

Note: As mandated by the Consolidated Appropriations Act, 2021, FSA has paused work on the Interim Servicing Solution and is determining the appropriate path forward.

The Next Generation of Loan Servicing

The Interim Servicing Solution (ISS) bridges the current system with a future state that works better for borrowers

A major component of the Next Gen FSA initiative is a reimagining of the federal student loan repayment environment. The Interim Servicing Solution (ISS) solicitation will help ensure that customers receive continuous support as the U.S. Department of Education office of Federal Student Aid (FSA) sunsets the current loan servicing environment while managing costs, developing consistency in the customer experience, and allowing for more accountability.

The Current Loan Servicing Environment

In the current loan servicing environment, multiple loan servicers support borrowers while they are in school and repayment. There are currently nine pre-default loan servicers, all of which operate their own website, contact center, training for staff, and strategies to reach out to borrowers. This disjointed repayment experience is less than ideal for borrowers, who must figure out who their servicer is, manage their account on their servicer's website, and use information from StudentAid.gov to understand their rights, responsibilities, and eligibility for various repayment benefits. Additionally, each servicer uses a proprietary processing system to manage accounts and report data to FSA, among other federal agencies. Loan transfers between servicers happen daily, but when they are not executed perfectly, the result can be a disruptive repayment experience for borrowers.

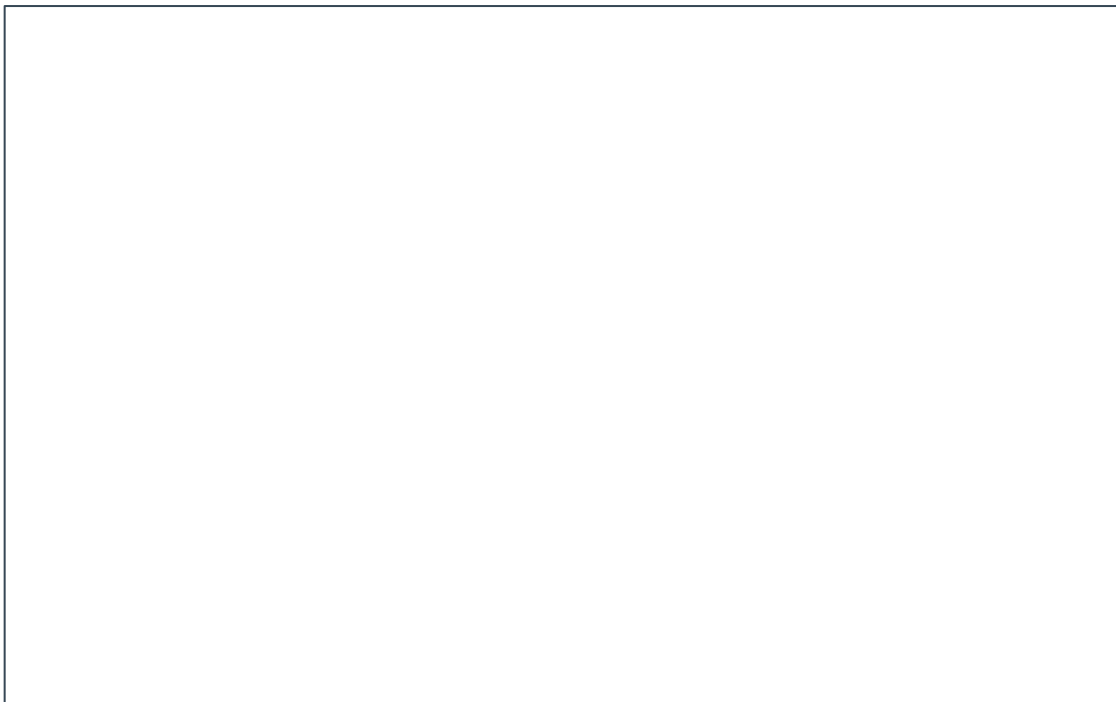


Figure 1: Current loan servicing environment

When borrowers default, they are moved from the pre-default loan servicing environment to the post-default environment, where, after a short period with FSA's default servicer, Maximus, their account is managed by a private collection agency (PCA).

What is the Interim Servicing Solution?

The ISS provides a bridge between the current loan servicing environment and the end-state loan servicing environment that conforms to the Next Gen vision of providing customers with a single site to manage their account – StudentAid.gov – as well as more consistent and high-quality service. Note that there will be no changes to post-default servicing with the Interim Servicing Solution.

Initial State

In the initial state of ISS, two vendors fulfill all of the same responsibilities as today's loan servicers; they operate their own websites, processing platforms and contact centers, and conduct their own staff training and outreach to customers. During this stage, all federally managed borrowers will have their accounts migrated to the ISS vendors and, like today, borrowers will manage their accounts through their servicer's websites and contact their servicers directly when they need assistance.

The most major enhancement that occurs in the initial state is a transition to upgraded cybersecurity standards. Several years ago, ED began requiring vendors to meet the National Institute of Standards and Technology (NIST) [publication 800-171](#). The current loan servicers received a waiver, as the Next Gen loan servicing environment was in the process of being procured. When ISS vendors begin work, they will need to be compliant with this enhanced NIST standard, which will help keep borrower data more secure.

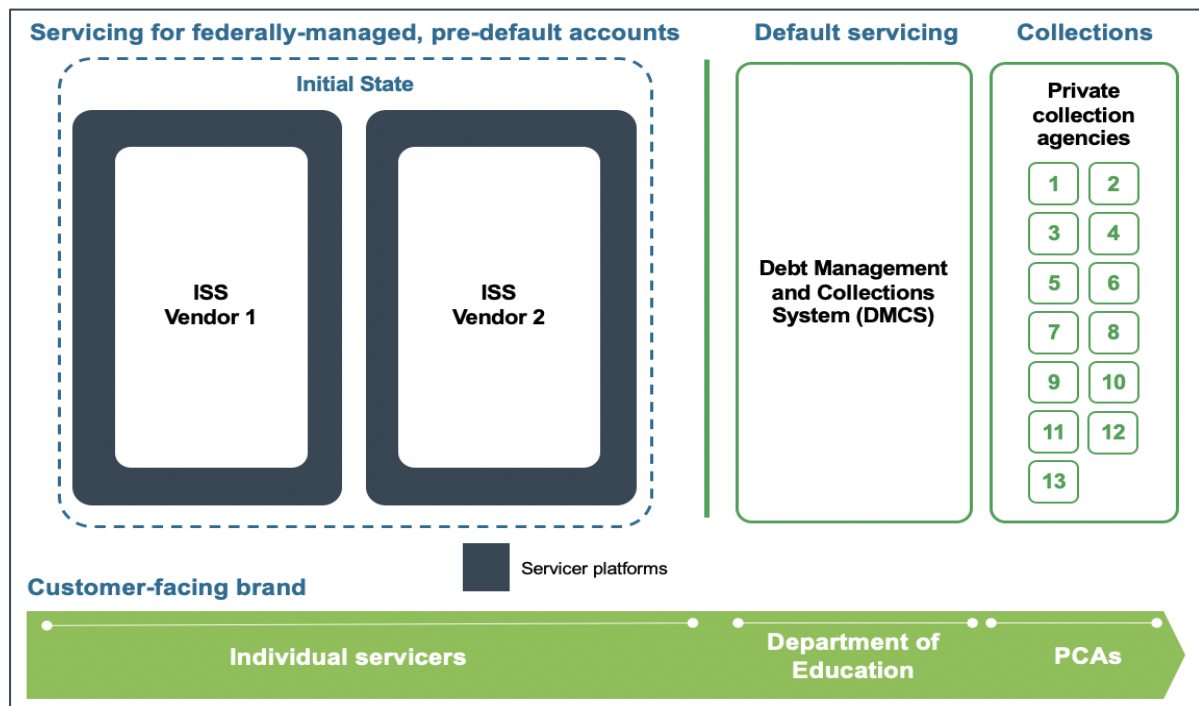


Figure 2: Interim Servicing Solution (ISS) initial state

Transitional State

After the initial state is achieved, FSA will pursue the transitional state, which brings Business Process Operations (BPO) vendors into the loan servicing environment. BPOs are the personnel component of Next Gen, providing contact center support and manual processing for all of FSA's customers as well as institutional and financial partners. BPOs all operate under the FSA brand and receive training from FSA, which helps to provide a consistent experience for customers.

At this stage, it is likely that BPOs will already provide contact center and manual processing support to customers and partners for non-servicing activities, such as responding to questions about the Free Application for Federal Student Aid (FAFSA®) or helping schools navigate the annual reporting process. Adding servicing-related work to the BPO vendors' slate of responsibilities will help bring more accountability into the loan servicing environment, as BPO vendors are held to a high standard of performance by 41 objective metrics. Additionally, customers will begin experiencing FSA branding through contact centers and other communications managed by their BPO vendor. Pending available funding, FSA may also roll out additional, cohesive branding either via the ISS vendors' websites or by having borrowers manage their account through StudentAid.gov.

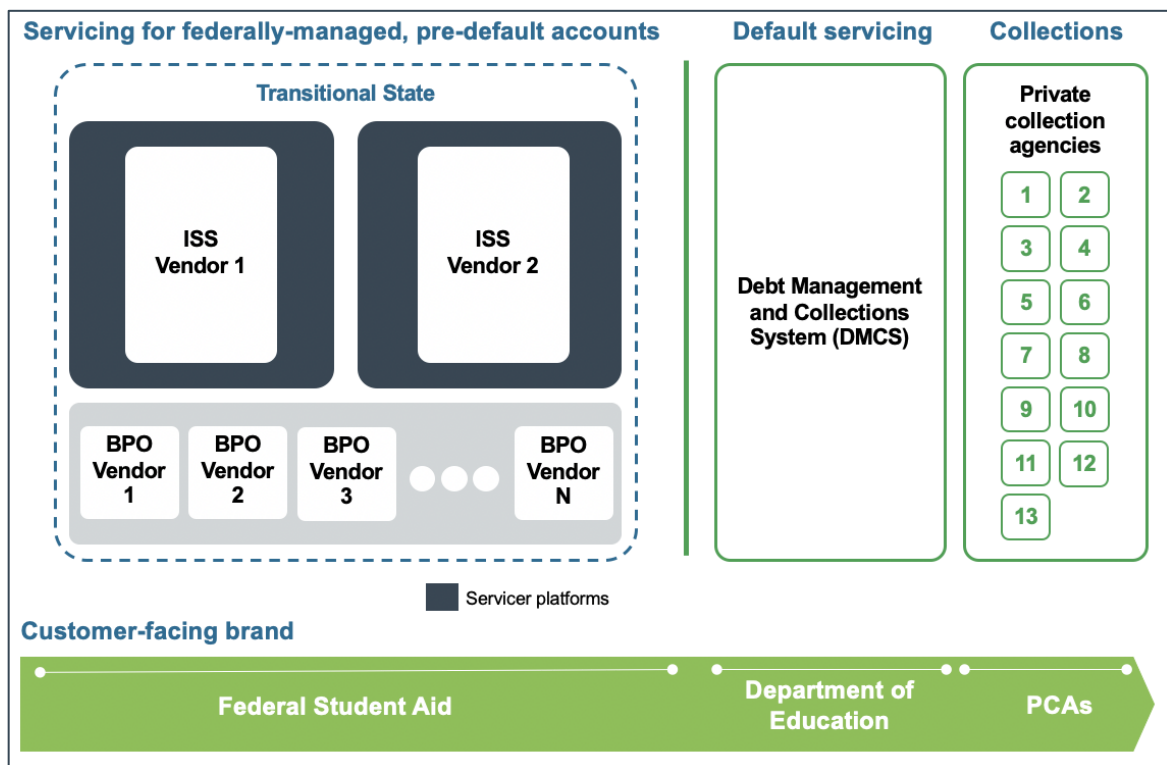


Figure 3: Interim Servicing Solution (ISS) transitional state

Why ISS?

ISS was determined to be the most appropriate solution to bridge the current loan servicing environment with the Next Gen vision for loan servicing for several reasons. First, the period of performance for the current loan

servicing contracts can only be extended through December 2021 for Great Lakes, Nelnet, Navient, and FedLoan Servicing, and through March 2022 for MOHELA, Granite State, OSLA, and HESC/EdFinancial. CornerStone has opted to wind down their contract with FSA in March 2021. There is no easy way to extend these contracts beyond the end of their period of performance. So, FSA must use with a solution that brings borrowers into an environment that operates under new contracts very soon.

Additionally, FSA must ensure that new vendors conform to enhanced cybersecurity requirements. The cost of upgrading servicers' technology systems is borne by FSA and is significant. Thus, having a small number of vendors helps manage costs while ensuring customer data is appropriately protected. Finally, FSA has signed contracts with the BPO vendors, and leveraging those contracts makes sense, both from a budgetary and accountability perspective.

ISS mitigates these constraints in a way that helps FSA move closer to the Next Gen vision. It brings loan servicing under the FSA brand, enhances cybersecurity, and moves toward greater accountability for vendors that serve our borrowers.

Ultimately, FSA's goal is for customers to manage their entire student aid experience – from completing the FAFSA to paying off loans – on StudentAid.gov, with the support of high-quality contact centers and multiple digital self-service tools that demystifies the student aid programs.

Click [here](#) to read the *Interim Servicing Solution (ISS) solicitation and supporting documentation*.
Click [here](#) for the *amendment pausing the ISS solicitation*.
