NASFAA's "Off the Cuff" Podcast – Episode 327 Transcript

OTC Inside the Beltway: Collections Set to Resume on Defaulted Federal Student Loans, A New NegReg, Lawsuits and More

Maria Carrasco:

This episode of Off the Cuff is brought to you by the NASFAAA 2025 Virtual Conference. The NASFAAA 2025 Virtual Conference will take place July 7th through 11th and feature regulatory sessions led by NASFAAA training staff, consumer information credential training, and regional networking opportunities. Also, you'll hear directly from our new NASFAAA president and CEO Melanie Story. For a one-time registration fee of only $350, everyone on your NASFAAA roster can participate in this cost-effective online learning opportunity, either live or on demand. NASFAAA members learn more and register today at NASFAAa.org/virtual. Hello and welcome to another episode of Off the Cuff. I'm Maria Carrasco with our communications team.

Jill Desjean:

I'm Jill Desjean with NASFAAA's policy Team.

Megan Walter:

I'm Megan Walter, also with NASFAAA's Policy Team,

Nalia Medina:

And I'm Nalia Medina, also with NASFAA's Policy Team.

Maria Carrasco:

It's so great to see all of you. Thanks for joining us this week. We got quite the packed agenda, lots of news happening. I guess let's start with some of the latest news out of ED over the collections process. Lots of updates. Megan, can you tell us what happened?

Megan Walter:

Yeah, so earlier this week, the department announced that they are going to restart major collection efforts for defaulted federal student loan borrowers that will resume around May 5th, 2025. Their plan is to start sending email communications to all borrowers in default through May 5th, and to make them aware of the developments and offer steps for them to get out of default or to avoid these collection efforts. While the emails will go out over the next two weeks. The department only said in their announcement that later this summer they will start sending the required notices marking the beginning of administrative wage garnishment, meaning that the treasury offset program will officially restart sometime this summer, but we don't have an exact date.

Maria Carrasco:

And who will be impacted.

Megan Walter:

So as we all probably remember back in March 2020, many borrowers who were delinquent or were in default on their student loans didn't have any repayment obligations due to COVID 19 relief measures.

And then following the end of the pandemic, the Biden Administrated created relief programs designed to ease borrowers back into normal repayment as well as some programs to make all borrowers current, protecting them from loan delinquency and default as they readjusted to repayment. So while those programs technically ended last year, collections just hasn't been officially restarted. So while the resumption of collections is potentially going to impact a lot of borrowers, it's not totally unexpected that this program would return eventually.

And I'll just add as an aside there that there's also a lot of concern around this resumption of collections just because a lot of borrowers have also been affected by the SAVE Plan litigation that's still going on, which held up repayment plan application processing, as we all know, for millions of borrowers for months now. So as far as who will be affected per the latest report by the White House, I believe they estimated that there are about five million borrowers who haven't made a payment in over 360 days, meaning that they're in default. And then there's an additional 4 million borrowers who are in what we would call late-stage delinquency, meaning that they haven't made a payment in 91 to 180 days. So altogether there could be nearly 10 million borrowers in default in just a few months and potentially affected by the collections' resumption.

Maria Carrasco:

In their announcement. They came out this Monday, they said on May 5th the FSA will restart the Treasury Offset Program. What is this program? How does that work?

Megan Walter:

Yeah, so when a borrower defaults on a federal student loan held by the department, the department when the Offset Treasury is active can refer that debt to the US Department of Treasury's Offset Program for collections. Through the Offset Program, the Treasury can intercept certain payments due to the borrower and redirect those funds to ED to help pay down the defaulted loan. The most common payment types that are subject to the offset are generally federal tax refunds, social security, retirement or disability benefits within some limits and federal wages or retirement pay. Generally, borrowers are supposed to receive notices from ED, which they talked about in their announcement before the debt is referred, explaining their rights and their options to avoid the offset and other steps that they can take for debt rehabilitation. If no actions are taken by the borrower, then the funds can be applied by ED towards the borrower's outstanding defaulted loan balance. So why we don't know the exact date that they'll be starting the actual taking of funds. We'll obviously be keeping an eye on it here at NASFAAA and update you as we have more information.

Maria Carrasco:

And we'll have our article linked in the show notes. Megan, was there anything else you wanted to add on the collections process?

Megan Walter:

Nope, that's all I got right now. We will be keeping an eye on how it progresses.

Maria Carrasco:

Awesome. Thanks for that, Megan. We'll come back to you shortly, but we're going to move over to Jill now over upcoming public hearings in part of the negotiated rulemaking process. Jill, could you walk us through what's going on next week?

Jill Desjean:

I can, yeah, it's NegReg season. I think yesterday or the day before. Maria and I were chatting, and I can't remember who said it first, but one of us tentatively offered, "I love NegReg." And the other one was like, "Yeah, me too." So, for all of NegReg fans out there it's NegReg season, so next week is the first step in a long and tedious process called NegReg. The department has basically announced they're to conduct NegReg sessions, and the first thing they do is they hold this series of public hearings. So next Tuesday and Thursday, they will be inviting members of the public to come and talk about the topics they've proposed for this upcoming NegReg session, which will include public service loan forgiveness, income-driven repayment plans, and then a broad category of just areas where the department can streamline regulations.

Maria Carrasco:

Awesome. And NASFAA is actually going to be at this public hearing on Tuesday, right?

Jill Desjean:

That's right, yeah. So 9:18 on the nose until 9:21, we get three minutes to talk. So NASFAAA will be there delivering our verbal comments. We will also submit written comments with thoughts about how the department should approach this negotiated rulemaking.

Maria Carrasco:

Can you give us a preview of what our comments will be about?

Jill Desjean:

Yeah. So we're still working on them, of course, but broadly we don't love what we think they're going to do with PSLF. Basically, we think this NegReg obviously comes out of the executive order that the president signed a month or so ago, ordering the secretary to look at certain organizations to revoke their eligibility as eligible employers to qualify people who work there for public service loan forgiveness. We're not fans of narrowing that definition of who is an eligible employer, so we'll certainly speak to that.

We don't know what the plans are on IDR repayment plans, but so we're just speaking broadly to things we've been advocating for a long time, one of which is a single income driven repayment plan, this variety of repayment plans we have out there that are all just a little different from one another really complicate the landscape for borrowers. So advocating for the department to streamline there. And then we have some other recommendations just broadly focused on gainful employment and R2T4 in terms of if there's other stuff you're thinking about working on, these are places we could see some improvements made.

Maria Carrasco:

Awesome. Well, we'll have the link so folks can register to watch the live stream if they want to. We'll also be covering our comments. It'll be in Today's News so people can read our comments there. I guess Jill, maybe to wrap this up, could you give us a rundown of maybe what's next after these public hearings take place?

Jill Desjean:

Yeah, so I did allude to the fact that NegReg is a long and sometimes tedious process. I think one of the critical things to think about is the timing here, because NegReg really all hinges on the November 1st date because that's the date by which final rules have to be published in order for anything negotiated to become effective the following July. And so, this cycle where they're announcing these public hearings in the spring is a little off from what we've seen in the past, and it doesn't seem like they could go through all the steps of NegReg and actually get final rules published by this November. Typically, the department negotiates in the fall and then again in the spring, so October, November, December, and then January, February, March, and holding negotiations in those time frames, both allow the department to go through all the notice and comment period, reviewing all the comments they get in drafting final rules before November 1.

But I feel like this schedule where they're just announcing them doesn't seem like it's going to lend itself to them being able to put out final rules by November. That said, maybe they can, I hate to say never. And so it'll just be curious to see how the rest of the schedule goes. We'll know more once they announce the request for negotiator nominations because they announced the schedule of when negotiations will be held at the same time. So once we have that, we'll have a better sense of how we think the department will conduct the negotiations and then wrap them up and get out the final rules. Because the way I'm looking at it now, if they can't get them out by this November, that means rules don't come out until November 2026, which means nothing's effective until July of 2027. So turns long and tedious into even longer and more tedious.

Maria Carrasco:

Going back to Megan now, are there any updates related to these IDR and PSLF lawsuits that we're seeing?

Megan Walter:

Not really. With the SAVE Plan, at least with the SAVE Plan litigation, we are still waiting for the final ruling from the lower court is the Eastern District of Missouri. We are waiting for them to put out their final rule. They pretty much were told by the eighth Circuit court who had given the ruling back in October that was going to enjoin the SAVE Plan as well as some of the forgiveness aspects of the IDR plans to take their words and regurgitate them because they were the right court to be putting out these final rules. So we're still waiting on that. I think the general consensus is we should see something around May 9th, but we are keeping an eye out if anything comes out earlier than that. So we're just waiting on there. Likely that is going to be the end of the SAVE Rule if the Eastern Missouri Court goes the way that we expect them to, but never say never.

As we now say in this job, never say never crazier things have happened. And then related to the American Federation of Teachers Lawsuit. So they sued the department on behalf of student loan borrowers for allegedly denying the borrowers access to affordable loan payments and blocking progress towards the Public Service Loan Forgiveness program, which would be in violation of federal law. ED responded pretty quickly to that lawsuit. I believe they filed this about a month ago. It was March 20th or so. ED responded almost within a week and reopened the IDR application plans, with the exception of the SAVE Plan, of course was not included on the application.

But they did say that while the applications are open, they won't start processing those applications until May 10th, and we're still waiting on the see if that processing date starts when they say it would. As far as updates on that lawsuit, I did sit in on a call between AFT and ED litigators last week, and it does sound like they're trying to work together to take this out of litigation. We are expecting a status report from the two of them filed tomorrow. So obviously I will be keeping an eye out for that and updating in TN or three socials if we have any news regarding that litigation. But for now, we're just sitting tight and waiting to see what happens next.

Maria Carrasco:

Thanks so much, Megan. We'll also have links in our show notes to pass coverage of this if people want to give it a read. With all this news coming out on lawsuits and executive orders, I'm sure our members feel stressed and maybe confused on what's happening in Washington. I thought that this would be a good moment for us to highlight our new FAQ documents that can be a resource to our members. Do you want to walk us through what these are?

Megan Walter:

Yeah, yeah, happy to. So yeah, as you said, there's obviously lots of talk going around about the executive order from the administration that was proposing to eliminate the Department of Education. And along with that, there were obviously a ton of questions both from financial aid administrators, but also the students they served. So NASFAAA in response to that developed two sets of FAQs to tackle this head on. So we developed one FAQ is tailored specifically for financial aid professionals looking at the legal side and the potential impacts on the title IV aid programs.

And then we also created a student facing version, which is written in more plain language to help address worries that they may have about, "Am I still going to get my Pell grant? What does this mean for repaying my loans? Will there be a FAFSA application next year?" All of those are available on the NASFAA site, and I assume we will link them somewhere in the podcast as well. But I really think these are just great tools to not only help financial aid professionals stay informed, but also be able to communicate effectively on campus when asked these questions by either leadership or their own students.

Maria Carrasco:

Awesome. Thanks Megan. And yes, we will have these links in the show notes. I guess moving over to Nalia now, along with all these executive orders, we're also in the budget appropriations process. We're expecting a budget request from President Donald Trump in mid-May sometime. There's also the reconciliation process, lots going on. Nalia, can you walk us through with what we're waiting on, what we can expect in the next few weeks?

Nalia Medina:

Yeah, for sure. So like you mentioned, we are expecting to see Trump's budget request for fiscal year 2026 come out around the mid-May mark, but before we get into specifics of what we're expecting to see in that budget request, I thought maybe it could be helpful to give folks a high-level overview of what the budget process looks like just for folks to know what we're looking for throughout the next few weeks. So this is a process that Congress goes through every single year, the annual appropriations process, and it's designed in such a way where in an ideal world, all of these things would happen. But it's rare that every year these things do happen on time, the way that I'll walk through it. But again, just like a high-level overview. So the president typically submits their budget request sometime between February and March.

Although in the first year of a new presidential administration, we don't typically see the budget until later in the spring, which is why we aren't expecting to see Trump's budget until mid-May. And then throughout the rest of the spring and throughout most of the summer, the Senate and house budget committees develop budget resolutions. These budget resolutions really demonstrate the high-level priorities of each chamber and where they want their focus to be as it relates to federal budget and appropriations. And it provides a framework for congressional budgeting. So once those budget resolutions are developed, the work shifts over to the appropriations subcommittees in both the House and Senate for them to draft and pass appropriations bills.

There are 12 appropriations bills in total that need to be passed by October 1 to fund the government. So the president typically in an ideal world, will sign all of those appropriations bills into law by October 1. But if that doesn't happen, there's a few different things that could happen. We'd either see a government shutdown, we would see Congress pass an omnibus spending bill, which is one big spending bill that combines all 12 appropriations bills into one. Or the other option is a continuing resolution, which is where we are right now and what we've seen most frequently throughout the last few months. And that is just a temporary funding measure that funds the government for a set period of time.

Maria Carrasco:

And what happens when President Trump releases his budget request?

Nalia Medina:

Yeah, so I think first and foremost, what's important to remember, even before we see the president's budget request, is that it's really used a messaging tool to highlight the administration's spending goals and their policy priorities. And that budget request that we'll see in a few weeks from President Trump does not carry the force of law. Congress can choose to follow as much or as little of what is in that president's budget request as it would like. So what we'll see, once the Trump administration releases their budget request, it'll probably be several weeks or months before we see the House and Senate appropriations bills. So I think we'll have some time once the budget request comes out before Congress puts anything out for us to look through.

Maria Carrasco:

Maybe this is like looking into a crystal ball, but are we expecting cuts to the Department of Education?

Nalia Medina:

I think that's a good question. And obviously what's really top of mind for folks when appropriation season comes around. I think it's fair to say that we anticipate the budget proposal will request several changes to the Department of Education, whether that is significant funding cuts or possibly moving several education programs to other agencies. As we've seen throughout the last several weeks in the media President Trump wanting to move student loans to the small business administration, for example. So that would mean moving everything that typically falls under the Labor HHS, which is where our programs typically fall. It would mean moving all of that funding to the Financial Services bill. So that would account for all the funding for the Office of FSA. So Paul Grant's FSEOG work study, the Student Aid Administration.

So I think that's possible, cuts to student aid shifting things to other agencies, but especially when it comes to the funding cuts, I think given the steps that we've seen the administration take so far to cut government spending just broadly, I think we can expect to see that this budget request will include significant cuts to student aid programs. Now, I don't mean that to alarm folks and scare folks off right now because it's not a guarantee. We don't know what's going to be included in the president's budget request until we actually see it. And there are some student aid programs that have a lot of bipartisan support like Pell and Federal Work Study. But I think when we look at the current political landscape that we're in, the funding environment that we're in, it's possible that we'll see some proposed cuts to student aid and just education funding more generally.

Maria Carrasco:

NASFAAA in the past few weeks has been advocating in the budget process. Nalia, could you go over what we've been doing, what we're advocating for?

Nalia Medina:

Yeah, so I think our biggest priority when it comes to funding for student aid programs is always robust funding. That's always our number one priority, and we are part of the Student Aid Alliance. So we recently sent a letter to Congressional appropriators a few weeks ago, calling on them to protect and maintain funding for student aid programs for this upcoming fiscal year 2026. So we can include the link to that letter as well in the show notes so folks can see. But in that letter, we requested that Congress increase Pell to $200 for an increase of $200, excuse me, which would bring the current maximum award to $7,595 while still working towards that maximum award of 13,000.

You know that that has been a long time priority of NASFAAA and other associations and organizations. But given the tight funding environment that we're in, we would really like to see at least an increase to cover inflation, which would be that $200 increase, as well as requests for some modest increases to campus-based age. So FSEOG and Federal Work Study as well. So those have been some of the areas where we've been advocating. Also urging Congress to address the upcoming Pell shortfall through reconciliation. That has been another one of our advocacy areas throughout the last few weeks. Yeah.

Maria Carrasco:

Awesome. Well, thank you Nalia. And we'll have that letter linked in the show notes if people want to give it a read. Thank you for listening and joining us for another episode Off the Cuff. Please remember to subscribe and recommend this to your friends. See you again soon.