

NASFAA's "Off the Cuff" Podcast – Episode 277 Transcript

OTC Inside the Beltway: Working Through Those FAFSA Fears

Justin Draeger:

Hey everybody. Welcome to another edition of "Off the Cuff." I'm Justin Draeger.

Karen McCarthy:

I'm Karen McCarthy from NASFAA's Policy Team.

Jonathan Fansmith:

And I'm Jon Fansmith from the American Council on Education.

Justin Draeger:

Welcome back, Jon. Glad to have you. Karen, always good to see you. This is the height, Jon, of NASFAA's travel season. So, it looks like you're on travel too. You're coming in from the college board maybe?

Jonathan Fansmith:

Yeah, we are trying a live... I guess it's always remote when I do these, but more remote. I'm in New York for the College Board Forum. Actually just presented, it was a great panel I do every year with Tim Powers and Karen Lanning and great time. And also, let me just say, full of financial aid administrators in the audience, the nicest people in the world. They always come up. They're always so kind. They love OTC, have nice things to say about my appearances on that. So you two are very lucky, and you too, Hugh, to work with such lovely people, but not saying anything about college presence here, but financial aid administrators, lovely people.

Justin Draeger:

It's a great conference. Our in-house expert on aid offers and college cost transparency, Megan Walter is at that conference presenting with some of our members. And did you bring Jon the "Off the Cuff" water bottle that I presented to you gloriously at our Department of Ed meeting yesterday?

Jonathan Fansmith:

I did not. I went home between the meeting and my train, and so I left it at home. I'm sure it has already been taken by a child and claimed as their own.

Justin Draeger:

If you had showed up at the college board meeting with that "Off the Cuff" water bottle, I mean people would've been Off the Cuff.

Jonathan Fansmith:

Could've just plunked it right down on the table in front of me. So it was a recorded session too, so you could have gotten some video.

Justin Draeger:

Oh, wow.

Jonathan Fansmith:

Product placement fail on my part.

Justin Draeger:

Well, we just got some new swag in the office and Karen, you haven't seen it yet because it literally just got in. Yesterday was my first time in the office in quite a while because again, this is peak travel season and we're just not in the office. In fact, we don't see a lot of each other on the staff right now because Karen's in certain directions. Actually, I've seen you more on the road, Karen, than I've actually seen you in DC because...

Karen McCarthy:

I know, I had all this quality time with Justin. Where did I see you? In Texas?

Justin Draeger:

I can't remember.

Karen McCarthy:

And then in California.

Justin Draeger:

Somewhere between the Atlantic and the Pacific. I saw you. Yeah, so Karen's one of our resident experts on the FAFSA along with a couple other staff like Dana Kelly and some others. And so they've been on the road as well, and we see each other at certain conferences. What's so funny is, so Jon and I with a couple others were at a meeting at the department yesterday, and I remember you telling me, Karen, I would be unstaffed at this meeting. And then we were going upstairs to have this meeting, and I looked over at the entrance...

Jonathan Fansmith:

Wait, wait, let's preface with what happened immediately before you looked over, Justin, which was when I asked you, are you expecting anyone else?

Justin Draeger:

Right. I think I said no.

Jonathan Fansmith:

No, you were very definitive. No, you were not expecting anyone else. And then you looked over towards the entrance. Continue.

Karen McCarthy:

And saw Rachel?

Justin Draeger:

Yes. Rachel was there and I was like, oh, I guess Rachel's coming. I was like, "Hey Rachel, hey, Rachel's here." And Rachel's like, "Oh, I thought I heard your voice." And the person who was escorting us upstairs for this meeting, I was like, "Hang on, we got another one." And then I turned to Jon. I was like, "It'd be so funny if Rachel were here for another meeting."

Karen McCarthy:

Which she was, right?

Justin Draeger:

Yeah, she was. Which I had no idea. So Rachel comes over, she's like, "Hey, I thought I heard your voice." And then she just walked on by and I was like, "Oh, I guess she's not here for this meeting."

Jonathan Fansmith:

It was not a glowing testament to NASFAA's internal coordination.

Justin Draeger:

At first...

Jonathan Fansmith:

Probably shouldn't say that in front of your members, but.

Justin Draeger:

No, I turned to Jon. I was like, "Obviously, we run a pretty tight ship over here." And so we just walked. I was like, "Okay, see you later Rachel." So we just walked on by. So anyway, this is the first time I've seen Rachel in weeks too because she's also been on the road.

Karen McCarthy:

Yeah, I did though Justin with this meeting at the department when I did tell you we don't have anyone who can go with you. Let me know if we need to talk through some things before you go. And then I didn't hear back from you, so I was like, I guess he's okay. He seems okay.

Justin Draeger:

Well, I moved into this phase of my life where like I said it's busy, it's super busy. It's so busy that you can barely keep up with anything. So I've just accepted facts. It's sort of like a week or two ago, Karen and I got something from staff that was like, "Hey, we wanted to send this thing to you for review, but FYI, we can't make any changes to it." So it was the same thing where I looked at, and I was like, oh. This is like I go into a short circuit in my brain, so I'm like, "Okay, so should I review it or not? Because what is this? What am I supposed to do with this?"

Jonathan Fansmith:

It's more like a heads-up than a request for review.

Justin Draeger:

I guess. I mean, I'm like, is this a courtesy? I mean, I appreciate the honesty, which is like, "Hey Justin, here's this thing. FYI, we can't make any changes to it. Thanks." I also didn't respond to that. So when you sent me that Karen, which was like, "Hey, nobody can go with you to this meeting." I was like, okay, fact. How am I supposed to respond to that?

Karen McCarthy:

Yeah. Well, I felt like I should offer if you want to talk through anything so you're prepared so you feel better about that fact.

Justin Draeger:

I didn't feel any better. I just was like, okay. I'll go to the meeting. I feel like it's more dangerous for you when I go to meetings unstaffed. So who knows what I'm going to commit us to?

Jonathan Fansmith:

You learn what policy Justin has committed you to now.

Justin Draeger:

Yeah, right. That's okay, that's on you. I'm going to come out with a whole new initiative.

Karen McCarthy:

Yeah.

Justin Draeger:

Guess what? We've got six new initiatives we're doing. All right. Well, we got a lot to talk about. We're going to talk about some FAFSA simplification stuff, some stuff that's going on in our communities that we've been reading about. We want to try to answer to the best of our ability. Jon, we want to hear about what's going on, we have a new Speaker of the House. What's that going to mean for a government shutdown, appropriations, funding for our programs? Let's talk about the neg reg that's going on in student loan forgiveness and perhaps some repayment bumps in the road that have come to light recently. Let's start with FAFSA simplification, though. I think as a lot of people know, we have several communities that we host at NASFAA. These are for NASFAA members. They get together and talk about various issues and FAFSA simplification has always been near the top of this.

In the last week, there've been a lot of questions, some commiseration, some sharing of maybe mutual heartburn that people are feeling. The latest that I saw this last week, some of the staff monitor, and more specifically our communities' manager, Tim Maggio has been watching. One person said, "My latest heartburn is the realization, not the FAFSA. We still don't have a date for when the FAFSA will come out in December, and what if it doesn't come out in December?" And I've been getting this question quite a bit on the road as well, and I've seen an uptick in questions about this. And Karen, remind me. We recently sent up a letter with our colleagues over at NCAN and some other associations on this very topic, right?

Karen McCarthy:

Yes. Kind of pushing them like we've been doing for months and months to let us know what the release date is, let us know when they will tell us what the release date is, and mostly around institutions need to know in order to plan. We understand December, we need a little bit more specificity, please.

Justin Draeger:

Yep. I've also gotten a number of questions on the road at various conferences like what happens if they don't release the FAFSA in December or what happens the law requires it by January one and what happens if we don't get student information back by January one? Or that there are rumors circulating that it won't be ready by January one? I want to sort of be very clear about this, and I don't want people to hear only half of what I'm saying here. Okay. NASFAA is not speaking with any inside information here. I'm only responding to the questions I keep getting and the rumors that are circulating out in the field. I don't know where the rumors are sort of coming from. I can only speak to the low murmur of rumors that I keep hearing, which is to say we don't know when the FAFSA will come out.

We don't know when schools will start receiving student aid information from the Department of Education. We don't have those answers, which is why we keep pressing the department to be as specific as possible as soon as possible. So I'm not speaking with any predictions. I'm not speaking with any specific information because we don't have it. I don't know if the department has it. What I do tell as a way of advice to aid directors is that at this point in the game, I think it's important for aid administrators to be approaching this with flexibility and open systems thinking, which is if you only have one plan, plan A, and plan A is the FAFSA will launch in December and I will start receiving ICRs in December, then I think about it as maybe it's important to start thinking like, well, gee, what would happen if I didn't start receiving ICRs until a few weeks after December or a few weeks into January or February one?

I'm not predicting that. I've said that three or four times now, so please hear me when I say that that's not a prediction. I don't have any insight information. I just think it's always important to have contingency plans. That's what you do when you're doing strategic mapping. You think, okay, here's plan A, here's plan B, and here's plan C. I've also heard people come back and I mean, I've literally heard this, oh, we won't have FAFSAs for like five, six, seven, I've even heard people say nine months. That would be catastrophic. And I just don't see a world where I don't see that as a realistic possibility. A six to nine month delay to me is not anything I've heard. I feel like that sort of thing would be well-known inside the beltway. That would be something we would really be able to see.

Everything I'm hearing from federal colleagues and Karen, you meet with the department with a small group of other stakeholders every other week, they are pressing to get this done as soon as possible. If there's a slip, I would guess it would be a small slip. Again, no prediction, no inside information here, but a six to nine month delay at this point seems that's a catastrophe that I just don't see. That would be a catastrophic delay. So I just feel like that's fear mongering.

I don't think that's warranted in the realm of possibility right now, but I do think it's important for us all to be flexible, have contingency planning in place. And that's all I can say about the rumors that I keep hearing circulated and surfaced to NASFAA at least. Anything you want to add to that, Karen?

Karen McCarthy:

No, not really. I mean, I don't know if this is kind of a good thing and a bad thing in terms of we know that FSA is pushing really hard to get this out the door. They've made so much progress. I don't have any prediction of a six to nine month delay. Just like you said, Justin, that would really be crazy talk, and I don't see that. I see all the work that they've done, how final a lot of the pieces are. To the point where at these meetings that we're having, because our members and everybody constantly wants to tweak

things, can you tweak the wording of this FAFSA question? No, we cannot. That is final. So it seems that they are pretty far along in terms of finalizing things, which can be frustrating if you want this one last minute change when the thing is already baked in. But they do have quite a lot already baked in. So I'm agreeing with you, Justin, that I just don't get the sense that there would be a significant delay here.

Justin Draeger:

And by the way, to repeat for the 10th time in this podcast, I have no prediction. So I just don't want things ascribed to me because people are only hearing half things, and I know it's super stressful. We're not minimizing that stress. That's why I think it's important for us to sort of approach this. And when I go out and do presentations now, I've inserted a slide about being flexible, open systems thinking, which is having contingency plans. But the department, they're hitting benchmarks. They have draft FAFSAs, they have test files out for vendors and software providers. We are seeing benchmarks hit. So that's why I don't put much stock in the significant delay theories, but I could see slippages, but I don't have any info. I don't have anything to share with the community. The department is saying December, and we keep pressing on them to release more precise information when they have it.

The other thing I think we have to think about is sort of like we've talked about this all along the way. When ICRs go out the door, whenever that happens to schools, it's not like schools then turn around and start issuing aid offers the next day. The federal methodology is going to change distribution of Pell recipients. That'll impact state aid, that'll impact institutional aid. And so when schools get those ICRs, it's understandable they're going to load them into their systems. And it's going to take them a few weeks to load them in and see how that impacts their own distribution, especially if they have institutional aid that's leveraging or basing it off of that Pell eligibility. So there is a domino effect, a cascading effect. And so understandably, schools are really concerned about, well, what is the date I'm going to start getting info so I can load them in my systems?

Because the packaging doesn't start happening, the notification of students doesn't start happening on a turn of a dime. So I understand the big concern. I also saw in the communities a lot of technology concerns along those lines. Karen, I think there's also still a lot of concerns I saw about just PII information about FSAID, about people being really fast and loose about asking for parents' information. Like, hey, what's your birthdate? What's your social security number? And texting that around and sort of this information flying around between students and parents, training and onboarding staff, high school counselors. I know NCAN's obviously working a lot on that. And then their software providers and vendors, it feels like a lot of schools have not heard enough from their financial aid management system providers. And I can't really speak to that. NASFAA has some relationship, but not a lot with software providers. Anything there that you can share in terms of conversations that have been happening on those fronts?

Karen McCarthy:

One thing, when you talked about privacy security issues, one angle that you didn't mention that we have heard a lot about are questions around data sharing and what schools can do with FAFSA data. I feel like before we were talking about IRS FTI, federal tax information, we had a little bit kind of gotten to a place where people were grasping what FAFSA data could be, how it could be used, and who it could be shared with because we have all these special rules that apply. Well now that we are using data directly from the IRS, the IRS has all of its own rules that apply to its data. And this is IRS data that we're talking about.

So Ed has told us, and they've told us for quite some time that they will be re-reviewing their data sharing guidance. And just recently we asked if they had an ETA, and when we might see that because

schools are starting to develop their policies and kind of review what they have been doing, can we still do what we have been doing in the past? And Ed did say recently that they're hoping to release that around mid-November. So I know that we at NASFAA have a data sharing decision tree that is not particularly useful because it was done pre FAFSA Simplification Act that we would like to update. So we are waiting on the department releasing that guidance so that we can go back and update all of the tools that we have available for our members.

Justin Draeger:

Speaking of updating and new resources, Karen, can you talk a little bit about the new crosswalk that we just released recently?

Karen McCarthy:

Yeah.

Justin Draeger:

Comment code crosswalk.

Karen McCarthy:

I'm not sure if we mentioned this in a previous podcast, we may have, but Ed is overhauling all of the ICR comment codes for 24, 25. They released their guide that they release every year. These are all the codes, the resolution, what things appear and what the school has to do. And there are significant changes beyond just the necessary changes, getting rid of selective service and all of that stuff. They reclassified a whole bunch of things. And so what we at NASFAA did was create a crosswalk between the 23,24 codes to the 24, 25 codes to help the aid offices and others who are doing all of that reprogramming because it really is reprogramming hundreds of codes from one year to the next. And we recently released that. And I did also, right after we released it, there were some errors that were identified in ED'S document, the 24, 25 documents.

And we did not know when ED would be correcting those, and we could kind of make sense of it to figure out what the error was. So we just went ahead and put our crosswalk out there. This week we heard from the department that yes, they've gone back through, they're cleaning up all those errors. There were also a couple of items that were marked as TBD that they now have updates for, and that they will be releasing a new ICR comment code guide in the near future. So we'll be reviewing that to make any needed updates to the crosswalk.

Justin Draeger:

Fantastic. And that's available all on our FAFSA simplification web center so people can go out there and download that. And Hugh, let's make sure we put that in the show notes as well. Okay, all right, let's move on. We have a new Speaker of the House. The House is back to maybe regular order. Jon, we do have a federal shutdown that's going to be scheduled when we run out of money here in a few weeks. Where are we on funding? Where are we on funding the student aid programs and what do you predict might be happening in the next few weeks?

Jonathan Fansmith:

Yeah, I mean we're basically exactly where we were three weeks ago, four weeks ago before all of this craziness occurred in the House, right? Speaker McCarthy got the extension over the finish line, set it to

November 17th, about two weeks away as we record this. And now we have a new speaker and the House is being to move things through regular order, and we have a government funding shutdown in two weeks. The deadline hasn't changed. There hasn't really been any difference in the underlying basis. And the political dynamics within the House remain the same. There are a group of members who want to see significant cuts in funding to the federal government. They don't want to see another continuing resolution. So we have a new speaker who's gotten a little momentum. I think he's gotten the buy-in of his caucus in part just because he is new, and I think they're giving him the opportunity.

He's also not much of a known quantity. So some of this is letting him find his footing. Ultimately though, they're going to have to push some things over this November 17th finish line, and it's going to be a complicated process. We have other things. So federal funding, right, like 17th, that's a big deal. Lots of debate. We've gone through that. There's also Israel funding that's now on the table. Funding for the Ukraine is politically complicated for the new speaker because it's probably the majority of his caucus supports it, but a growing number of his caucus does not.

It's going to be hard to thread a lot of these needles in a way that maintains his fiscal conservative credentials, but also keeps the government operating. And the downside, of course, is that continuing resolution was exactly what got Speaker McCarthy kicked out of his job. So I'm not very envious of Mike Johnson's new job. He's only been in Congress, this is his fourth term. He's never been on budget or appropriations. So these are generally new things for him. His staff, the speaker has about 35 people to staff. If you look at who he's been hiring, they're mostly people who have worked for him in previous capacities. They're not holdovers from prior leadership. They're not necessarily people coming in with great experience in these issues or familiarity working across the caucus, securing votes. He's in a very tough position with a lot of big challenges ahead of him and a really sharp learning curve.

So what do we see? He said yesterday that he wants to do an extension until January 15th. Importantly, a lot of House Republicans are okay with the idea that if we get to January 1st without funding the government, which you have to do as part of the big debt ceiling deal that we had a few months ago, there'll be a 1% cut in all federal funding across the board, including defense. People aren't really talking about that, but that's a big impact. If he does take a CR to January 15th, that cut kicks in two weeks earlier. There's a big cut, about 80 billion to defense spending, which is not something that generally is very popular among anybody on either side of the aisle. So he's trying to thread these needles. He's in many ways got a much more complicated job than Kevin McCarthy has. And again, far less time, far resources to do it well.

If I'm predicting something, I'm predicting that probably we're going to have another shutdown. We might have another short-term extension. I would be shocked if the Senate would let them do a short-term extension past that deadline. I think the Senate Republicans and Democrats would want to do everything possible, especially in the current global situation, to keep defense spending at its current levels that they will try to force a CR another month, another six weeks, something that maybe gets them into December so they can resolve this before that cut comes in place. Will that happen? Who knows? But that would be the sane rational thing to have happen.

Justin Draeger:

So the Senate, it looks like they're moving forward on spending bills. We're waiting for the House to get its act together.

Jonathan Fansmith:

Well, the House is moving forward. They're doing votes. Today, they're doing interior and transportation, HUD, but these are bills that are hugely different from their Senate counterparts. They're

well below what was agreed to in the debt ceiling deal. So they're passing bills, they're doing regular order, but ultimately none of these bills are all that consequential. They'll have to be negotiated at very different levels and both sides are putting forward.

Justin Draeger:

So for our members, the big question will be if they extend into December or into January, and if they don't get it done in January, this is the stuff that would tell them besides waiting for the FAFSA and ICR data that we just talked about. The other questions then is how do you package 24, 25 aid when we don't know Pell grant amounts? We don't know work study amounts. We don't know FSEG amounts.

Jonathan Fansmith:

And keep in mind the current House bill that's going to go to the floor the week of the 13th, so the week of the shutdown basically would eliminate work study and FSEOG. These are not minor differences between the two chambers. The complete elimination of over \$2 billion in federal student aid is on the table in one chamber. It's a big deal. These are not small, easily reconciled differences.

Justin Draeger:

Do you think that going back to perhaps regular order in some way increases or decreases the likelihood that we'll see any riders on spending bills like a short-term, Pell rider?

Jonathan Fansmith:

So I think normally you would say that, right? There's more opportunities, and the emergency nature of it allows things to get slipped through that wouldn't otherwise with more time and more advocacy, both internal to the chamber and from the outside. That said, they have not been doing... So the Labor H Education bill, the main education funding bill that was reported to rules, this is all very wonky, but it's the version that they're going to amend and then sent to the floor for a vote, had one education policy provision. And that sole education policy provision would bar trans athletes from participating in women's or girls sports. It's the only thing they added. Normally there's a lot. I mean you and Karen both know this really well. Normally there's a bunch of different provisions. Some of them are very specific, some of them are more general.

That's the only one they included speaks to maybe the fact that this process is so fractured that you don't really have time to plan, you don't really have time to work these bigger policy implications. It's a little bit catch as catch can. And so some of those things are going to get cut out.

Justin Draeger:

So a little more streamlined.

Jonathan Fansmith:

More streamlined, but not by choice. So just by the nature of it's a chaotic process.

Justin Draeger:

All right, well we'll keep our eyes on this. Thanks very much, Jon. Let's look at neg reg, which is starting up again next week. This last week, Karen, the Department of Education showed its cards by releasing text on its next plans for debt forgiveness. It's looking at five basically buckets, but the text that it's

released really looked at four groups of borrowers and then sort of opened the door for maybe a fifth group for discussion. Why don't you catch us up? Where are we at and where are we heading?

Karen McCarthy:

Yeah, so this is the student loan Debt relief negotiations. And they had their first meeting last month, first two day meeting, which was mostly "brainstorming," I say brainstorming in quote session, where they gave the negotiators like these are the five categories of borrowers that we are looking at to waive some level of their debt. And were interested in your thoughts on how we could do this. So they did kind of provide, I guess you could call them guardrails around the conversation. We're talking about these five categories. We're not talking about broad-based debt forgiveness. So that conversation happened last month. And then for this second round they sent out, posted, and we'll start their conversation with reviewing their first draft of regulatory texts. And this is kind of the traditional way that neg reg goes. I mean this reg is a little bit different in a lot of ways, but not in this way, in that the first session is generally the let's talk about the issues, get everything on the table, and then in the second neg reg session, ED will show up with some draft texts for people to respond to.

So that's when they really get into the wordsmithing, and I don't like this. This is my suggested wording, I want you to use this instead. So all of that happens with this second session. And so I would say my quick skim of what they have released is that I didn't really see a lot shocking here based on the categories of borrowers that they had already put on the table. That most of the text is pretty straightforward. So they say, for example, one of the categories that they want to address are borrowers whose loan balances are at a certain point in time now greater than principal. So they have negatively amortized over some certain period of time. So what they have released to the negotiators is some regulatory texts that would allow them to wipe out to forgive that debt. So it's pretty straightforward. I mean, I'm sure that there will be lots of discussion about it, but they already put on the table that they wanted to tackle this group, and this text is showing how they're going to tackle that group.

So that fifth category that was on the table last month though, which is kind of like the catchall category, like anybody who has financial hardship, what are your ideas for how we can address them? They did not have a draft regulatory text for that category. And I feel like that is the biggest wide open unknown here. And what they have said is that they will be discussing this category of financial hardship during this second session. I think they're going to devote half a day to that. So I feel like that is the biggest wild card unknown issue, and we do not yet have any draft proposed text for that category.

Justin Draeger:

So a couple observations, Karen. So when I was again skimming through this one, some of the forgiveness they offered was one time, and some of it was ongoing into the future.

Karen McCarthy:

Yes.

Justin Draeger:

This isn't just a one and done like the previous proposal from the president when he was just going to do it through administrative action. It was like a one-time, 10 or \$20,000 forgiveness. Some of this would be written into regulation and would be ongoing into the future.

Karen McCarthy:

Yes. So one thing that I think is significant is that the third category was talking about programs that they use the word low financial value. And so the question was are they going to revert back to the GE low financial value transparency rules that just came out. And ultimately, it looks like where their proposed draft is, so again, I can't stress that enough that this is just draft text at this point, is that this category is tackling gainful employment programs only it looks like right now. So they're not looking at the financial value transparency, which as we've been stressing applies to all. But it does seem like that category goes into perpetuity. So for borrowers who enroll in programs that ultimately don't meet the GE program metrics, and they'll be looking at that going into the future. So it's not a one and done in that case.

Justin Draeger:

Again, these are draft regulations. We're going to go into the second round here of conversations. And then after that, Karen, what happens?

Karen McCarthy:

Yeah, so usually during the second session, it depends how much time they have available. The department may come back with some revised texts during the session, maybe not if they run out of time. And then everybody will go back, consult with their constituencies, the department will have their conversations. Then the third session next month, ED will come to the table with their next proposal, assuming they make some changes there. And then they will hash out, continue to hash out. And at the end of the third session, ideally they will all be voting whether they have consensus or not. And then that will then determine what ends up in the actual proposed rule that the rest of the public can comment on. And the process goes from there.

Justin Draeger:

So we're still a ways off. This is just draft, and we still have a quite a runway in front of us before we get to a final regulation.

Karen McCarthy:

And I just wanted to stress that because I feel like with this particular neg reg, because it's such a hot button topic, it's gotten a lot of coverage in terms of what's happening and the process and the draft and all of that. We go through this with every neg reg. It's just that most people aren't really paying attention at this stage in the game. But yeah, this is the regular negotiated rulemaking process. It's all very draft. We're very early in the whole process.

Justin Draeger:

Are you assuming that R2T4 doesn't get the same attention as debt forgiveness?

Karen McCarthy:

I would say not the same broad attention. Within our community, it likely would. They might be the only ones paying attention.

Justin Draeger:

All right. I'll agree to that. All right. Final topic. We've had a pretty bumpy start to repayment. Some of this was predicted, but maybe some of it wasn't predicted. We kind of predicted long wait times. We predicted that borrowers would have some trouble getting on ramped into repayment. But we've had

several articles, news articles come to light talking about some of the bumps with borrowers perhaps not getting into the right repayment plans, having some costs assigned to them, not getting some forbearances that they should have gotten. Karen, why don't you outline some of the challenges that have come to light in the last couple of weeks?

Karen McCarthy:

Yeah, so some of the experiences that borrowers have had that have been highlighted in the news is that there have been just some wrong calculations by loan servicers in terms of loan payment amounts that were discovered in an audit. So the servicers are attempting to fix those and notify borrowers. And those wrong calculations, I think affected about 300,000 borrowers going into repayments. There were some specific call outs. Specifically, they discovered that when Mohela was moving some borrowers from the repay plan into the new SAVE plan, that they were incorrectly using the 2022 poverty guidelines instead of 2023. So when you think about the poverty guideline for 2023 would be higher, so more of the borrowers' income would be protected, kind of not assessed. So there were borrowers who had ended up with higher monthly payment amounts than they should have had, and that was about 280,000 borrowers who were affected by that.

The mistake though that I think is particularly significant was that the Department of Ed cited Mohela for not sending timely billing statements to borrowers ahead of when that first payment was due, and that affected about two and a half million borrowers. And significantly, ED chose to withhold from Mohela \$7.2 million in payments under their servicing contract. And that is the first time that the department has ever really hit a loan servicer for errors in their pockets, which is one of the things that a lot of people, including NASFAA, have been calling for some time. Like when servicers do make errors, when does the department step in to take loans away or to penalize them financially in any way? And this is a pretty significant penalty and the first time that the department has done that.

Justin Draeger:

So we had been hearing that borrowers had been complaining of miscalculations, and we hadn't seen anything official about it. And we had wondered if just because there wasn't a cap in the SAVE plan, if some of those were just borrowers who had unexpectedly seen their payments go up because their incomes had gone up. But now it looks like, I mean, this is evidence that a significant number of borrowers did in fact have their payments miscalculated, and the department has signed off on compensating those borrowers and giving back that interest and making those borrowers whole for those miscalculations.

Karen McCarthy:

Yes. If the borrowers did overpay, yes, they would be getting a refund.

Justin Draeger:

Thanks very much, Karen. With all of this, we have to remember that Mohela is a contractor of the department, and this is always where it gets a little bit dicey in trying to sort all of this out because what we're getting is the story from the Department of Education. This is the narrative from basically the contract to owner. It's sometimes difficult to get the story out of the contractor because I don't know what Mohela can say. I don't know if there are details they wish they could get out. They are the contractor. They work for the department, and so there might be a lot of context they would like to add to this, but they're doing the calculus about how much they do or don't want to say.

Karen McCarthy:

Yeah, I mean, it's a little biting the hand that feeds you, right?

Justin Draeger:

Right. That's their largest client, I'm sure, the Department of Education. So maybe they'll add some additional context. But this is the advice I give to anyone. You either can add to the narrative, only you can tell your story. And to date, all the news stories we've read about this have really been the Department of Ed and federal officials that have been filling in the blanks for us here. But those are the facts as we know them today and bumpy rollout, and we will be looking for more details as they become available. Jon, always a pleasure to have you on "Off the Cuff," particularly when you're traveling and staying in high-end hotels in midtown Manhattan.

Jonathan Fansmith:

Living the life, Justin, just living the life.

Justin Draeger:

And Karen as always, glad to have you on. Safe travels to both of you, to everybody out there, hopefully, if I haven't seen you already, I'll see you at an upcoming conference now or in the future. Thanks for everybody for joining "Off the Cuff." Thank you to our producer this week, Hugh Ferguson, and we will talk to you again very soon.