The Next Generation of Loan Servicing

The Unified Servicing and Data Solution (USDS) is the long-term loan servicing solution designed to serve borrowers better.

The USDS is a long-term loan servicing solution that will provide federal student loan borrowers with a 21st-century customer experience while holding servicers to a high level of performance and enabling the U.S. Department of Education (ED) to focus on impactful objectives like reducing delinquency and default.

The USDS represents the culmination of the Next Gen Federal Student Aid (FSA) initiative. It builds on investments FSA made in recent years, including the Digital and Customer Care (DCC) platforms—e.g., the StudentAid.gov website and back-end functionality—the Business Process Operations (BPO) vendors, and a data platform called the Enterprise Data Management and Analytics Platform Services (EDMAPS).

The Current Loan Servicing Environment

In the current loan servicing environment, multiple loan servicers support borrowers while they are in school and in repayment. There are currently six loan servicers, all of which operate their own website, contact center, training for staff, and strategies to reach out to borrowers. Additionally, the current loan servicers use multiple proprietary processing systems to manage accounts and report data to FSA. This disjointed repayment experience can be less than ideal for borrowers. Borrowers must figure out who their servicer is; manage their account on their servicer's website; and use information and tools on StudentAid.gov to understand their rights, responsibilities, and eligibility for various repayment benefits.

The structure of the legacy loan servicing contracts—which largely provide servicers with operational autonomy, use commercial branding, and lack appropriate accountability metrics—results in inconsistencies across servicers, oversight challenges, operational complexity, and inefficiencies, among other costs. Borrowers have expressed frustration with servicing inconsistencies and inefficiencies, and some credit these issues with their poor repayment outcomes. Moreover, because of the fragmented servicing system and reporting shortcomings, it can be difficult to gather and implement insights about effective or innovative servicing practices, diminishing FSA's ability to meet borrower needs.

Six existing legacy loan servicing contracts will expire in December 2023. To maintain the long-term stability of the loan servicing environment, FSA must award new contracts through the USDS procurement. Before the contract go-live date, USDS servicers will work with FSA to ensure they become compliant with relevant cybersecurity standards and system upgrades that conform to USDS requirements.
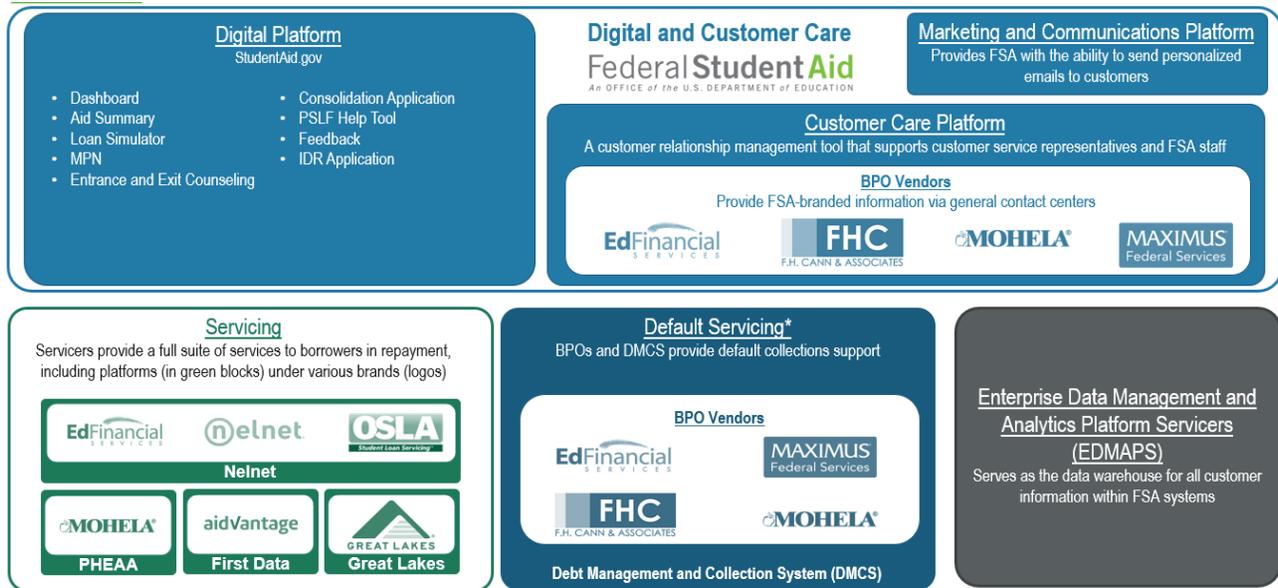
Figure 1: Current loan servicing and collections environment

What is the Unified Servicing and Data Solution?

The USDS will replace the legacy servicing contracts for Direct Loans and federally managed Federal Family Education Loan (FFEL) Program loans. The USDS shares the goals of prior loan servicing efforts, such as

- providing all federally managed borrowers with complete account management capabilities on StudentAid.gov;
- reducing the disruption of account transfers; and
- increasing accountability for servicers via clear, measurable service-level agreements.

USDS servicers will manage the platforms, contact centers, and manual processing activities for all nonspecialty loan servicing tasks. The customer interface and processing work currently associated with the specialty programs—TEACH Grants, Public Service Loan Forgiveness (PSLF) and Temporary Expanded PSLF (TEPSLF), and total and permanent disability (TPD) discharges—will shift to StudentAid.gov and the BPO vendors. At go-live, USDS servicers will be required to modify borrower-facing communications to co-brand with FSA and provide account authentication through the FSA ID. This approach will provide a single sign-on experience for customers as they navigate between their servicers' website and StudentAid.gov and will make the eventual transition to full account management functionality more seamless.

FSA will continue to evaluate the USDS strategy for opportunities to develop efficiencies, reduce the complexity of student loan servicing, and further improve borrower experiences. FSA will hold USDS servicers accountable for their portfolio performance, prioritize more support for borrowers at risk of delinquency and default, and ensure servicers are compliant with applicable consumer protection rules. FSA will also look for additional ways to leverage the BPO vendors so that servicers do not have an exclusive claim to servicing-related work. These efforts will allow FSA to maintain competition among servicers and allow for new market entrants as required.

Timeline

Learning from similar development efforts over the last four years, FSA understands that accomplishing all loan servicing goals immediately is impossible. With that in mind, FSA is taking an incremental approach to the USDS with a focused set of high-return enhancements scheduled for implementation when the new servicers go live, then building upon those improvements. This approach will help manage budget, capacity, and risk.

FSA plans to award USDS contracts this winter, provided there are no delays due to offeror protests, with go-live scheduled for December 2023.

Within the first five years of the contract period, FSA will expand functionality on StudentAid.gov, eventually transitioning full account management, branding and repayment away from USDS servicers' websites. During this time, FSA will incrementally implement enhancements to build servicing functionality and refine a variety of tools on StudentAid.gov, build an API management system to manage data moving between systems, build out a servicing data repository in EDMAPS to further streamline operations and improve the account transfer process, and enhance cybersecurity.

This solution will eventually provide a single, FSA-branded repayment interface for borrowers, hold servicers more accountable to good service and outcomes, and modify servicers' systems to become better connected and cybersecurity-compliant.
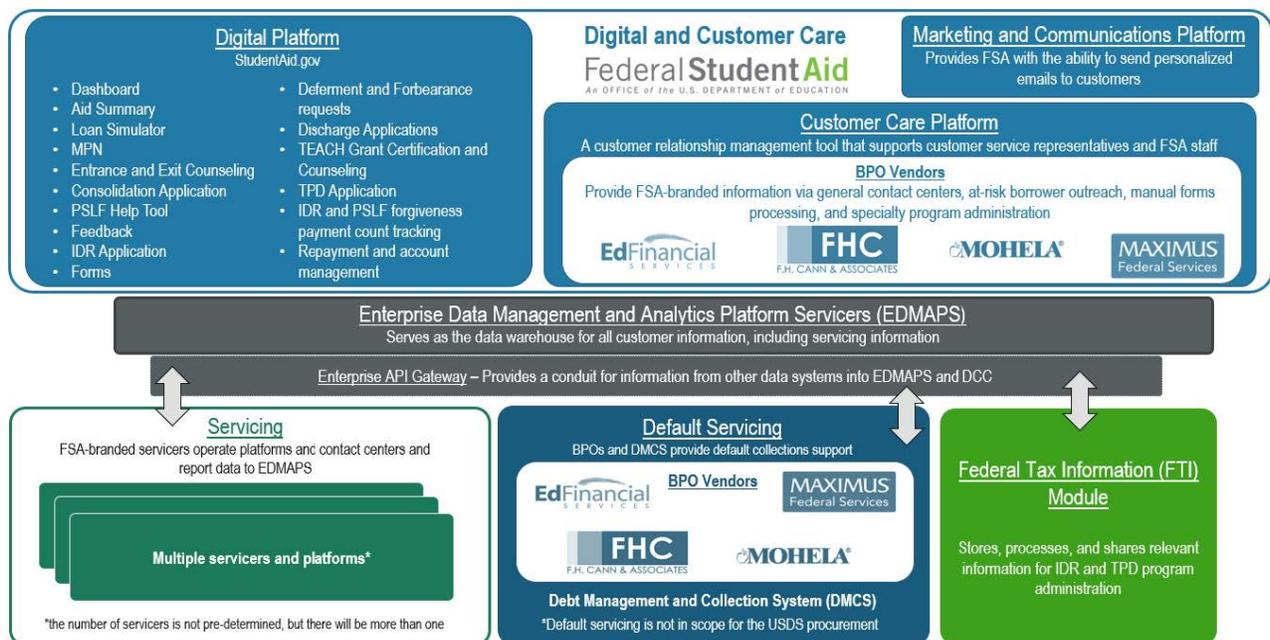

Figure 2: Unified Servicing and Data Solution (USDS) target state

Why USDS?

The USDS enables FSA to transition from the current loan servicing contracts into a more stable, long-term servicing environment by maintaining some portions of the current servicing state while addressing the most pressing needs (e.g., meeting modern cybersecurity standards, providing borrowers with a single repayment portal, ensuring servicers are held accountable to a high standard of performance). The

scope of that transition means that these efforts cannot be accomplished immediately, but this strategic, phased approach greatly enhances the likelihood of successful implementation while mitigating the risks of failure.

The USDS also provides for healthy competition by bringing multiple loan servicers on board to best serve more than 35 million borrowers with federally managed student loans. USDS servicers do not need to own a processing platform to receive a USDS contract. Instead, they will maintain separate processing platforms and work with FSA to build a common servicing data catalogue on EDMAPS, enabling FSA to receive more comprehensive data via common data management and processing rules. This will improve FSA's ability to transfer accounts among servicers if necessary, which also improves FSA's ability to hold servicers accountable by having the capability to shift accounts away from underperforming vendors. This strategy allows FSA to avoid the cost and performance risks associated with purchasing and relying on a single servicing platform.

Ultimately, FSA's goal is for customers to manage their entire student aid experience—from completing the *Free Application for Federal Student Aid* (FAFSA®) form to successfully repaying their loans—on StudentAid.gov, with the support of high-quality contact centers and multiple digital self-service tools that streamline and demystify the student aid programs.