and implementing the authorities granted in the Fostering Undergraduate Talent by Unlocking Resources for Education (FUTURE) Act, which was enacted in December 2019, and thus allowing the Department to access Internal Revenue Service (IRS) data for purposes of verifying IDR applications, as well as initiation of a pilot program to conduct verification of information on IDR applications. The pilot began at the end of January and ran for approximately six weeks before changes implemented to the student loan programs due to the COVID-19 global pandemic forced us to stop the pilot. By the end of March, participating servicers selected 48,855 borrowers for verification.

While federal statutes require the Department to request income and family size data for all borrowers participating in the IDR plans, as GAO points out, the specific forms of documentation for income and family size are not defined.

For approximately 60 percent of IDR applicants, FSA verifies the income data reported on a borrower's IDR applications through FSA's Data Retrieval Tool (DRT), a system that imports tax data from the IRS directly into the student borrower's application. In doing so, the income of this population is verified. Approximately half of the remaining applicants who do not utilize the DRT verify their income by providing alternative documentation of income (ADOI) to loan servicers.

We recognize the need to put more controls in place to ensure that borrowers are accurately reporting their income. We also recognize that we need to remind borrowers that if their income changes significantly after their annual certification, they must report this change in income to their loan servicer to have their monthly payment recalculated. Unfortunately, under current law we have no mechanism to reconcile a borrower's income at the end of the year with the income used to determine the borrower's monthly payments for that payment year. This would be a helpful tool to reduce waste, fraud, and abuse, but no such mechanism exists under current law.

In addition, because the Higher Education Act of 1965, as amended (HEA), and the federal tax code define family size differently, without a legislative change to the HEA, we will continue to be required to rely on self-reported information regarding family size. Even after we have fully implemented the FUTURE Act, we will not be able to definitely verify family size using IRS data since the definitions used by FSA and the IRS do not exactly align. We do plan, however, to establish thresholds in our application process that automatically flag potential issues in the borrower's self-reported family size.

In its June 2019 report, GAO found it is not possible to definitively conclude the existence of fraud or errors in family size information for IDR plans using IRS data. Additional verification of family size is the only way to determine if fraud or errors occurred. To address this, the Department implemented the IDR verification pilot whereby federal loan servicers are required to contact borrowers to request additional information to verify a family size greater than five. Borrowers must provide a family size statement listing each family member residing with them and for whom the borrower pays at least 51 percent of the support.

In March 2020, FSA's planned IDR Verification pilot was prematurely halted when, in compliance with the CARES Act, the Department suspended payments for borrowers who have loans owned by the Department. The CARES Act effectively placed every non-defaulted borrower with a qualifying loan in a position similar to a borrower with $0/month IDR repayment status, which includes borrowers in qualifying IDR plans. In addition, all IDR recertifications were postponed by six months as a result of the CARES Act and will be further postponed to no earlier than January 2021 as a result of the Presidential Memorandum of August 8, 2020, extending borrower benefits created by the CARES Act through the end of this calendar year.

Lastly, in June 2020, the Department's Office of Inspector General (OIG) notified GAO that it conducted a review of the 50 "most egregious" examples of potential fraud, resulting from the last engagement (GAO 19-347). OIG found that most cases "did not show indications of misrepresentations" and ultimately identified only six borrowers who they chose for "further [OIG] investigation to determine if any fraud occurred within the IDR application process." FSA's data and the results of the OIG review indicate that examples of fraud are not as widespread as initially indicated in the original GAO report.

In short, the Department continues to prioritize good stewardship practices with new and innovative programs to mitigate the risk associated with error or fraud in the IDR program. As we continue to work through the full development and implementation of the provisions enacted in the FUTURE Act, we are focusing on progressively improving these capabilities. We appreciate the time and the effort auditing this issue, as well as the opportunity to comment on the draft report.

Sincerely,

Mark A. Brown

Mark A. Brown
Chief Operating Officer
Office of Federal Student Aid

(103820)

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