

## United States Senate

June 13, 2018

The Honorable Betsy DeVos  
Secretary  
U.S. Department of Education  
400 Maryland Avenue, SW  
Washington, DC 20202

Dear Secretary DeVos,

We write regarding recent reports of problems with the Teacher Education Assistance for College and Higher Education (TEACH) Grant program. It appears that some teachers around the country are experiencing significant challenges when the grants they used to obtain higher education and training have been converted—sometimes in error—to loans. While we were pleased to learn the U.S. Department of Education (“Department”) has since started a review of the TEACH Grant program, we urge the Department to proceed with implementing administrative changes to streamline the certification process and providing help to recipients who have had their grants erroneously or unfairly converted.

As you know, the TEACH Grant program, authorized in 2007, is a service payback program that provides up-front financial assistance of up to \$4,000 per year in order to attract students to commit to teaching in a high-need subject in a high-poverty elementary or secondary school for four years. If this service obligation is not met within eight years following the student’s college graduation, all TEACH Grants are converted to Direct Unsubsidized Loans, with interest charged from the date they were first disbursed, that must be repaid in full. The complexity of the program, the paperwork requirements, and the fact that TEACH Grants can be converted to loans with back interest, makes for a high-stakes process that is essential to get right for teachers participating in the program.

While we understand the need for accountability for participants and the usefulness of deadlines, there are opportunities to make needed improvements to help teachers and their families and allow for reasonable flexibility. In 2015, a Government Accountability Office (GAO) report found that high numbers of grant recipients (86 percent) had grants converted to loans during the one year period they studied. Unfortunately, the Department did not conduct an internal evaluation at the time to determine the reasons for recipients’ lack of success completing their requirements. The GAO report also noted that, over the same period, 2,252 grant recipients had their grants erroneously converted to loans due to servicer error and 56 percent of the erroneous conversions “occurred because the servicer did not give the recipient 30 days from final notification to certify that the recipient was teaching or intended to teach.” Further, GAO noted that “[a]ccording to the current servicer, recipients did not get the full 30 days to submit the paperwork because of time required to process and mail the letter.” Other bases for erroneous

conversions included servicers' provision of "inaccurate, unclear, confusing, or misleading explanations of program and certification requirements," recipients not being given a full year from graduation to certify required teaching (15 percent), recipients not being given 45 days from first notification to certify (6 percent), and grants mistakenly converting to loans before certification was due (3 percent).

The GAO report also found that the annual certification paperwork requirements for grant recipients were confusing and the majority of recipients' requests for assistance from the Federal Student Aid Ombudsman (64 percent) involved problems with the certification paperwork. Further, the GAO expressly recommended that the Department develop clear, consistent information for TEACH Grant recipients on how to dispute grant-to-loan conversions.

In addition, as the *Washington Post* reported in March, the Department released records in response to a FOIA request indicating that the scope of erroneous conversions may be far greater than the 2015 GAO report was able to confirm. Those records show that FedLoan Servicing, the sole TEACH Grant servicer since 2013, identified more than 15,000 TEACH Grants held by more than 10,000 recipients—38 percent of all conversions—that it suspected were converted in error by a previous servicer. It is unclear whether any of these erroneous conversions have since been corrected, but it is urgent that these mistakes are fixed.

The recent *Study of the Teacher Education Assistance for College and Higher Education (TEACH) Grant Program* prepared for the Department and published in March, has similarly concerning findings noting that TEACH Grant recipients were continuing to experience significant challenges and high rates of conversion. For example, the report notes that 89 percent of recipients "indicated that they were likely or very likely to fulfill the service requirements when they first received their grant. Ultimately, however, as of June 2016, 63 percent of the recipients who had entered their service obligation period at least two years prior had their grants convert to unsubsidized loans." The Department's FY 2019 budget proposal similarly projects that 63 percent of TEACH Grants will ultimately convert to loans.

A program where almost 90 percent of recipients believe they will fulfill its requirements, but ultimately only about one-third of recipients do so, is an abysmal record and needs to be examined. There also appears to be a great deal of confusion among recipients about what they can do—if anything—to resolve their grant-to-loan conversions. The Department's study found that "[a] significant number of recipients in loan status (32 percent) responded to a question about the likelihood of completing the grant requirements by selecting categories that indicated they had already completed the requirements or were likely to do so." We find this serious inconsistency very troubling, as it adds further evidence to the possibility that some of these recipients have had their TEACH Grants converted to loans erroneously.

This history of implementation problems and the scale of grant-to-loan conversions highlight the serious need for reform and greater effort to prioritize and serve recipients' needs. While the service requirements of TEACH Grants are highly specific—and recipients who do not fulfill their service should not improperly benefit from the program—we are very concerned that other factors including the difficulty of the annual certification paperwork, servicer errors, and a

structurally confusing process that is unfriendly to recipients are the cause of far too many TEACH grant-to-loan conversions.

While the Department is engaged in a review of the TEACH Grant program, there are more immediate steps that can be taken to help our nation's teachers who may now be saddled with additional debt, and to prevent any further unnecessary grant conversions from taking place while the review is conducted.

In order to address the number of concerns raised in the GAO report and to strengthen the TEACH grant program, the Department should immediately develop and implement a policy for TEACH Grant recipients to appeal a grant-to-loan conversion and to make that policy public. Presently, FedLoan Servicing's FAQ only states that "a TEACH Grant that has been converted to a Direct Unsubsidized Loan cannot be changed back to a grant" and directs participants to contact their servicer. The 2015 GAO report highlighted this lack of information available to borrowers, saying the servicer's website "does not include the reasons such a conversion would be deemed erroneous, how the problem would be rectified, or the criteria considered in the adjudicating process. Further, all correspondence and policy documents provided to TEACH grant recipients [...] state that once a TEACH grant is converted to a loan it cannot be reconverted to a grant, *which is inconsistent with Education's grant-to-loan conversion dispute process* [emphasis added]." We are not aware of such a dispute process, and it does not appear to be widely utilized or publicly accessible. Appeals can also be created or improved administratively. The Department's regulations in 34 CFR § 686 are silent on erroneous or unfair conversions and there is significant precedent for allowing student aid recipients to access dispute resolution. In fact, the Federal Student Aid Ombudsman exists for this very reason.

In addition, the Department should implement the GAO's recommendation that the Department disseminate information about the process to dispute grant-to-loan conversions, finding that, "[a]bsent clear, consistent, and complete information about whether loan conversions can be disputed and what constitutes servicer error, recipients are unlikely to understand how to navigate the dispute process, criteria on which the dispute decisions are made, or whether a dispute process even exists." It is within the Department's power to disseminate appropriate appeal information. Additionally, the Department can and should quickly create a call center or other intake process to receive petitions from TEACH Grant recipients who may have had their grants erroneously or unfairly converted.

It is also important that the Department develops clear guidance about flexibility for program recipients. All administrative processes and deadlines should prioritize the aim of the program, which is to determine whether recipients are fulfilling their teaching service requirement, not tripping up recipients on paperwork requirements that have outsized consequences. We strongly encourage the Department to ensure any consequences are proportionate to the paperwork errors that may be made by TEACH Grant recipients and to begin considering appeals from recipients with only minor paperwork or deadline errors that have resulted in grants converted to loans. The Department should avoid conflating a failure to complete the program's service obligations with minor technical errors on the paperwork documenting a teacher's actual service. This flexibility is particularly important given the documented possibility of widespread servicer error in carrying out the TEACH Grant program.

Additionally, the Department should establish a mandatory time period within which an appeal will be decided, allow an interest-free deferment option for teachers appealing their loan conversions, and cease all involuntary collection of converted loans while the Department's internal review of the TEACH Grant program is ongoing.

Finally, the Department should commit to a timely review of the TEACH Grant program, including the conversion of grants to loans, within a date certain by which that inquiry will be completed and clearly state the scope and goals of this review. We hope this review will include a thorough examination of any regulatory burdens on participants created by the annual certification process.

We ask the Department to provide us with the following information or answers:

1. Any analysis and findings from the Department regarding why grant recipients' grants have been converted to loans, including where conversions have occurred due to (a) servicer error, or (b) a recipient's failure to comply with the program's recertification requirements. This portion of the request includes but is not limited to analysis undertaken and findings in response to recommendation #2 in the GAO's 2015 report.
2. The Department's full biennial reports to Congress on the TEACH Grant program, as required by 20 U.S.C. §1070g-4.
3. Federal Student Aid's review of erroneous grant-to-loan conversions that found four systemic reasons for erroneous conversions from the previous TEACH Grant servicer, and the instructions provided to FedLoan Servicing to prevent further erroneous conversions, referenced by the Department in response to recommendation #3 in the GAO's 2015 report.
4. The Department's clarifications to the servicer about the TEACH Grant conversion dispute process including the "specific set of criteria under which FedLoan Servicing is authorized to convert loans back to grants" referenced in response to recommendation #4 in the GAO's 2015 report.
5. The direction, guidance, policies, or instructions currently provided to FedLoan Servicing regarding the TEACH Grant application process and the process to appeal a grant-to-loan conversion.
6. A list of any actions FedLoan Servicing has taken to correct its own or the previous servicer's grant-to-loan conversions that were or are suspected to have been made in error, including details on whether loans were reconverted into grants, whether any payments were returned to teachers, and any communication to consumer credit bureaus.
7. Does FedLoan Servicing have specialized customer representative teams to respond to TEACH Grant recipients whose grants have been converted to loans?
8. Does FedLoan Servicing have clear timeframes for reviewing TEACH Grant paperwork for errors and communicating those errors to recipients? If so, what are those timeframes?
9. Under the 2014 servicing contract, FedLoan Servicing is paid \$1.05 per unit for "Borrowers in TEACH Grant Status" and paid \$2.85 per unit for borrowers "In Repayment"—if a TEACH Grant is converted into a loan that then enters repayment, is

FedLoan Servicing paid \$2.85 per unit? If so, is the Department concerned about a perverse incentive for the servicer to allow or not combat grant-to-loan conversions for TEACH Grant recipients?

10. How many TEACH Grant recipients are or have been the subject of involuntary collection proceedings for repayment of TEACH Grants converted to loans? How many TEACH Grant recipients have disputed the conversion of their grants to loans? In how many of those cases did ED staff review the disputes? In what share of the cases were the loans reconverted to grants?

This information will help us to determine potential policy changes or reforms to the TEACH Grant program. We request a response to our questions no later than July 13, 2018. If you have any questions or concerns, please contact Brenna Barber in the office of Senator Tina Smith at (202-224-5641). Thank you for your attention to this matter.

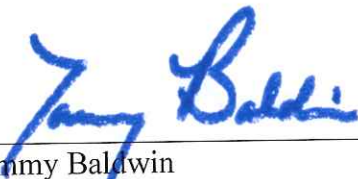
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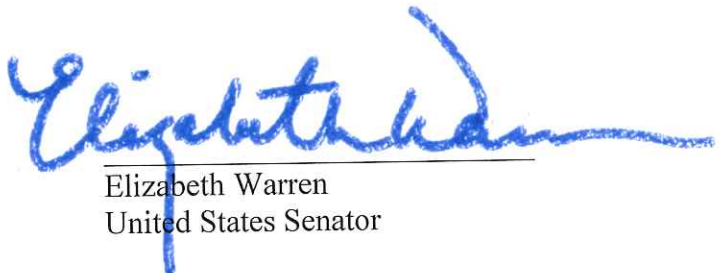
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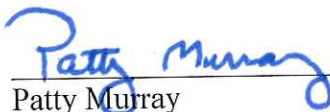
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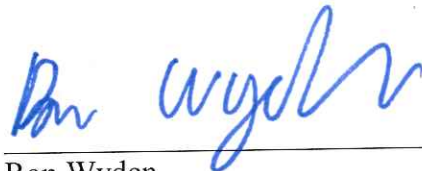
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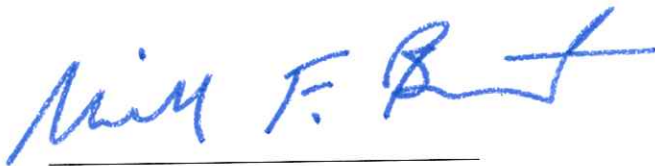
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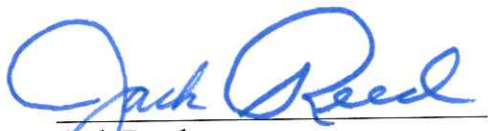
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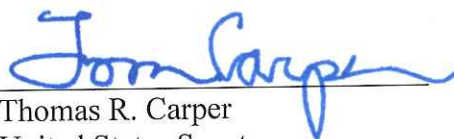
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