NASFAA's "Off the Cuff" Podcast – Episode 223 Transcript

OTC From the Field: A Student Loan Servicing Deep Dive With SLSA Executive Director Scott Buchanan

Justin Draeger:

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

Scott Buchanan:

And I'm Scott Buchanan, executive director of the Student Loan Servicing Alliance.

Justin Draeger:

Welcome, Scott. I'm glad to have you here. I've known you for a number of years, and seems like a week doesn't go by when loan servicing isn't in the news in some way.

Scott Buchanan:

It's very exciting.

Justin Draeger:

We know it. Look, it touches a lot of lives. Millions of borrowers every year, and loan servicers are tasked with the job of collecting on all of those loans. And they have to, at the same time, apply all of these principles.

Justin Draeger:

Many, many years ago, I'll share, my myself and a couple other NASFAA staff were invited to actually go and visit an onsite loan servicer, and we went. We spent a day at this loan servicing facility. And in financial aid, you sort of have this concept of how complicated loan repayment is. But for colleges and universities, we're also dealing with all the upfront complexities.

Justin Draeger:

So a lot of our time's focused on application, while you're in school, all of the litany of regulations there, and then we try to provide some guidance, some schools more than others, as people go into repayment. But not until that day did I fully realized just, and we were able to actually listen in on some phone calls, just how enormously and ridiculously complex this job is. And you can't just pull people off the street and put them on phones in like 48 hours, it doesn't work that way.

Justin Draeger:

So, Scott, I'm really glad to have you here. We've been having a lot of conversations over the last couple months. But I want to cut to it, all right? Let me read you back a few things that have been said about loan servicers recently.

Justin Draeger:

In November, Senator Warren and several other Democratic lawmakers sent a letter to loan servicers that said, at least in part, "Student loan servicers have a long history of misleading borrowers about available options, mismanaging programs, cheating borrowers out of protections developed to help them to pay back their loans."

Justin Draeger:

When Navient, who announced that they were leaving the federal student loan servicing program, when they left, Senator Warren said, "Navient has repeatedly provided inaccurate information, incorrectly processed payments, ignored borrowers concerns, and is scrutinized for harassing and abusing their borrowers while making it difficult for them to repay their loans." She made similar comments when PHEAA announced that FedLoan that they were leaving.

Justin Draeger:

So I'm going to assume you don't agree with all those critiques. But before we get to that, where do you think this ire comes from? And maybe about Senator Warren, but maybe also just from the public, just general sentiment, where does it come from?

Scott Buchanan:

Yeah, well, I think it comes from the underlying issue here, which is student debt and the cost of college is a really big issue for a lot of families today. This is not some sort of small-time sort of matter that all of a sudden a politician is blowing up into being a big thing.

Scott Buchanan:

This is a real sort of kitchen table sort of discussion that a lot of families are having, both before they send their kids to college, but also once they graduate, are in the workforce, and are sort of wrestling with financial implications of those decisions that they've made. And so, I think it is a real big issue.

Scott Buchanan:

I think the challenge is that when you have a lot of politicians, we have to talk about what is the solution to the problem, and what is the real problem? And so, we have an issue that faces a lot of people, but Senator Warren is a politician, and she knows three things, I think.

Scott Buchanan:

She knows, number one, that student loan debt is a really big issue for a lot of families. She needs a boogeyman to blame for it. And she also knows that the real problems that exist in the world of higher education financing are really, really complicated. I mean, you and I know this, the interactive effects of the federal government sort of allows for borrowing at a certain level, raises those limits. What does that do in the marketplace?

Scott Buchanan:

And then, also the federal student loan program opportunity to sort of fix the issues that are endemic in sort of the structure of income-driven repayment, PSLF, all these sort of things. So those are really complicated. So she knows it's a big issue, knows she needs a boogieman, and knows the real problems are really hard to fix. Then, we find someone to blame at the end.

Scott Buchanan:

I think it's funny, you and I have both been around long enough to remember like a decade ago sort of the narrative in Washington with politicians, it's that, "Oh, it's the lenders that are a problem. We've got to get the lenders out of the student loan business." Well, we got the lenders out of the student loan business, and we went from 400 billion outstanding to 1.6 trillion in outstanding in that short window of time. And all of these complications still exist today.

Scott Buchanan:

So every few years, politicians have got to find someone to blame because they don't want to turn the finger and blame it on themselves. When in fact, I mean, Senator Warren is on the board of directors at the largest consumer lending bank in the country and is blaming the guy who's on the telephone talking to the borrower. I don't think she-

Justin Draeger:

Well, so I hear the college affordability issue.

Scott Buchanan:

Yeah.

Justin Draeger:

So this is you're saying it's a real issue, but a lot of the ire might be misdirected on the public's part. Let me focus in on the boogeyman part for just a second. So Washington politicians, at least the ones who are most familiar with these issues, are in the know. Senator Warren is a very knowledgeable person.

Justin Draeger:

So if the contention is that she needs someone to sort of to channel the ire, the public's ire about college affordability and loan debt, to an entity, and those entities are loan servicers, what is the end... I assume there must be an end game here. There's a political end game. Any conjecture on what that would be?

Justin Draeger:

Because, ultimately, you can cancel all the loan servicing contracts that exist, but you still have to have loan servicers. That doesn't remove the need, I guess, for loan servicers. So if she applauds Navient's exit or FedLoan's exit, there still has to be loan servicers.

Scott Buchanan:

Right. Well, unless you forgive all the loans, which is sort of... And I think there is some underlying desire here to paint, by some, and I'm not ascribing any particular intent here. But I think if you look at the general sort of dynamic that's going on, I think there's a strong desire by some to make this program look so broken, that the only solution here is to either make college completely free for everybody or to forgive all the loans that are outstanding.

Scott Buchanan:

And, listen, I think those sound like great ideas until you say to yourself, "How is that going to work five years from now? And what is that going to mean?" So I think there is some desire to make the program look so broken that we don't have a path forward, which is just not true. There are incremental fixes that can be made here that solve most of these issues. And, really, and Congress has got to do it.

Justin Draeger:

Okay. So let's back up one second before we get to some of the fixes. Do you think, so is it reasonable, though, to say that servicers have messed up from time to time? Is that a fair statement or would you disagree?

Scott Buchanan:

No, no, no. Listen, we are dealing with 40 million borrowers trying to navigate them through repayment plans that are so arcane and complicated. And when you have five different flavors of income-driven repayment and you're having to navigate borrowers through that, I am confident that we make mistakes.

Scott Buchanan:

But I think the thing I'm saying is that there's this argument out there that there's this big systemic issue, and people say this sort of thing, servicers have harmed borrowers. They've misled borrowers. But the statistics, you say, "Okay, what is the data that proves that?" Because that's a nice... You can say anything, right? Question is, do you have data that shows it?

Scott Buchanan:

And I point always to three things. You look at, Senator Warren is a big believer in the Consumer Financial Protection Bureau. CFPB's own complaint data last year shows that of those 40 million borrowers, 364, 364 across the country had an issue and a complaint that had to be resolved by the servicer or fixed, a problem that actually needed to be fixed.

Scott Buchanan:

Now, there were a lot more complaints, but most of those were invalid. And if you do the math on that, you say, "Well, what's the error rate? How wrong are servicers?" That error rate is 0.00091% of borrowers who had an issue.

Scott Buchanan:

All right, let's say you don't trust the CFPB because they're hiding something. So you look at the ED OIG report that came out several years ago that was sort of trotted around the Hill. And people said, "Oh my gosh, there are mistakes that servicers made." Again, we make them from time to time. But even that OIG report says the actual error rate was 00.49%.

Scott Buchanan:

Okay, you don't believe the OIG. Let's say, "What does ED say?" So every servicer met or exceeded the Department of Education's performance indicator standards in the last several years. So by all data and statistical measure here, this is not a systemic issue or a big issue.

Scott Buchanan:

It is a big issue for those individuals where we do make mistakes. And I think we've got to correct those, we've got to identify them, we've got to do a better job of it. But I find it lacking in credibility if you say that there's a big, big issue when that big, big issue is 0.00091%.

Justin Draeger:

Well. And a professor that I we've highlighted in some of our Today's News work, Raj Darolia, has done some of work. I think he presented it at Third Way, where he kind of showed that a lot of the complaints issued against loan servicers with the CFPB were really complaints about outcomes of their education, loan debt, to earnings complaints, that they were dissatisfied with sort of a lot of outcomes-based information that came out of their degree and their inability to maybe pay their student loans back. But, again, that's not necessarily an operational loan, well, it's not an operational loan servicing issue.

Scott Buchanan:

Yeah.

Justin Draeger:

So there's that piece. But there have been settlements from some of the student loan companies that, while maybe not legally or technically acknowledging any guilt, I understand these are financial decisions about how much do we fight versus just settle financially so we can move on?

Justin Draeger:

There is implicit in that, at least some credibility where somebody's doing a financial analysis on the servicing side saying "There's some credibility here, so it might make more sense for us to pay now then actually go all the way through some sort of trial." So there are some areas where something was misapplied, and I assume that the feeling, though, is we should get those ironed out. Those are things we absolutely should address.

Scott Buchanan:

Well, like for example, you talk about settlements, and this is, I think, a great frustration. Everyone looks at those, and listen, we're all consumers of news in sort of 60 Minutes style. We're like, "Oh, they settled. They must be guilty." And that certainly, I think, is the perception.

Scott Buchanan:

You highlight the fact that these are businesses who are making sort of strategic decisions about, "I don't want to get tied up in litigation that's going to cost me millions of dollars if I can settle for half of what it would cost me to litigate, even if I did nothing wrong." It's just a pure business decision.

Scott Buchanan:

But let's take, for example, like PHEAA's settlement with Massachusetts. So there was a much ballyhooed decision that PHEAA's decided to settle on PSLF-related issues about not counting payments correctly. And there's this big press release, and they've done settlement. Do you know how many borrowers that impacted that actually had issues in the state of Massachusetts? Under 30. Under 30. And you know this, if you can figure out how to count the payments on PSLF, congratulations, because it's really complicated.

Scott Buchanan:

So, again, are there isolated issues and a handful of borrowers who have problems that need to get fixed? Absolutely. But again, that doesn't sort of indicate that... I hardly think given the hundreds of thousands of borrowers in the state of Massachusetts, the 25 people who over the course of a 10 year window had a payment that was misapplied that had to be correctly reapplied, I don't think that tells you anything about sort of there being a systemic issue here or that servicers are intentionally trying to harm borrowers. I just find that ridiculous.

Justin Draeger:

Well, let's talk about 60 Minutes for a minute because it wasn't that long ago, I can't even... The pandemic has sort of compressed all time for me. But I think it's been in the last 12 months, there was a 60 Minutes piece that was specifically about public service loan forgiveness. And it featured four or five current or former service members, and I think these were even JAG officers. They were part of the elite attorneys and legal teams of some of our military.

Justin Draeger:

And one thing that I do recall from that 60 Minutes piece was that there was... I don't recall counting at least even one time a mention of the Department of Education and federal agency responsibility who ultimately are the ones that hire the servicers, oversee the servicers, award contracts, change volume, and determine whether servicers are meeting their metrics. Is that your recollection, and where is the Department of Education in all of this?

Scott Buchanan:

Well, I think that's one of the things that there's a real opportunity... Again, as I said at the beginning, I said sort of some of this is we're misdirecting sort of attention. And I think we've got to understand there is shared responsibility. And I'm, again, not saying servicers don't have that responsibility. As I made clear, I think we've got to get it right.

Scott Buchanan:

But a lot of the issues, as that 60 Minutes piece highlighted, none of those problems that those service members were facing were as a result of servicer action. Those are the policies and procedures of the Department of Education. So how we're going to handle incoming inquiries, what the decisioning is going to be on PSLF forgiveness, that's all the Department's purview. We process the paperwork, and we hand that off to the Department to make final decisions about things.

Scott Buchanan:

But when you say, "Well, gosh, I thought I was in a job that counts, but it turns out my job is not one of the qualified non-for-profit entities, but I work in non-for-profit. I was told, I thought it was just anyone who worked in non-for-profit because I read tweets by members of Congress who said that's what it is. When in truth, it's more complicated than that."

Scott Buchanan:

And that's where I think the Department, and Congress as well, need to step up and say, "Listen, if there are problems with our policies and procedures, we need to fix them." I mean, the surest sign that the real issue here on PSLF was the regulations and the law is the fact that in order to get all these hundreds of thousands of borrowers through the PSLF process, the Department of Education literally had to waive the law, right?

Justin Draeger:

Right.

Scott Buchanan:

I mean, and now all of a sudden we have a lot of people who are getting loan forgiveness that wouldn't before. Not because anything that happened differently on the servicer side, we're still processing exactly the same way, but the Department has come and said, "Listen, all those laws and restrictions that you were complying with and that limited borrower's ability to get forgiveness that we mandate on you? We're going to waive them now," and surprise, surprise, a lot of people get loan forgiveness now.

Justin Draeger:

Yeah. And from the servicer standpoint, I imagine it's neither sort of here nor there. It's if you want to issue a waiver, we'll process these loans differently. It's not as if, or at least I haven't seen any statements or even heard scuttle behind the scenes, the servicers opposed the temporary waiver that's been offered.

Justin Draeger:

It's sort of like we can point out where the issues are. And the issues are, there was a narrowly defined set of loans that qualified for PSLF. We knew this from the beginning. It was too complicated for borrowers to understand. And we didn't get guidance.

Justin Draeger:

And I know this from NASFAA's standpoint because we were pointing out to the Department as early as like 2017, two years until the first PSLF loans should qualify, less than 100 borrowers of the millions are actually on track, and we were waving our arms saying, "Big problems ahead. This is not going to work. People are going to have to reconstruct employment history and loan history."

Scott Buchanan:

Well, and remember, we didn't even have the employment verification form. That didn't even exist until years after the program had already been in place, I mean, years. Which is just, to me, at some point, you got to take some accountability for the programs you run here. And I think we all need to take accountability for what we're responsible for.

Scott Buchanan:

But when the procedures and the guidance and the things that were roadblocks to borrowers getting access to public service loan forgiveness, you got to own who owns it. And it's the Department and Congress who really own those rules. And if they don't like the way they're working, they need to change them.

Justin Draeger:

Well, let's talk about ownership for a second because I've got two followup questions on that. One is what is the relationship to the CFPB, the Department of Education, and loan servicers? And the reason I ask this is the Department of Education and the CFPB are both part of any given administration. So it's all part of the executive branch, the president's delegated authority through secretaries and directors as afforded by Congress.

Justin Draeger:

So, like any organization, you usually don't have two heads. You have the Department of Education with a chief operating officer that sort of oversees loan servicing procurement. You have an Office of the Inspector General, that's sort of checking on the Department of Education and its management. But now, in the last decade, we also have the CFPB that is also sort of checking.

Justin Draeger:

I've often struggled to try to understand... And the department has gotten into squabbles during the Trump administration about how much data they would share with the CFPB because sort of like, we don't need multiple people, multiple agencies investigating here. But what is the ideal relationship here between the Department and the CFPB?

Scott Buchanan:

Well, I mean, what is that ideal relationship? And that's a really good question. I mean, the point you make about sort of serving two masters is the big problem for a servicer. And, in my mind, having two masters is fine as long as they're both giving you the same instructions because you can deal with that.

Scott Buchanan:

We've all perpetually probably had moments where we sort of have two bosses we're trying to manage. But as long as we're going in the same direction, trying to achieve the same outcome, and have the same expectations of each other, that can work in some respect.

Scott Buchanan:

The issue that we've had, and I think continues to be a challenge, is that when you have the Bureau sort of having totally different expectations than what the Department tells you to do and what the Department of Education pays you to do, that's where we get into a lot of conflict. That wastes a lot of resources, and frankly, we don't know what to do.

Scott Buchanan:

I mean, I'll point out a good example. On the PSLF waiver, the CFPB just put out a bulletin that provided guidance about how they expected servicers in the marketplace to help inform borrowers. It had a lot of suggestions and things that they would expect to see. Some of those are very different from the requirements that the Department of Education has provided to servicers on a very ticky-tack level.

Scott Buchanan:

And when you go to the Department of Education and say, "Hey, the Bureau has put out this bulletin, which is slightly different from what you told us to do, do you want us to do what the bureau says or do you want to update your guidance?" And when the Department of Education says, "We're not providing any additional guidance," that leaves you stuck. I mean, how are we supposed to reconcile that? And-

Justin Draeger:

It sort of feels a little bit like a setup here because-

Scott Buchanan:

Well, that's-

Justin Draeger:

You're going to be, you're damned if you do, and you're damned if you don't.

Scott Buchanan:

Oh, I mean, I think that's the case pretty regularly. This is not the first time. This continues to happen. And it is, at the end of the day, it really is there's an opportunity for those two agencies to work together. And, listen, they have double the resources to sort of look over servicers and make sure we're doing the right thing. But you've got to be focused on asking us to do the same things because otherwise we are stuck in an untenable position.

Justin Draeger:

All right. Well, you said two masters, let's add a third boss, which is the state attorneys general.

Scott Buchanan:

Sure.

Justin Draeger:

So this administration decided that they were going to retreat on a policy position that I think has spanned both Democratic and Republican administrations. This is not a partisan issue, or historically hasn't been, which is supporting federal preemption. It's a federal student loan program. Guidance will be issued from the feds, but state attorneys general have been pressing for their own oversight for borrowers in their states.

Justin Draeger:

And if, for example, a state attorney general says, "You can only contact a borrower in our state once every 21 days," but the department says you should contact them once a week when they fall delinquent... I'm making this up. You probably can give more specifics. But there's a contradiction there, and I wonder how is that being reconciled by loan servicers?

Scott Buchanan:

Yeah, it's a big issue. I mean, we've had legal fights with states about this. I mean, we sued the District of Columbia, and we won in court against them. Basically making clear that if you're a federal contractor and you're working directly for the federal government implementing a federal program, states cannot come in and second guess any of those decisions that the government makes through its contractors. You can't license them. You can't ask them to do things differently than what they're contracted to do. I mean, that's the law.

Scott Buchanan:

And I think the challenge that you highlight that previous administrations on both sides have sort of understood and acknowledged is that the real issue is that the Department of Education can't by press release undo Supreme Court precedents here. And so, whether the Department thinks it's preempted or not has nothing to do with. It is preempted.

Scott Buchanan:

I think we've taken the stance, though, rather than sort of on a 50 state basis litigating this, knowing, again, in all the states where we fought it, we won, but that's just cost. The more we litigate, we just have to take that out of resources that otherwise go to help borrowers, get sucked into litigation.

Scott Buchanan:

And so, our approach has been we're trying to work with the states collaboratively to try to harmonize their expectations with the Department of Education's expectations. But it sure would be helpful if the Department of Education, since they want to work with these states, also coordinated to harmonize, so again, we're all operating off the same playbook.

Scott Buchanan:

One of the things we've advocated for, and you'll remember is from the old FFELP days, we had a common servicing manual that all FFELP servicers used. And it had the rules, and they were very detailed down to very specific practices. It wasn't sort of like, "Answer the phone." It was, "Here are the standards of how quickly you need to answer it," and all that sort of detail that's really important.

Scott Buchanan:

We need that on the federal servicing side today for the direct loan program. And we need the CFPB, the Department, and the states all to agree that is the rule book. And we'll follow that rule book, whatever it is, you just tell us what it is. But when you're expecting us to try to figure out and discern what three different masters say, and especially when you have situations like the Bureau and states' attorney general sort of come at you ex post facto and say, "The practice you've been in the marketplace doing for 10 years, we've decided now 10 years later is inappropriate." I mean, that's just, come on. That's just impractical to deal with.

Justin Draeger:

So NASFAA has supported a common manual for direct lending. And one of the things I remember about the common manual back in the Federal Family Education Loan program days is in the appendix then, there was sort of this leeway for different guarantee agencies to sort of customize what they were doing.

Justin Draeger:

But again, it was all very transparent. It was sort of like, "This is how this agency is doing this. This is how that agency is doing that." Let's talk a little bit about that sort of in loan servicing, this theory of standardization versus competition.

Justin Draeger:

So the way that pricing is set up right now is loan servicers are supposed to be motivated by volume. If you do a good job on the metrics the Department says you should be meeting, you're supposed to get more volume in the future. And if you do a bad job, you get less volume. Is that the appropriate way to sort of motivate servicers?

Justin Draeger:

And then, two, how then do you build into the system a way so that the servicers do cooperate, whether it's on a common manual or just sort of sharing best practices, like, "This is what's worked," or, "We ran this trial here. And instead of using that to my competitive advantage, I'm going to lift the entire tide of student loan servicing." So how do you do that?

Scott Buchanan:

Well, this is really difficult contract management about how would you construct a regime that is going to get you the outcomes, reward good behavior, and then create a desire for that behavior and those outcomes to continually improve? I mean, that's what we're trying to construct, some sort of machinery that would have that happen.

Scott Buchanan:

I think the first thing we got to decide is what is the outcomes we want? Do we want everyone in an income-driven plan? Is that the outcome we want? Is priority number one reducing defaults? And I think that's where there's... Right now, there's a little bit of conflict about what is the best outcome for a borrower? Do we want them to pay back this loan, or do we want them to be in the loan... Do we want the person to pay it back, or do we want them to be in a program that will minimize their costs?

Justin Draeger:

Well, let me translate that into dollars then, Scott. So right now, servicers are paid more if borrowers are successfully repaying their loans. And if they fall delinquent, the compensation goes down. And I think the idea here was that loan servicers would then be incentivized to keep borrowers in repayment. I understand that.

Scott Buchanan:

Yeah.

Justin Draeger:

On the other hand, there are a lot of borrowers who will just successfully repay their loans without servicers really doing much of anything.

Scott Buchanan:

Right, yeah.

Justin Draeger:

Which is sort of a windfall. And then on the second side, if a borrower does fall delinquent, at some point, speaking of business decisions, are we incentivizing... Do we want servicers to spend more when somebody falls delinquent, or do we want them to spend less because the more delinquent they come, it starts to become a lost cause.

Scott Buchanan:

Right. And I always had thought there's an opportunity here. You highlight that right now we have... The compensation structure is really sort of tiered to pulling people in current, and then sort of it declines over time.

Scott Buchanan:

And you're right, at some point, if you're a business and you're making a decision, and you say, "I'm only getting... " At the end stage, you're getting paid 45 cents for a severely delinquent borrower. And the outreach to do on a severely delinquent borrower, 45 cents a month ain't going to cover it. So you are booking a loss on a business level.

Scott Buchanan:

And that's why I've always thought there's an opportunity here to have... And this is what I think creates an invention, is to have your structure that pulls people forward, but then also have for servicers that outperform on default metrics and reduce their default rate, that there's some sort of pooled incentive amount to say, "Listen, if you're willing to put time and effort behind this and are successful at it, so that effort is worth it to all of us, to the borrower, because they're not defaulting, to the taxpayer, because they're not going to lose, and to you as a servicer, we're going to create an incentive pool that will pay you out to cover those costs."

Scott Buchanan:

And discourage that sort of thinking, which is like, gosh, this borrower is on the way to default anyway, let me stop calling them because they're never going to call me back, and that call will have lost me money to make. So I think a hybrid model where we say...

Scott Buchanan:

And I think this is where you have to have multiple sort of measures on top of servicers to make sure... And I think you could do the same thing with income-driven, so is it do we want to push more people in? Do we feel like they're targeted populations that are not going into income-driven repayment either because they don't know... We need customized outreach.

Scott Buchanan:

So I think having sort of innovation funds where the Department would be in complete control, but say, "Listen, if you've got an innovative idea to tackle a pool of the population that we're not dealing with in our sort of blanket treatment of every borrower in America, we will create an incentive structure that says, 'If you implement that and show success that benefits the borrowers as well as the taxpayer, then there will be compensation to come for that. Now, if you fail at it, then that's on you.'"

Scott Buchanan:

But I think that if you overlay those kind of incentives, I think you get a lot more performance and you deal with some of those concerns about sort of incentivizing wrong behaviors in servicers.

Justin Draeger:

Yeah. All right, let's turn this just a little bit, a few more degrees. Speaking of compensation and contracts, that ties directly into what's on a lot of student loan borrowers' minds right now, which is is repayment going to start on May 1?

Scott Buchanan:

Well, I mean, that's hard to know. I mean, they've moved it so many times that it's difficult to know what the thinking here is. As of right now-

Justin Draeger:

Have loan servicers been asked to gear up for a May 1 start?

Scott Buchanan:

Yeah, I mean, we have been on a trajectory for the last several months to prepare for resumption on May 1, so the Department has been full steam ahead on this. I think, today, you probably saw some stories, and yesterday, that the Department did apparently communicate to servicers and said, "Listen, don't send out any bills yet. Put that on hold for the moment."

Scott Buchanan:

Now, I don't know if that's indicative of some decision That's been made to potentially push the date out, or if the department is wanting to change the messaging of what we say in those documents that are going to go out, or if they're being overly cautious because the final decision hasn't been made yet, and they don't want us to sort of do what we did before.

Scott Buchanan:

I mean, this was a challenge with the previous administration is we didn't know that the payment resumption was going to be pushed out, so we'd already started mailing millions of borrowers information, and that's a cost that goes out the door and can't be recaptured. So, at this point, I think it sounds like at least the White House is still weighing their options here.

Scott Buchanan:

I mean, I think if you turn to the economic situation though, here, if you don't sort of restart repayment now, what's your driver for when you're going to restart it ever, right? I mean, at some point this has to happen. People got to start paying back their loans again. No one likes to, but this is money that the tax payer's got to bring back in so that it can lend out to more people.

Scott Buchanan:

And if you look at the economic indicators, the unemployment rate, we are back now to pre-pandemic levels on that. There's inflationary metrics and all those other things that are complications. But I find it hard to know what is the hard indicator that would say, "Let's start repayment," if it's not already here?

Justin Draeger:

Yeah. It certainly starts to look more like a political decision than maybe one based in facts, although I'm sure you saw chief of staff, White House chief of staff, Ron Klain, on Pod Save America talk about the fact that they want to reach some sort of decision on targeted, potentially loan forgiveness before they restart the repayment machine. That seems like a pretty tall order between now and May 1. Although, I guess crazier things have happened.

Justin Draeger:

From a servicing standpoint, though, I'm trying to wrap my mind around the idea of whether it's May 1 or July 1 or December 1, you start the repayment machine, 40 million borrowers are going to start repaying their loans. What does that look like from a loan servicing standpoint? Can you get everybody processed in 30 to 45 days? Is everybody turned back on?

Scott Buchanan:

Yeah, well, and I guess at least the good thing, it's not all 40 million. It's only about slightly over 30 who are in the actual payment pause because we have a lot of folks who have chosen to go into repayment. And then a lot of the FFELP loans are repaying. So the number isn't quite as bad as that, but 30 million is still a lot of borrowers.

Scott Buchanan:

And I think, from a servicer perspective, a lot of the things that are necessary in order to get people back into repayment, that groundwork has been laid. Now, I'm going to say, no matter whether it's May 1st, no matter whether it's July 1st, sort of doesn't matter, if everyone waits, if every borrower waits to talk to their servicer until repayment actually begins, that date, they're going to be on hold for a long time.

Scott Buchanan:

Because there is no physical way to staff for that kind of volume. I don't care how much money the Department of Education threw at this problem. To staff up to that level of demand that you could potentially have...

Scott Buchanan:

So that's why we spend a lot of time as servicers automating a lot of the processes that are going to go on the back end here, making sure that almost all the transactions you would need to conduct with your loan account, including getting into IDR, exploring PSLF, looking at sort of like what your payments might look like, payment calculators, all that sort of stuff we have set up on the website, so people can go do that.

Scott Buchanan:

And that's where we're really encouraging them to go and be ready for payments to resume, to go ahead and set up your auto debit, make sure... You don't even need to talk to us. You can just go, click, set it up, and you're done. So a lot of that work has been done.

Scott Buchanan:

So I think, listen, servicers are generally ready. The one variable we can't solve is knowing when everyone's going to call, if they're going to call early or late or all on the same day. And that's going to be, again, and there's no amount of money that I think can really solve that issue. It's going to be tough on the customer service line perspective, phone line perspective, for some time around this issue.

Scott Buchanan:

But that's why we've sort of encourage, it's time to rip off the bandaid. Because the longer we wait too, this is the practical thing, and anyone who works in financial services will tell you this, the longer that a borrower was disassociated from their loans, the more they retool their family budgets to forget about it.

Scott Buchanan:

And then, all of a sudden, you come back two years later and you say, "Remember that $150 payment you need to make?" And they're like, "Oh my gosh, we made different life choices. We bought a car that's a little bit more expensive than we would've bought because we thought we a hundred bucks extra a month because I was looking at what was in my bank account."

Scott Buchanan:

And when people have rebuilt their lives in that way, that becomes a real challenge, so we're going to have more effort. But the longer we wait, the worse that problem gets.

Justin Draeger:

My entire career in and around financial aid, the advice to any borrower who was struggling or trying to weigh their options was always contact your lender, or in the DL program, contact your servicer. A couple of weeks ago, chief operating officer over at FSA, Rich Cordray, basically told borrowers on PSLF waivers, "Don't call us, we'll contact you." Why? What led to that? That's counterintuitive to everything I've ever thought. What do you think the reasoning is there?

Scott Buchanan:

It's because the Department hasn't figured out how the waiver's going to work yet.

Justin Draeger:

Okay.

Scott Buchanan:

I mean, that's the practical reality. So if you called up-

Justin Draeger:

So it's not overwhelming servicers with questions they can't answer?

Scott Buchanan:

Well, it is. I mean, that's right. If you call today and say, "Am I going to get loan forgiveness?" Or, "Am I going to get extra payments counted?" A servicer has to say, "I have no idea. The Department of Education is going to make that decision. They haven't told us yet."

Scott Buchanan:

So if every time there's a news story about PSLF waiver, they pick up the phone and call their servicer, we are spending enormant amounts of time talking to people, telling them things that they don't want to hear, which is that we don't have answers. And the answer is we don't have answers. And so I think that's why you see that.

Scott Buchanan:

This is, I think, another challenge that we've communicated pretty clearly to the administration and to the Department is that if you're going to announce these big changes, these big programs, you've got to give servicers heads up. We learn about these things in the same press releases that America does.

Scott Buchanan:

And then, is it any surprise that we're staffed for normal times, and then all of a sudden the Department announces there's a PSLF waiver. We get hundreds of thousands of phone calls to our customer service line saying, "Am I eligible?" And we are like, "Eligible for what? Oh, wait, there's a press release? Let's go read it." And that's not a way to run a federal program of this size and scale. We've got to work together to do a better job on that.

Justin Draeger:

Yeah. And I imagine it creates quite a bit of frustration. All right, we're winding down on our time, and I know Scott could probably go on for quite a while. Let's say I've got a family member who is a borrower. They are currently on the repayment pause, and it's scheduled for May 1. So really, what advice would I give this person? And I kind of have something in mind, but I'm sort of curious what you would have in mind. What realistically should we tell these people?

Scott Buchanan:

So what I would say is that, well, first of all, I hope you've been saving that... I don't know if this is practical... I hope you've been saving that payment amount that you would've been making and be very strategically smart about right before repayment resumes or right after it does making a large payment to your principle, pay it down.

Scott Buchanan:

So that would've been, and I talked to reporters about this through this whole thing. If you had the wherewithal to save that money, because interest has not been accruing, so if you could take those monthly payments, a lot of which would've gone to interest under normal times, then all of a sudden, now, you have $500 that you would've been paying, now's the moment to pay down that loan. So you can take the loan balance down, and then future interest, when it does turn back on, will be on the lower balance. So you'll lower meaningfully the total cost of that loan. So number one.

Scott Buchanan:

Number two, talk to your servicer today. Don't wait. And whether you think the date's going to move or it's not going to move, no harm, no foul about having that conversation today. Make sure they've got your correct demographic information. Make sure that you talk to them about what the right loan repayment plan is for you, sort of explore IDR and all these other things.

Scott Buchanan:

Go ahead and get that set up, so you're not waiting on April 29th or April 28th trying to figure out what you're going to do. Go ahead and have that conversation today. And I would say this, you and I, Justin, we've been in Washington a long time, so I would not make any personal financial decisions based upon what the federal government might or might not do. Because, as we know, those winds and tides change pretty quickly.

Scott Buchanan:

So if you're someone who's sitting and saying, "Well, I'm going to wait and see if the government gives me more support or what have," you got to make the financial decision to pay down as best you can these loans. I'm not saying accelerate any activity here, but don't hold your breath for the federal government to do something here.

Justin Draeger:

Right. So my advice, and my advice would pretty much match yours because I know that's what I'm supposed to say.

Scott Buchanan:

Okay.

Justin Draeger:

But now, let me step out of that for just a second and say two things I probably, one of which I shouldn't say, but I'm going to say anyway. One is the first point you made really, I think, points to sort of the regressive nature of a recovered economy and those who can pay their loans.

Justin Draeger:

So those who are in the best financial situation, who didn't experience job loss, which tend to be sort of white collar jobs who went through the pandemic perhaps unscathed by a lot of the economic turmoil, working from home, might even have some savings, they could be paying down their loans at just an enormous advantage to other people who are really struggling because they don't have any interest accumulation.

Justin Draeger:

So if they could pay their loans, they can. I think that's good advice. That's someone I would tell my friends or family, if you can, do it, because you can do it at an accelerated rate and pay down real principle right now. But that also speaks to the regressive nature of this, that those are in a position to do that have an advantage over those who don't.

Justin Draeger:

So this is the whole, if you can repay, then we should restart the repayment machine under some terms and conditions that we originally agreed to. So we match on that. Here's the

Scott Buchanan:

If I might just say one thing on that, and that's not only, that's not speculation that that's what's going on. CNBC did a survey, thousands of borrowers, and that's exactly what's happening. White and wealthy people are paying down their loans. White and wealthy people will come out of this payment pause ahead. Lower income and minority populations are going to come out of this payment pause exactly where they went into it.

Justin Draeger:

Right. So this is a point where we've talked, we've kind of debated this before, but it's the idea of, at the beginning of the pandemic, yes, it was you needed widespread relief.

Scott Buchanan:

Right. Absolutely. Yep.

Justin Draeger:

So you didn't have time to do means-tested benefits, which is how we prefer to do federal aid, which we say, "Who needs it?" Then we give the money out. But we didn't have time. But the longer this goes on, it becomes more and more regressive. Brookings has done a lot of work on this as well.

Justin Draeger:

So the second thing, though, you said, which is contact your servicer. This is something that's so ingrained in me over decades of work in this, 20 years of work in financial aid and loan work.

Justin Draeger:

But on the other hand, I guess I would say part of me wonders, though, if my non-payments are counting towards loan forgiveness, why wouldn't somebody just sort of sit on their hands and be like, "I'm in no hurry. I'll wait and see what happens? Why would I contact my loan servicer? I don't want anything getting turned on accidentally. I'm going to sit this out until the last possible moment." I mean, would you fault people for thinking that way?

Scott Buchanan:

No. Listen, I might think that way too. That's why I said I think it's really important for people to understand, and when I talk to reporters to get this out, is that if you sit on your hands right now, you will be sitting on hold when we get started again.

Justin Draeger:

All right. That's a nice turn of the phrase. Okay, Scott, really appreciate your time coming on, talking about some of these issues. Like I said at the top of this hour, this touches tens of millions of people, and servicers play a pretty integral role in ensuring that borrowers can successfully stay on track for whether that's for successful repayment or loan forgiveness or any benefit that's been promised to them. So let's stay in touch and appreciate being you being on.

Scott Buchanan:

Absolutely. Yeah, no, thanks for having me. This has been a great conversation. As you point out, this is a really critical topic, so it's always great to talk about it with you.

Justin Draeger:

All right. Thanks, Scott. Hugh, let's bring you into the conversation. A lot happening in Washington DC this week. You want to catch us up with federal spending?

Hugh Ferguson:

Yeah, so it's been a busy week, and it's only Thursday as of right now of our recording. But probably the biggest news of this week for folks that have been following is this $1.5 trillion omnibus package that Congress dropped on Wednesday, and the House considered it and passed it through their chamber.

Hugh Ferguson:

It would allocate $76.4 billion to the Department of Education and its programs. And this total is also a $2.9 billion boost from the fiscal year 2021 enacted level. We have a summary in today's news, and I'll be sure to include a link in the show notes where we highlight how higher education made out.

Hugh Ferguson:

One item of note within this bill is that it contains a $400 increase for the maximum Pell Grant, which according to congressional leaders, this allocation serves as the largest increase to the maximum award in more than a decade. So, yeah, like I said, this is still moving through Congress. It's now in the Senate, and folks should stay tuned to Today's News and our social channels to get the latest updates.

Justin Draeger:

And this will be for the 2023 award year. So Pell schedules have already been issued, but presumably, and it's looking, dare I say, good, that we'll get this $400 increase. Anything can happen. I understand that. But we've been banking on some large increase, a $400 increase to max Pell would mean new Pell schedules, which we'll take if it means a meaningful increase for our students. Okay, what else is going on in the news?

Hugh Ferguson:

Yeah. And then in case that appropriations news isn't enough for folks on the spending levels, listeners also have two other fiscally-related items that came up this week. The White House is marking its one year anniversary since the enactment of the American Rescue Plan, and on Monday held a briefing with federal officials to share how the higher education sector was impacted by these emergency funds.

Hugh Ferguson:

And then, the second item is that, as of this recording, we're also reading through some administrative tea leaves that are being dropped on a potential extension for the student loan payment pause, which you and Scott have touched on in this conversation.

Hugh Ferguson:

So, again, members should be sure to check out these links in the show notes and reach out to us if they have any questions or if they're seeing any other financial aid news that they would like us to dig into.

Justin Draeger:

Appreciate it, Hugh. Thank you for staying on top of all this for us. And, as you said, check out the show notes, and people can stay tuned to Today's News.

Justin Draeger:

Thanks, everybody, for tuning in this week. Thanks for listening to Off the Cuff. Just a reminder, send us your comments, send us your questions, so we can tackle them in future topics. Remember to subscribe, leave a rating on your podcast app of choice. That helps other people find the podcast. And we will talk to you again very soon.