NASFAA's "Off the Cuff" Podcast – Episode 241 Transcript

OTC From the Field: Examining and Addressing Needed Reforms to the Student Loan System

Allie Arcese:

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Justin Drager:

Hey everybody, welcome to another edition of Off the Cuff. I'm Justin Drager.

Karen McCarthy:

I'm Karen McCarthy from NASFAA's policy team.

Rachel Gentry:

I'm Rachel Gentry, also with NASFAA's policy team.

Megan Walter:

And I'm Megan Walter, also with NASFAA's policy team.

Justin Drager:

It is the policy team all day every hour for this podcast. Welcome. Thank you all for being here. Megan, this isn't your podcast debut though, right? You've been on the podcast before?

Megan Walter:

This is my third podcast.

Justin Drager:

Yeah. Well, number three is magical. That's when you become part of the regular cast. You're no longer featured, we put you in regular. Although-

Megan Walter:

How do I opt out of that option?

Justin Drager:

So you're going to be, like on SNL, you're now one of the regular players. So welcome back.

Megan Walter:

Thank you.

Justin Drager:

Maria's going to be producing for us. Maria, welcome. And we'll talk to you at the end of the podcast to catch up on the news. Just want to give another shout out to our sponsor this week, Awards Spring. People can go out and check out their website. Their link is in our show notes. Thank you very much for making this podcast possible. This is a special episode because we're not doing current events except when we bring Maria back into this. It's really to focus on, we're right in the middle of loan forgiveness. We have some news on some of the latest going on with loan forgiveness. But part of loan forgiveness, you've heard this at nauseum from us at NASFAA, is that we need relief must come with reform.

And today, we're going to be highlighting some of the reform that NASFAA's been working on for the last year to do that. We have with us Karen, Rachel, and Megan, who are at the center of coordinating all of the work on our student loan reform proposal.

So Karen, I want to start with you. Let's bring you into this. We got involved in all of this because we knew student loan forgiveness has been on the table since the 2020 election cycle. At that time, we knew that that was going to be a very contentious debate. Still is. Lot of legal maneuvering going on. But we wanted to focus on the part that we were afraid would be forgotten in all of that conversation, which is the reform so that we don't end up here in five to seven years down the road. So talk to us a little bit about what were our centering principles? Where did we start from as we embarked on what would be student loan reform?

Karen McCarthy:

Yeah, so we were focusing on, as you said, systemic policy change, focusing on the program design and delivery. And when we sat down and thought about what are our overarching objectives? What areas do we want to focus on there? We didn't have enough time on. This could have been a five year grant if we really looked at the entirety of the loan life cycle. So we narrowed our focus. There were five objectives that we came up with. The first is income driven repayment programs. Everybody knows that there is reform that is needed there. The ideal it would be to protect borrowers, allow borrowers to repay in an accessible, realistic, easy to maneuver way. So sounds simple and straightforward. Took quite a lot of time.

Justin Drager:

So income based repayment was one of our verticals?

Karen McCarthy:

Yes.

Justin Drager:

And one of our principles here was like make it easier, make it more student friendly.

Karen McCarthy:

Yes.

Justin Drager:

Okay, we'll get into that in a little bit later. What's next?

Karen McCarthy:

Yes. The other thing is that if you haven't been in the student loan space for a long time, you might not have even been aware of this, but the federal direct student loan system was very much modeled based on the previous model that we had that was a bank to borrower based system. So we wanted to take a look at that whole structure and get away from the vestige of a bank based lending system to focus more on the federal government providing loan funds directly to borrowers and stop the focus on modeling the whole thing around a bank based system that we had previously.

Justin Drager:

So we don't have to be a carbon copy of how the commercial lending works. This is a direct loan program and literally in the law, a lot of the direct loan provisions point back to old FFEL provisions.

Karen McCarthy:

Yeah. And when you think about it now you're like, why do we do it that way? That doesn't make any sense in the current system, and it's just how it was set up. So revisiting all of those things that need revisiting.

Justin Drager:

Okay, next vertical.

Karen McCarthy:

Yeah. The next thing is that we really wanted to focus on targeting resources towards borrowers who need assistance, but also developing policies that assist borrowers and incentivize borrowers to repay when they can. So we want to target resources. We don't want to make it a free for all, for all borrowers. It is a loan, it's a loan program, it's not a grant program. But to really fine tune that so that borrowers who are struggling get the assistance that they need, borrowers who do have the ability to repay, can manage to do so in a streamlined way and that they will actually successfully repay their loans.

Justin Drager:

Okay, what's next?

Karen McCarthy:

Creating policies that assist struggling borrowers. So both borrowers who are struggling before they enter into the default phase. Once borrowers are in default, making it easier for them to get out of default. And then preventing borrowers from falling into default status to begin with. Making all of those systems a little bit easier to manage and more generous to borrowers to offer them a hand up and out of that situation.

Justin Drager:

And some of these reinforce one another. So making a less punitive lending program as opposed to one in commercial lending where there are really stiff consequences that'll upend your life if you are struggling and can't repay. All right. Anything else?

Karen McCarthy:

And the last one is just an overarching thing that we wanted to ensure that any policies that we recommended are progressive and not regressive for low income students.

Justin Drager:

Okay, Karen, so we had these centering principles. Talk to us a little bit how we embarked on this. We had a grant from Arnold Ventures to help us work through this. Who did we talk to? How did we develop our policy recommendations?

Karen McCarthy:

So the areas that we decided that we wanted to focus in are repayment, loan servicing, and default. And in some of those areas, we, the NASFAA staff had more expertise, and in other areas we needed some outside assistance, particularly around default and loan servicing. So we have often said that on the loan servicing side, it's a little bit of a black box because we don't work directly in that space. So we're not sure. We wanted to make sure that we were putting forward the most helpful recommendations that were the most useful, can be implemented, will really help to improve the system.

So what we did as part of the grant is we hired several policy experts, two in the areas of loan servicing and two in the areas of loan repayment. And those experts did a thorough analysis and wrote an internal memo providing more detail background on what they see as the issues and potential solutions to help guide our internal thought process on the recommendations that we wanted to put forward. And those experts also, once we developed the recommendations, were able to provide feedback and suggestions, correct any assumptions we might be making about how things work when they didn't actually work that way and really provide input to strengthen our final recommendations.

Justin Drager:

All right. And once we had all of that, we went out to lots of external groups, other higher education organizations, associations, people with expertise or interests in student loans and borrower advocacy. How many organizations did we end up circling up with?

Karen McCarthy:

Yeah, we invited 30 different associations, organizations, think tanks, who work in this space, who have various differing perspectives on what the proper solutions are to the situation that we're in to participate as part of a coalition. In the end, we had 21 of those groups who signed on to participate. And how their involvement worked is they shared any current work that their groups had worked on in this space, any recommendations that they have. We in the fall had listening sessions with all of the coalition members in the areas where they were interested to talk about, to ask them questions. What do you think about this? Do you have thoughts on that? We're thinking about a recommendation in this area. What are your reactions to that?

And then once our recommendations were drafted, we provided the coalition an opportunity to ask any questions, point out areas where they needed more clarification. There was some pushback in areas where they disagreed with some of the recommendations as we had them drafted. And then we took into account all of their feedback, made changes where we could, where we thought that was appropriate. And then when we had our final recommendations, we offered the members of the coalition the ability to officially sign on, which is a sign of their support of any individual recommendations as part of the final report.

Justin Drager:

Thanks very much, Karen. So a very collaborative process. People had a lot of input. We augmented our own expertise with outside experts, and we produced this report that it's available in your show notes this week. Let's jump into some of the areas that you mentioned, Karen. I want to start with loan servicing. Megan, I know that you work specifically on this section. Can you identify what were some of the issues that we were trying to solve for here?

Megan Walter:

Yeah. So while the Department of Education has definitely made some leaps and bounds trying to improve the federal loan servicing system, especially with the next gen environment that they've been rolling out, there are still some outstanding problem areas or improvements that we saw when we started our research for this grant. After digging in for a while, we noticed that there were four main areas or buckets of federal loan servicing that would benefit from some changes. Those benefits were, one, consistency for borrowers. So we were mainly looking at how FSA constructs its contracts with servicers and branding and what that means for borrowers. Two, FSA structural changes, which would include changes to FSA organizational structure as well as their oversight processes. Three, FSA collaboration with other entities, so how FSA could better leverage its relationships with other related stakeholders. And then four was servicing pricing or the costs associated with servicing student loans.

Justin Drager:

Okay. So that's getting into the servicing contracts. So one of the areas you mentioned was consistency of servicers for the borrowers, like having a consistent experience. I imagine one of the tensions there though is that the idea underlying student loan servicing is also to build in this room for competition so that servicers can try new things. How do we balance that tension and what do we come up with here when it comes to consistency?

Megan Walter:

Sure. So we had four recommendations in our consistency bucket, if you will, which focused on topics like needing a standardized set of operational practices for servicers. And within those practices when there were differences in the name of innovation or testing new practices, whatever they may be, we needed those to be clearly articulated. Schools and borrower advocates can't help borrowers well navigate this complex system without understanding the practices that the servicers are doing, whether they be the same or whether they be a little different, depending on how each servicer works, they need to be understood easily by stakeholders. Additionally, in this report, we supported the move to common branding and the use of a single portal. So what common branding would mean that any emails, letters, et cetera that borrowers are getting from their servicer would all say the Department of Education or FSA.

These names generally carry more weight than the individual company names. And we feel that this was particularly important given the recent increases in student loan related scams and as well as servicers who are continuing to exit and enter the student loan servicing environment. Having a consistent name that borrowers are familiar with is helpful. And along with that, the single portal, which would help borrowers only need to access one site to manage all their loan related activities. So they are moved from a servicer to a different servicer because they enroll in PSLF or a servicer decides to leave the system, they're still only going to one website to manage their student loans.

Justin Drager:

I even think about all the consolidation that's happened in the servicer marketplace. Some servicers went out of business, some sold their business, some consolidated with others, they go through name changes and rebrands. Having one name and one portal would solve it seems for a lot of that. Where does FSA fit into this? Because you talked about FSA collaboration and structural changes. Might seem odd to people that we're talking about student loan reform and then all of a sudden we veer into FSA governance. Well, what are we talking about there?

Megan Walter:

Yeah, so FSA has the responsibility of oversight for all loan servicing practices, and with over 40 million or so borrowers, you can assume that's a huge amount of work and time and a lot of moving parts, which unfortunately does create a lot of challenges for FSA. So we approach oversight in two ways in this report. First, improving the organizational structure of FSA itself. We did this by recommending the creation of an oversight board that would be tasked with examining things like FSA policies, goals, performance, budgets, developing annual reports, and those reports that would include open access to internal operational information, so that would hold FSA more accountable to students, institutions and taxpayers. And then we also looked at oversight from a collaborative viewpoint as in who of its related entities can FSA use to improve oversight and the borrower experience? Servicers are already subject to supervision by multiple federal entities and agencies as well as the states who have increased the review of servicing practices. So we really would like to see FSA bolster those relationships to improve servicing.

Justin Drager:

We're all for more collaboration, and I'm sure a lot of people listening to this podcast in eight offices are wondering about some of that collaboration on all sorts of different issues, not just student loans. Let me ask one other question about FSA reform, Megan. The Federal Student Aid is one of three performance based organizations, and this goes back to the nineties, so it is supposed to be a little different from most federal agencies. So this idea of having an oversight board of stakeholders and more collaboration, this isn't necessarily out of the ordinary for a performance based organization, certainly not in the private sector. In some ways it's modeled on that, right?

Megan Walter:

And so there are actually two other PBOs within the federal agencies who function as PBOs as well, that is the Federal Aviation Agency as well as the Patent office, and they have these oversight committees set up as well, something that FSA doesn't have, which is why we do recommend moving FSA in that direction in our report.

Justin Drager:

Okay. So one of the big tensions we set at the outset is this tension between pricing. How do we balance competition between the servicers but also high performance amongst all of them, like with incentive pay? So do we address that?

Megan Walter:

We do, and that's definitely the million dollar question. So when it comes to student loan servicing pricing, or what we pay each servicer per borrower account they service, like most else in life, what we get is what we pay for. Student loan servicing is difficult work, especially given the complexity of the student loan programs. So while we feel it's good to engender competition between servicers through allocations, meaning which servicers get assigned new borrowers, any good policy should also incentivize collaboration between the servicers. In our report, we recommend that this possibly be accomplished by creating a bonus structure that rewards all servicers equally if the entire portfolio, so all 40 million or so accounts meet or exceed certain metrics. This would create an environment where the borrowers are receiving better service without putting the onus on the borrowers to advocate for that themselves.

Justin Drager:

So we keep the allocation formula based on individual servicer performance, but we also pay out an incentive pay if the entire portfolio does better. Yeah, okay. That's one idea that might work to solve this tension. All right, Megan, thanks very much. We might come back to this, but let me shift gears for just a moment to talk about another area that Karen talked a lot about, which is repayment.

Rachel, I know you worked a lot on this section, so let's turn our attention here again, like we did with Megan. What were the major issues that we were trying to solve for here?

Rachel Gentry:

Yeah, so I think I could probably talk about this for hours, but I'll try to boil it down to two or three that we were really trying to hone in with our recommendations. So first, just the complexities of our current repayment system. I think to sum it up, there are currently too many plans that are too difficult to understand and it makes it really tricky for borrowers to navigate the system, understand the benefits inherent to each of the plans, and decide which option might be best for them. The second area that we focused a lot on was, I think broadly to sum it up, just like the terms of repayment and lowering the cost of borrowing and repaying loans. So we currently have many borrowers who are making their required monthly payments, but are sometimes still seeing their balances increase. Despite making those monthly payments, we have borrowers who are paying significantly more than they initially borrowed due to extremely high interest rates.

So I think overall, there's a need to better align the loan program with its purpose, what we believe is its purpose of expanding access and not just generating revenue for the federal government. There are a couple other areas, improving public service loan forgiveness. I don't think it's news to anyone listening to this podcast that program has in many cases failed to deliver on promises that were made to borrowers. So there's a need for reform there. I think overall it's fair to say that the system is failing a lot of borrowers, but it's especially true when we look at low income borrowers, borrowers of color, non-completers, folks that are more likely to struggle in repayment and ultimately wind up in default. So clearly there are some inequities in our current system that are harming vulnerable borrowers. And I think it's especially troubling and alarming when you consider the fact that higher education, which is the very thing that students are borrowing to access in the first place, is meant to be a vehicle to socioeconomic mobility. So I think that was really a focus of ours when we were considering recommendations to improve repayment.

Justin Drager:

Thanks very much, Rachel. So of all the things that you talked about, complexity, you talked about the terms and making this less expensive and getting borrowers the benefits they were promised. What are some of the things we laid out to try to help with that?

Rachel Gentry:

Yeah, so there are lots of recommendations in this section. I think there's seven high level recs, and then for almost all of those, we have sub recs. So I'm going to try to just hit the high points. We first start with a recommendation to consolidate the existing repayment plans into three options. So a single income driven repayment plan, a standard 10 year plan, and an extended 25 year plan. We recommend transitioning all borrowers into one of those three plans, and we go into some detail in the report around the best way to do that to make sure that borrowers are ending up better and aren't losing out on benefits and making sure that they end up in the right plan. Also, I mentioned the single IDR plan, so we go into a lot of detail on the specific components of that IDR plan and ensuring that that plan maximizes benefits for struggling borrowers.

So our goal is to recommend an IDR plan that is more generous than the current options that are currently available, so would result in lower monthly payments. An example of one of the things we recommend is increasing the poverty thresholds that are used to determine monthly payment amounts.

So another thing that we recommend that I think goes back to one of the initial principles that Karen talked about is that we do recommend that under this IDR plan borrowers who are struggling the most to pay, so those who have had a $0 IDR payment for 10 years would receive forgiveness after that 10 year period. We have a lot of caveats around the need for additional research to flesh out this idea more, but really the background and the rationale for this recommendation is that we know that there are some borrowers who have a $0 payment are probably never going to ultimately end up repaying their balance, and there's probably not really a reason to force those folks to stay in that IDR plan for 20 years or longer. And so providing forgiveness after 10 years would really align with that principle that Karen discussed earlier.

We also have recommendations to lower the cost of borrowing and repaying loans. So drastically lowering interest rates for all federal direct loans, adjusting previous old loans, borrowers who are currently in repayment, adjusting their interest rates to align with this new lower rate. We recommend eliminating negative amortization, interest capitalization and loan origination fees. Really just I think going back to again, one of the principals Karen outlined. Addressing these relics of our previous bank based lending system, making sure that borrowers who are making their required monthly payments are not seeing their balances grow, be larger 10 years into repayment than when they started. And once again, just making sure that the primary purpose and goal of the Federal Student Loan Program is to expand access, not generate revenue for the federal government.

We also have some recommendations around in reforming PSLF, a lot of which are components of the current waivers or the waiver that's currently in place. One of the things that is a new recommendation for NASFAA and that I think we're hearing more about from other organizations, from folks on the hill, is the notion of rolling PSLF forgiveness. So we recommend updating the timeline for PSLF to provide a rolling forgiveness opportunity that would forgive $5,000 in debt after every two years of time in public service. This, I think, there's a number of reasons that this would be beneficial for borrowers, but one is that there are currently borrowers who get 10 years down the line, think they're eligible for PSLF and find out aren't. Providing some rolling forgiveness would also help signal to borrowers that they're on track for forgiveness. So those are a few, there's a lot more in the report, but I think those are some of the high points.

Justin Drager:

One of the overarching things I think I hear you describing Rachel, is the purpose of loans in paying for and subsidizing higher education. In the past, and you and Karen both talked about this, we needed to attract private capital. And so to do that, you had to have a return on that investment. If you wanted banks to make loans to students, we had to provide them insurance in case the student defaulted. And then we also had to ensure some sort of return because that's how a capitalist society works. You put out money with a hope for a return. When we're talking about providing public funds in this way though, we don't have to talk about it in the same way. There is a return on the back end in social capital, in increasing the tax base and enriching citizens' lives. And so we don't necessarily have to go into it with the same frame of reference.

And that's reflected in a lot of the recommendations that you outlined. It also strikes me that today for many borrowers, loans have become regressive. That is our lowest income families are the most penalized by student loans. And we see this probably, I don't know, maybe most acutely in Parent PLUS loans, but it exists in some other loan programs as well. You mentioned negative amortization. So there is this tension between making sure we have access to loans that don't bury borrowers, but then also protecting them when they go into debt. How would we, in our report or else wise, how would we suggest lawmakers think about that balance? How do we ensure that we're providing access to capital, but we're also not punitively harming the students who need that, who might be most reliant on that capital?

Rachel Gentry:

So this is something that we address in the report. I would say it's probably the section that we spent the most time really thinking about. Because to your point, Justin, it's really complex. There's a balancing act that we have to strike. And too often there are students and parents who are taking on such high amounts of debt that the benefits that they might be receiving from the education obtained through that borrowing are far outweighed by the negative impacts of their debt burden. And so we definitely acknowledge in the report the notion that any discussions around limiting borrowing to address some of those negative impacts, we have to, at the same time, be weighing the potential impacts on access. So that's something that just right up front I want to say, because that was really important for us to convey in the report. But with that said, we also feel that it was important to acknowledge that there's inequities that exist in society that can't and probably shouldn't be solved by student loans.

And so we were really aiming to strike a balance between advancing access, but also protecting vulnerable borrowers from taking on crippling amounts of debt. So trying to consider all of those different things. So in order to strike this balance, again, sitting at these values of access, equity and choice, we set out to develop some more creative solutions that really sit at the intersection of those three things. Something we, like I said, spent a lot of time trying to think through the way to balance all of those priorities. We do propose some limits on both parent borrowing as well as graduate borrowing. I'm going to go into a little bit more detail on grad borrowing. There's a lot more in the report on both these recommendations as well as the proposal around parent borrowing. But when it comes to graduate students, we propose maintaining a single loan program for grad and professional students with limits that would allow students to borrow up to the in-state cost of attendance at public institutions.

So under this program that we proposed, there would be a limit that's high enough to cover public in-state cost of attendance for a student's program of study in the state where the institution is located. That would be regardless of a student's state of residence and whether they're charged an in or out of state rate students. We propose that students who wanted to attend a program at a private institution would also be able to borrow up to the average in-state cost of attendance. The in-state tuition and fee rate, those caps would be set by the department, would vary by program and state. But we also to go along with this proposal include a recommendation to allow additional borrowing based on earnings data for the student's program of study or based on a debt to income ratio. So there's this baseline that would allow students to borrow up to the public in-state rate to ensure that...

I think that's really the access pillar, making sure that students have access to some program. But in order to attend, if there's a program that costs more, that additional borrowing would need to be based on earnings data for the program or a debt to income ratio.

Justin Drager:

So we shouldn't sugar coat this. These are definitely loan limits for grad students.

Rachel Gentry:

Correct.

Justin Drager:

Yeah. And I know as we've gone around the country and talked about this and heard from graduate schools, they've expressed concern like, "Well, how will some of my graduate students afford my graduate programs if they can't borrow up to the cost of attendance?" But we're getting at, one, I think a dynamic inside the beltway where congress on both sides of the aisle are looking pretty warily at grad programs specifically that don't have a payoff, might bury students in debt. And programs that earnings don't justify.

What we're saying is yes, loan limits, but those loan limits should cover a healthy amount. And that's also built on other task forces NASFAA's had that have focused on graduate student level debt where they also proposed limits, but that those limits be high enough to cover most students. And Rachel, the loan limits we're proposing would in fact cover most graduate students. And then if others need to borrow, we're saying if the program justifies it, then we should allow higher amounts. And there's also a private market where today that private market may out compete even PLUS loans as they exist today on price and origination fees. Is all of that fair?

Rachel Gentry:

Yeah, I think that's all fair. I think our overarching goal was certainly not to limit students' ability to access grad and professional education altogether. That was something we're very much trying to avoid. But really what we're trying to do is ensure students have access to programs that deliver return on investment that's large enough to justify their costs. So we have this current system that I don't think it's unfair to say, has brought harm to a lot of vulnerable borrowers. And instead of continuing that system, what we're proposing is a system that would enable access to graduate education to a reasonable extent, but doesn't support universal access. We don't think that universal access should necessarily be the goal.

Justin Drager:

Yeah. There's also a give and take here. If we want richer benefits and protections for borrowers, the other side of that equation though is making sure that borrowers take on a reasonable amount of debt. That allowing unlimited debt and then enriching all of the terms and conditions of that debt does seem a little out of balance when you're thinking about taxpayer responsibility and the fiscal responsibility that the legislature feels to protecting taxpayer dollars. So there's a couple different scales I think we're trying to balance here. And one of those is recognizing that there have been several stories done recently in the press about specifically parents and graduate students and how much they're borrowing. But our proposal would cover the vast majority of grad students enrolled today.

Rachel Gentry:

Yeah, that's right. And I would also say this, I think, applies to our parent borrowing recommendation as well, that we do outline more specifically some of the areas where we feel that additional research and modeling would be really important before implementing any proposal like this. So I think especially I would point out the need for an analysis of the racial and socioeconomic equity implications of something like this, understanding how does this impact access and outcomes for historically marginalized groups of students? How does it impact enrollment at institutions that serve high numbers of low income students, HBCUs, NSIs? How would this kind of proposal affect whether students are driven more into the private market? I think that's one of the things that a lot of our members have raised is, if we cap borrowing for federal loans, our students are just going to go to the private market. So I think additional data research analysis, this is an area where it would certainly be needed.

Karen McCarthy:

Hey, I just wanted to mention one thing about this particular proposal because I have been out amongst our members, our financial aid administrators, and one of the big things that they are concerned about is the implementation side of this. "And oh wow, these different limits based on program and in state cost of attendance seems super complicated to implement. Could this even be done?" And that tag teams to one of the overarching ways we approached this proposal, which is that we are not 100% wedded to the idea that this is the solution. And it may be that this is not the best way to go about setting up grad or parent loan limits in the future. And that really we're just trying to get the conversation started, get feedback on it. Lots of people have expertise and opinions in this area, so it may be that what we've laid out in this paper either isn't the best way to go forward from a policy side after we do all this research that Rachel just mentioned would be needed. Or from an implementation side, as we've talked about.

In a lot of areas, you can have a really great idea, but if you can't implement it, then it ends up failing anyway. So I feel like all of that will be part of the discussion that we are trying to get started on this topic and moving forward.

Justin Drager:

Fair enough. Thanks very much, Karen, for raising that. And we have heard from our members on this issue, but this is a good one that we need to keep talking about. All right. I want to wrap us up here in just a little bit. Rachel, the other big area we talked about and you worked on with student loan default and just how punitive it can really be at a high level. What are some of the ways that we can change the concept around student loan default?

Rachel Gentry:

Yeah, so I think I would start with that we need to put in place guard rails that keep borrowers out of default in the first place. So ensuring that there are safety nets in place that keep those who might be close to defaulting in good standing, things that make it easier for those who are in default to get out of default. And then once those borrowers are back in repayment, making sure that they are not going to default again in the future. So to some extent, I think this overlaps a lot with some of the things we've already talked about, like automatic IDR enrollment, which is one of the pillars of our repayment proposal. So first and foremost, keep folks from defaulting in the first place. The second piece is reforming the default system to be less punitive and really minimize additional hardship for struggling borrowers.

Our current system can really be life altering, especially at a vulnerable individuals. So we have a number of proposals to make default less punitive. Eliminating acceleration of loan balances. Again, eliminating interest capitalization, which is part of our repayment recommendation, delaying credit reporting. We have some recommendations around removing default from credit history for borrowers who have exited. Streamlining, standardizing, and reducing collection fees. There's a number of ways we can make default less punitive, but I feel like that initial piece, keeping borrowers from defaulting in the first place is really where a lot of our focus was for this report. Because it seems like if you can keep vulnerable folks out of default, then we still need to improve the system as a whole, but it really solves the problem.

Justin Drager:

All right. Thanks very much, Rachel. Couldn't agree more. Great work by the NASFAA team on pulling this report together. We do research and advocacy reports on an ongoing basis. The speed at which this was done, the number of people that we all consulted with, the expertise that we tapped on the outside. This is one we have a lot to be proud of. The NASFAA Board signed off on this unanimously. And from here, we've been talking to lawmakers. Of course, we are subject to the whims and timing of Congress, but we continue to work with them on finding pathways forward. And if you look at the reform bills out of both the House Democrats and House Republicans, you'll see different flavors of different aspects of this report reflected in there. So we're pleased to hopefully see this getting some legs and we'll continue to work on it in the future.

Thanks very much, Megan. Karen, Rachel, thanks for joining us today. Let's bring Maria into this conversation. Maria, you're one of our intrepid reporters out there helping publish all the articles we put into today's news. What's going on out in the world of financial aid and higher ed this week?

Maria:

So quite a bit of news. The White House on Tuesday published a preview of the application to receive President Biden's debt relief. The application is expected to be launched sometime in October and would remain open through December 31st, 2023. We have an article in our show notes and in today's news that highlights more details about the application, including what information borrowers will need to submit.

Justin Drager:

Maria, are they still committed to getting this application finalized by the end of October?

Maria:

Yes, that's what they say.

Justin Drager:

Okay, so we're still waiting. This is the draft, but we don't have a final one just yet. Okay. What else is going on?

Maria:

Yeah, so the Department of Education on Wednesday unveiled an official notice detailing its authority to carry out a Biden's student loan debt relief plan. The notice ties the administration's authority to the Hero's Act of 2003 and directly links the relief to the COVID 19 pandemic. They released a memo with a similar statement when Biden first announced the relief in August.

Justin Drager:

So this is like the official in the federal register. This is outside of press, this is now the President has stated his intention and cited the authority to do it. Okay, what else is going on?

Maria:

Following a recent consumer financial protection bureau report that said blanket transcript withholding policies from institutions are abusive to borrowers, NASFAA joined the American Council on Education and other higher education organizations in a letter urging institutions to review their policies regarding transcript and enrollment holds. We also urged those institutions to be prepared to explain how they determine these policies were effective and fair.

Justin Drager:

And so a lot of schools in their financial aid offices, they might not be the ones developing the institutional transcript policy. But being good partners, it might be good for the aid office just to make sure that your campus leadership and your registrar's office is aware that this is receiving new scrutinies.

Thanks very much, Maria. And thank you to you and the rest of the communications team for keeping the NASFAA members and us so well informed. Thank you to everybody else for listening this week. As always, remember to subscribe. If you get a chance, please leave us a review on your podcast app of choice. That helps other people who are interested in the wild world of financial aid. And we'll talk to you again very, very soon. Thanks.