NASFAA's Off the Cuff Podcast - Episode 208 Transcript

OTC Financial Aid in the News: Politico's Michael Stratford on FSA Under Cordray, Biden's Higher Ed Agenda, and Restarting Student Loan Payments

Justin Draeger:

Hey, everyone. Welcome to another edition of Off the Cuff, I'm Justin Draeger.

Michael Stratford:

I'm Michael Stratford. I'm an education reporter at Politico.

Justin Draeger:

Thanks for joining us today, Michael. We're really glad to have you here. You've been reporting on higher education for what, seven, eight years now?

Michael Stratford:

Yeah, about that. I've been at Politico for a little over five years and before that worked at Inside Higher Ed and briefly at the Chronicle of Higher Ed.

Justin Draeger:

For people who don't know Michael Stratford, if you're in higher education, you've certainly read some of his stuff. Like you said, you're currently at Politico. Before, you were at Inside Higher Ed and I think that's where I first met you. For folks who don't know, Michael has broken story after story across multiple administrations. We're really glad that you are on today, Michael, to share some of your perspectives. Let's just get right into it. First, I'm sort of curious, can you tell us a little bit about your beat at Politico? Do you cover the department of education, Congress, everything? How's it work?

Michael Stratford:

Yeah. I primarily cover higher education. On higher education, I cover the department of education, regulations at the education department, student aid, student loans, anything happening on higher ed in Congress. Yeah. From time to time, the various issues that crop up in higher ed on college costs and accreditation and run the gamut of education issues that are happening in Washington.

Justin Draeger:

All right, so you've been covering higher education back... You started covering higher education during the Obama years. This is your third administration that you've looked at and the difference between President Obama and Donald Trump are probably night and day. Well, let's not talk about that. Let's talk about the department of educations under the Obama years, versus the Trump years. I'm curious, and we'll get to the Biden administration, which is only almost a year in, but what would you say were the big differences, just from the department of ed standpoint, between the Obama years and then the Trump years?

Michael Stratford:

Certainly on policy, they had different ideology that they were enacting.

Justin Draeger:

Right.

Michael Stratford:

In some ways are similar, some ways are different. I think certainly the policy making process was easier to follow and more, I think, defined as a process during the Obama administration. A lot of the higher ed ideas, it seemed like were coming out of the White House and being implemented by the education department. The department was talking with, I think, a predictable group of outside groups about what they should be doing. I feel like when they were trying to sell an idea, I'm thinking about the college rating system for a while, they would go out and talk, officials would talk to various constituency groups and pitch it at different meetings and conferences and things like that. I think the Trump administration policy making was far more chaotic, not just at the education department, but across the government. I feel especially in the early months and years of the admin Trump administration.

Michael Stratford:

It was a journalistic challenge, I think at first to figure out who had the administration's ear on education issues and particular higher education issues, because it wasn't something that Trump really talked about that much on the campaign trail or that his White House was particularly focused on. Figuring out who was the outside sounding board or outside advisors on higher ed issues, I think was a challenge. The size of the group of people involved in making higher ed decisions was far smaller during the Trump administration, than it was in the Obama administration. It was a tighter hold on information.

Justin Draeger:

No, I think that's fair. What about in friendliness to schools? Who do you think collaborated with institutions more between those two groups? Or did you not see much of a difference?

Michael Stratford:

Well, it's interesting because I think the Obama administration was probably in some ways more collaborative, but they had a whole agenda of holding schools accountable that I know didn't go over well with schools. I think it's true. I don't think it's specific to Trump. I think higher ed in general is more left leaning and so there's some natural alignment between the people working in the Obama administration or any democratic administration and most people who work in higher education. That isn't the case during Republican administrations.

Michael Stratford:

I think Trump's probably rhetoric around immigration and elite colleges and any number of issues wasn't palatable to folks in higher ed. But at the same time, the Trump administration was also receptive to hearing ways to roll back regulations on colleges and universities like they were on any number of industries, not just the education department. I think it strikes me as a little bit of a mixed bag. There's probably a difference between maybe some of the personal relationships that people had and the policies.

Justin Draeger:

Let's throw the Biden administration into this now. Do you see it as a continuation of the Obama years or is the president's administration, their department of education, is it sort of forging its own path?

Michael Stratford:

I think it's to some degree forging its own path, although a lot of the people working on higher ed policy in the Biden administration are alums of the Obama administration, though not exclusively. In some ways they're doing a reversal back to Obama policy policies that the Trump administration got rid of. In some cases it's very much a clear seesaw back and forth. Gainful employment, borrower defense rules, but in other ways I think they have a different agenda. I think that the political dynamic in democratic politics around higher ed has changed a lot since the Obama administration, in terms of talking about the narratives around free college and debt forgiveness and how the education should run its loan program. Those, I don't know if... I think Biden administration is thinking a lot more about those issues maybe now than the Obama administration did, just because they find themselves in a different political dynamic.

Justin Draeger:

It sounds like what you're saying is the voices maybe of the progressive left are a little bit louder and a little bit more focused on big picture items that the Obama administration probably didn't necessarily have to deal with. I don't remember a big call for debt forgiveness that had gained so much momentum during the Obama years.

Justin Draeger:

We were just trying to do really modest things, like increase the Pell Grant. Now there's these calls from the progressive left to wipe out all student loan debt or free college. Those really big picture ideas are things that the Biden administration, I'll take them at their word, they want to focus on them, but they also have this sort of pressure on them from within the progressive circles to deal with these issues that maybe the Obama folks were a little freer to navigate their own path.

Justin Draeger:

What do you make of the appointment of Richard Cordray as the head of FSA? Is there a bigger meaning here? The fact that, the former head of the CFPB is now the head of FSA, is there something we should read into this or has the role just changed significantly from where it was in the past?

Michael Stratford:

He has certainly the most high profile person, I think to hold that job or be appointed to that job. Before he ran for governor, he was a state's attorney general, he led a huge federal agency in the CFPB. That's typically not the type of person as you know, who has been appointed to that job. It's historically been people with far less profile, people with operational folks, mostly from industry, from the financial services industry.

Michael Stratford:

I think, I don't know. I think when he was first appointed, I think there was a lot of attention and coverage around him coming on as an ally to Elizabeth Warren, who also is pushing for debt cancellation. I'm not sure that that is the right narrative of what's happening. I think there's certainly a lot of things that some progressives have been pushing for the education department, office of Federal Student Aid to do for a long time, even before the debt cancellation conversation about how it manages its contracted loan servicers, about how schools are held accountable, more minutia, the more granular policy things.

Justin Draeger:

Federal Student Aid chiefs have had operations experience, as you pointed out. Technical expertise, they sort of understand the front end delivery systems, the backend delivery systems. You don't think... You would agree that Richard Cordray wasn't hired for his technical expertise.

Michael Stratford:

Yes, I would agree. Okay. I would agree with that. I mean, it's true. He ran a huge agency, so I guess that's operational.

Justin Draeger:

Okay. Yes, he has federal experience, but I would assume, and I can't confirm this, but when he came in, he probably didn't know what COD was or CPS was, or even maybe all the ways that various student aid programs work or federal methodology, or any of that sort of thing. If he wasn't hired for technical expertise, then was he hired... Is the narrative that he was hired to really focus on the servicing contracts? Which I do think he has a lot of experience there having been in attorney general and then at the CFPB consumer protections around that. Maybe standards of quality.

Justin Draeger:

Then the second piece would be, he has the school accountability piece and then the fact that they're now re, I guess reigniting the entire school enforcement area, which they just announced in the last week or two. Was that why he was hired? If not as an ally to Elizabeth Warren and widespread debt forgiveness, was it because of his ability to focus in on these servicing contracts and then maybe also focus on institutional accountability?

Michael Stratford:

I think that's right. I mean, I think they basically said as much at the time when, when Cardona appointed him, they touted his work on for-profit colleges at the CFPB, his work on student loans servicing at the CFPB. I guess my point in saying that there are issues that progressives like Elizabeth Warren have long focused on and on student loans that aren't that cancellation, that I think was a big, big factor in his hiring.

Justin Draeger:

One of the things that you've reported on over the last couple weeks are these servicing contracts and which servicers are pulling the plug and getting out and which ones then are trying to transfer their portfolio to another servicer. Some have, we've gotten a few two year extensions here for servicers. I'm just curious overall, do you think servicers, and maybe I should ask specifically about Navient, do you think they've had a fair shake from progressives?

Michael Stratford:

Federal Student Loan servicing is really complicated and figuring out... It's certainly true that they have been criticized for a lot in how they manage... Many of them have been criticized for how they manage their student loan accounts. It is the case, but it's also beyond just, political rhetoric. There are lawsuits against them. There have been inspector general audits. In the case of Navient, almost all of the state attorneys general lawsuits, if not all, and the CFPB lawsuit have survived a motion to dismiss, meaning that if there were a totally frivolous case, a judge wouldn't have allowed it to continue on.

Michael Stratford:

Most of it, it is true that most of them are all pending and Navient is fighting them. I think there... I think even the Trump administration agreed that there were challenges in how the department oversees its loan servicers. There is... I'm not sure that it's just progressives who have raised concerns about it

Justin Draeger:

Yeah. Let me ask you, just the last thing you just said, and this is what I'm wondering. I watched... Did you see the 60 Minutes piece a few weeks ago on public service loan forgiveness?

Michael Stratford:

I did.

Justin Draeger:

In one of the things, yeah, one of the things they talked about was, they had Seth Frotman who is running the Student Borrow Protection Center, and formally of the CFPB who had resigned, rather publicly in the Trump administration. But in that piece, Seth talked about, I think he even said, greedy... He sort of laid the blame for the failure of PSLF mostly I think, and who knows what... We saw the edited piece of course, but mostly, I think he even said greedy servicers, and I'm wondering though, all servicers like all contractors report to somebody and they report to the department of education. I'm just, it feels like there's a lot of focus on servicers when ultimately they all report and sign contracts with a federal agency, though. What about the oversight from a federal agency? Is that a fair critique?

Michael Stratford:

I agree. I don't think that... But I also don't know that the argument is only that it's the servicer's fault that there isn't... I mean, I think that's what Cordray has talked about, Elizabeth Warren has talked about and had even, going back to the Obama administration, I remember Elizabeth Warren at congressional hearings criticizing the Obama administration for its handling of student loan servicing contracts. I don't know. I'm not sure that the only argument that folks are making, on the left, is that servicers are the only problem. I think they certainly see the federal government's oversight of them as a problem.

Justin Draeger:

I think that's probably fair. I guess I'm thinking Navient is brought up so often by certain lawmakers that it feels like, "Well, if we only got rid of Navient, like all of these issues that have been identified with PSLF repayment would magically clear up," and I guess I'm feeling pessimistic that these same issues aren't going to exist on the other side of other servicing contracts, partly because the programs are just so complicated. Partly because we're in a pandemic, partly because oversight is difficult and creating incentives are almost impossible.

Justin Draeger:

This idea that we're going to financially incent companies to do a better job. That's probably part of the equation, but I think it's much less of the equation than people think. If we just crafted the perfect servicing contract, ta-da, we would have no more issues. That just seems, I don't know. It just seems unrealistic.

Michael Stratford:

I think that's right. I think also the most people agree that the challenges of the PSLF program were a combination of a lot of different things, not any one part of the entire system, but a complicated criteria set up by Congress, challenge in how the education department issued guidance or didn't issue guidance for a long period of time. Regulators have raised concerns about what servicers were doing when people called in and said, "I want to enroll in PSLF, what do I have to do?"

Michael Stratford:

I think those are some of the allegations of regulators and stated attorneys general, that servicers didn't provide the right information or omitted information or directed people into a repayment program that wasn't one that was going to help them get PSLF. I don't know, I think most people agree that there was a combination of things and there wasn't one single thing that led to, or has led to this ridiculously high denial rate.

Justin Draeger:

Maybe it's a lot of things. I'm just wondering, how much is actually attributable to greedy servicers? It doesn't feel like 50% to me, but maybe I'm too sympathetic to how complicated all this is and for the servicers to retain qualified staff under their existing... You know what I'm saying? It just feels like Navient, Jack Remondi has got away, now everything's going to be fixed. What's going to be Dr. Warren's talking point after Navient's gone?

Michael Stratford:

Well, just do you think the problem is that is in the incentives or if not possible to structure incentives correctly?

Justin Draeger:

I think that it's really hard to structure incentives. Here's a really basic one. Like, do you create incentives that pay them more for keeping borrowers current, or do you pay them more on the back end to help distressed borrowers? That's a really basic question that I think is really difficult to answer. I don't know, good servicing costs money. It costs a lot of money to retain qualified staff who can actually explain all this stuff to borrowers.

Justin Draeger:

Then, I don't know on the back end of that, you're looking at we've had services that are non per profit quasi state agencies, and we have a for-profit that gets hammered for like the amount of profits that it makes or the amount of money it's CEO makes. As near as I can tell, they both equally did as bad of a job as the other. What is the cause then? It's I guess the greedy servicers narrative just doesn't, I don't know, just doesn't resonate with me in terms of even being the majority of the problem.

Michael Stratford:

One thing that I hear you saying is also that the solution is probably more complicated than just highlighting the problem, which people have been doing for a while. I think setting up what a future servicing system ought to look like has been something that the department has been trying to do since, I don't know, 2015 and through a lot of starts and stops for a variety of different reasons. But the end result is that, there isn't really a future servicing system that's out to be flipped on anytime soon.

Michael Stratford:

Obama administration had an idea of how to do that. The Trump administration came in and scrapped it and had like several iterations of what that looked like, all of which didn't end up going places for a variety of reasons. The Biden administration has said that they are not going to do what the Trump administration was doing, but they haven't really laid out what they envision as what the end result, what that future state should look like. They just extended the contracts, as you mentioned, and say that they have more accountability provisions in there, but that's not really a... Those are two year contracts, extension contracts, but the future state of what servicing should look like, I agree with you will be really complicated to figure out and isn't on the horizon anytime soon.

Justin Draeger:

Yeah. All right. Taking all that into consideration, how complicated all of this is, what would be the message to 20,000 aid administrators working across 3000 schools that are NASFAA members, about how confident we should be about how well this repayment transition's going to go?

Michael Stratford:

That's a good question. I don't know. I think the department has... The Biden administration has said publicly that it's important to them that this go smoothly and that borrowers are eased into repayment. Secretary Cardona's talked about, I think he calls it a ramp on, or an on-ramp. Something, a transition that's seamless or not full of pitfalls, I think, is there stated goal. But I think it's certainly a little up near what the result is going to be. I don't think we've ever... I know we've never had a situation in which 40 million people who will have been benefiting from that relief for almost two years come February are going to suddenly be paying interest again and having to pay their monthly payments all at once, essentially.

Justin Draeger:

Yeah. You guys dug into this a little bit and I think Michael, you were one of the people, you actually FOIAed the department, right? Because it just seemed very opaque from where we're sitting in the financial aid profession. What is the plan? I understand legislatively, there's these notifications you have to meet. So many days out from starting repayment, but like that can't be the totality of the plan. What did you find out through your FOIA request?

Michael Stratford:

Yeah, what we got back under a FOIA and also had some sources tell us is that the department's planning to restart payments next February. They publicly said it's the final extension. Payments are for sure starting, but they're trying to come up with a plan for how to do that. One of the ideas on the table and what they're planning for is having some type of grace period, when borrowers first go into repayment, so that payment that a borrower misses in the first 90 days of restarting repayment won't count against them, essentially. They'll be essentially held harmless. They won't get dinged on their credit report, they'll be put into an automatic forbearance, non-capitalizing, automatic forbearance.

Justin Draeger:

I'm sympathetic to the department on this one, because on the one hand you want to convey the message that repayment is starting February one. On the other, you have to be careful about how much you tout like this 90 day, basically grace period.

Michael Stratford:

They're calling it a safety net period.

Justin Draeger:

Right, and that sends a mixed message that, "We're starting, but not really." I'm sort of sympathetic to the challenge they might have there.

Michael Stratford:

Yeah. I think Rich Cordray has said that publicly, that they face a challenge, because there's a lot of discussion publicly and in the press about debt cancellation, debt forgiveness. The administration says they haven't made a decision on that yet, and they're still working on it. But at the same time, they need to start planning to collect these payments for the first time in almost two years. It doesn't make it easier that to get people to start repaying again, that they have a lot of people feel like they've been promised to have large parts of their loan, if not all of their loan forgiven, or canceled.

Justin Draeger:

Yep.

Michael Stratford:

It's I think a challenging political line that the administration is having to walk.

Justin Draeger:

One of the things that you discovered and broke at Politico was this idea of the department bringing defaulted borrowers current. Any details on how that exactly that would work?

Michael Stratford:

This is something that is, I understand, under serious consideration at the education department. Some Senate Democrats have sort of sketched out already what they want the department to do on this, which is to use the CARES Act and the subsequent extensions of the CARES Act relief to automatically rehabilitate borrowers out of default. Basically give people, they call it Operation Fresh Start, a clean slate so that they can start in repayment without having their wages garnished or their social security or their tax refunds, including the Biden child tax credit expansion, garnished by the education department, because they're in default.

Michael Stratford:

I think it's about seven, seven and a half million borrowers who were in default on federally held loans before the pandemic. Their loans like everyone else's have been essentially frozen in time. But what the CARES Act did was say that suspended monthly payments count towards a rehabilitation agreement payment, which is nine out of 10 payments to get your loan out of default. We've already gone through more than nine or 10 payments. The argument from Democrats and some of the consumer progressive groups is that basically the only thing standing between these borrowers and a rehabilitated loan, a loan pulled out of default is a paperwork requirement that they didn't sign a rehabilitation agreement. They want the department to waive that requirement and I understand that the department is working on that, considering that there are some pros and cons they're hearing from the debt collection agencies that are responsible for managing these rehabilitation agreements.

Justin Draeger:

Well, but in effect, then all the non-payments during the pandemic would count as rehabilitation payments. If they sign, if they basically acknowledge this and retroactively say, "Oh yeah, that's... Those are payments. Move me back into current repayment status." Right?

Michael Stratford:

That's right.

Justin Draeger:

Yeah.

Michael Stratford:

I mean, it's possible a small number of borrowers did this during the pandemic. It's just the population of borrowers who defaulted probably aren't/isn't the population of borrowers who are closely following federal legislation and their new benefits under the CARES Act. This is like a pretty obscure benefit that was in there. But the CARES Act pretty clearly said that suspended payments count towards a rehabilitation agreement. If borrowers had signed their rehabilitation agreement, they would be on their path out of default now. The decision point is whether this is something that the department does automatically and across the board as a class of borrowers.

Justin Draeger:

All right. Time will tell. All of these initiatives you would expect to be announced in the coming weeks or months before we get to the repayment start date.

Michael Stratford:

Yeah. I think some of them are further along than others in development. I think we saw the copy of the instructions to servicers on the grace period on the targeted outreach. I think it's fair to say those things are probably going to happen. The department is actively implementing those. The defaulted loans issue is a bigger policy issue that is going through the policy making process right now.

Michael Stratford:

There's also this, have you been following this, it's really in the weeds, but a dispute over how they should handle auto debit? When payments resume, the department... One of the few things the department has said on its website is that you have to opt back in basically to your auto pay. If you were on auto pay before the pandemic, your servicer is going to reach out to you if you don't respond, they're going to take you off auto pay. That's the department's current plan.

Michael Stratford:

Senate Democrats on the appropriations committee don't like that idea. They think it will lead to an increase in defaults and they've proposed actually. I was somewhat surprised to see that it's already escalated to legislative text already, but they've proposed in the FY22 Labor H bill to block the department from doing that.

Justin Draeger:

Yeah. I guess if Labor H passes soon, because the department... We're aware of borrowers have already received that notification. The department went out and told these borrowers who were on auto debit, "If you want to continue, basically click this link, acknowledge you want to continue." They didn't even have to re-enter their information. It was just, "Yes. Resume auto debit, or I want to continue auto debit."

Michael Stratford:

Yeah. I think the concern is the department's reasoning behind that is they don't want people surprised after two years to have something...

Justin Draeger:

Yeah.

Michael Stratford:

Debited from their checking account.

Justin Draeger:

Yeah. This is one without any... I feel like this is a tough one. I don't know how you could come down definitively either direction. Surprising people with taking money out of their account that could cause them to overdraw is not a good solution, but requiring people to do something is also like another obstacle, which may not be a good solution.

Michael Stratford:

Right. Which would cause them to lose the 0.25% discount and maybe they don't make the payment because it wasn't, they thought it was going to be auto debited.

Justin Draeger:

Right. NAFSAA has called for the department to have this grace period, where people can sort of just work it out. We need to... This is maybe the 90 days, which is... We need this transition period where things are going to get really messy. People will need grace. I mean that in an official standpoint, like a technical phrase, but also in the, "Let's give borrowers and the department a chance to work this out."

Justin Draeger:

All right. Thanks very much for being on today, Michael. We'll continue to follow all of your reporting and your breaking news. It's always a pleasure to talk to you and if people want to follow you and see what you're reporting on or what you're up to, where can they follow you?

Michael Stratford:

They can follow me at Politico and on my Twitter handle @mstratford.

Justin Draeger:

Mstratford. Okay. We'll include a link to your bio and profile over at Politico and contact information in our show notes. Thanks very much.

Michael Stratford:

Thanks for having me.

Justin Draeger:

Hopefully we can have you back in the future, in the meantime, let's turn to Owen. Owen, what else is happening in financial aid news this week?

Owen Daugherty:

Yeah, we had a negotiated rule making subcommittee take place this week. Since 1994, formerly and currently incarcerated people have been banned from Pell Grant funding, but that changed back in December when Congress with bipartisan support lifted the Pell Grant ban. Now it's up to the department to decide on how that expansion will look.

Owen Daugherty:

That subcommittee tackled prison education programs and gave the department of education some feedback on how the programs will operate. The department's looking to launch this program for the first time and figuring out what expanding the Pell Grant to incarcerated and formally incarcerated people will look like. That's top of mind right now for them. The subcommittee was able to give them some feedback.

Justin Draeger:

Yeah. Some of the subcommittee members and certainly from the NASFAA staff who were providing support and monitoring all this participated in experiments for Pell for prisoners. They're bringing both the theory and the practice to the table as they work out regulations on this. Owen, what's going on with free community college? Is it in? Is it out? Where are we at?

Owen Daugherty:

Quick update. I know we touched on this last week, but it's now more clear than ever that tuition free community college is not going to make it into the budget reconciliation bill. President Biden signaled as much last week and that really disappointed some higher education advocates and dealt a blow to the President's college affordability agenda. A final deal in Congress has yet to be struck. But at this point there's virtually no chance that tuition free community college will be in the final product.

Justin Draeger:

Yeah. There's only so much they're going to spend and the smaller that package gets, the less things fit into that box. Looks like it's pretty well out at this point.

Owen Daugherty:

Right. Yeah. Biden's still holding out hope, but it certainly doesn't seem like it's going to be in this package. Democrats will have another opportunity at a reconciliation bill in the future, potentially after midterms, if they hold the majority. But at this point, Biden's saying he'll keep pushing for free community college. As we know his wife, Jill, Dr. Jill Biden teaches at a community college and he all but guaranteed that the country would have free community college within the next several years. Then he pointed to a boost in the Pell Grant funding as a concession for free community college not making it into the package.

Justin Draeger:

All right. Well, I guess nothing's over till it's over, but right now, odds do not look good. Thanks very much, Owen, for catching us up and people can catch up on all of these stories and more by checking out the links in our show notes and staying subscribed to today's news. Again, thanks everybody for listening to another addition of Off the Cuff, we appreciate your comments. We read them all as they come in. Send us your comments. Remember to subscribe, tell a friend, and we will see you again next week.