

NASFAA's "Off the Cuff" Podcast – Episode 359 Transcript

OTC Inside the Beltway: Debriefing ED's New FAFSA Fraud Prevention Measures

Maria Carrasco:

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Melanie Storey:

Hello, hello, and welcome back to Off the Cuff Inside the Beltway. A pleasure to have everybody with us again. Thank you for joining us today. I am joined, of course, as always by Karen McCarthy, all things public policy and government relations and really the person who knows all of this sausage making behind the scenes.

Hey, Karen. Good to see you.

Karen McCarthy:

Hey. How are you?

Melanie Storey:

I'm good. I'm good. I'm feeling good.

And, today, we have a special guest, and so I am thrilled and happy to welcome Aaron Lemon-Strauss, hopefully known to many, if not all of you, as executive director of the FAFSA team at FSA at the Department of Education.

Hey, Aaron. How you doing?

Aaron Lemon-Strauss:

Hey, guys. Great to see you, guys. Great to be here. Great to be talking to financial aid folks around the country.

Melanie Storey:

Great, thanks. And I know that you are joining us from your spring break and time away, so double thanks for taking some time away to chat with us on a really important issue that I know you've been talking about for a long time and we have been discussing for a long time. Today, we're going to focus on a discussion of fraud, which has been unfortunately a high priority both for you all and the administration, as well as NASFAA as we have continued to hear lots of concerns from our members.

Exciting today. We are going to specifically discuss the new FAFSA identity verification process that you are going to be launching soon in less than two weeks. I think most folks hopefully will remember, probably Karen and I have covered this a couple of times on Off the Cuff, but that this initiative was originally announced kind of at a high level that you all were going to really dig in and focus on this last

June. You had an electronic announcement on it with a target, hopefully launch in fall '25, understand that it's a complicated process. You spoke publicly about the process at our leadership conference this fall, and I know there've been other opportunities at the FSA training conference, but today we have an electronic announcement that for the first time provides the operational details for this new process with a launch date, if I am not mistaken, of April 26th. As I said, pretty quickly.

Our members who are deep in the details and will surely need to fully understand their responsibilities will undoubtedly have questions that will have to work with you all closely to get answers in short order, and so we appreciate that.

Let's just kick it off first at a high level, Aaron. Can you just briefly describe the goal of the process? What are you, FSA, hoping to accomplish with this new process?

And then I'll let Karen go in and ask you about the details after that.

Aaron Lemon-Strauss:

Yeah, that sounds great. And you set it up well, Melanie. I think the most important thing is where you started, which is we do have a major fraud problem on the FAFSA, and that has been a priority of the administration from day one was getting a handle on this because we've seen the impact of that and the threat that that fraud has to the broader Title IV programs. At some point, it imperils Pell and the viability of direct loans and more if the fraud exists at the level that we've seen it at. Schools and FAAs have been great partners in this, and they've really been on the front lines, and I think to some extent have been ill-equipped, through no fault of their own, to actually deal with the fraud problem where the old model was we would flag some people, but not everyone. And then FAAs were the ones who were responsible for determining, "Is this a real person, and should I disperse aid to them?"

Again, full credit to FAAs for taking on that burden, but we don't think they're particularly well equipped, again, through no fault of their own, to be combating what are actually international, highly equipped, AI-driven fraud rings. Your average financial aid director or staffer is going to have a hard time competing with those sort of folks. That's where it became clear to us that this needs to be a responsibility that FSA takes seriously and steps in to assume the brunt of the lift on.

There are three things that I hope folks will take away from this process, and then we'll go into as many details as are helpful. But there are three things that I hope folks will take from this process.

The first is that FSA will now be confirming the identities of every person who completes the FAFSA. We can talk more about what that means, what that will look like, et cetera, but that's point number one, is FSA will be confirming the identities of every person who now completes the FAFSA. Point two, relatedly, is that this should significantly reduce the overall burden on FAAs. That is a goal of this work. When we first started talking about this, there's an initial reaction that comes from the financial aid community that says, "Wait a second, we used to V4, V5. Now, we reject. Nothing's changed. My burden hasn't gone down," and that's what I'd like to dispel because... I hope that I can convince folks that this does reduce burden and that this is a shift from an old operating model. Again, we'll go into much more details on that, but that's sort of the thing too.

And then thing three is that those applications that we've identified as fraudulent and are rejected are being rejected for very good reason because we have evidence that they are fraudulent. That relates to the second, but is different in an important way, which is, in an old world of V4, V5 or you maybe got an email from a student that looked a little fishy, you weren't that sure and you weren't sure how much evidence there was, and maybe you'd look into a little more. In this case, when we reject someone because we believe them to be fraudulent, that is a heightened level of concern that we hope FAAs will take seriously, and we hope that they will then use in their thinking about the actions that they take,

and we would expect that the action that they take is no action, which relates to the lack of... which relates to reducing the burden.

If you receive a rejected ISIR because we think it's fraudulent, we think it's fraudulent. So while an FAA will be able, if they choose, to take action and put in a correction on that application, we believe it to be fraudulent, and we would expect an FAA to not take any action at all.

Hopefully, that's helpful as broad framing and happy to go into all the details.

Melanie Storey:

Yeah, super helpful. I really appreciate that. I think our members would agree that they also do not want to be identity fraud warriors trying to figure that out. It is an important part of our work to make sure that we are good stewards of the programs. But as this has gotten more sophisticated, it has become increasingly difficult for financial aid professionals to keep up. And they are not identity fraud fighters, they are primarily focused on good stewards and deliverers of financial aid, and this should hopefully be a smaller part. We welcome the characterization of reducing burden, although I would be remiss if I didn't push a little bit there and say, "Can you quantify that burden reduction? Do we know what kind of volume we'll be seeing on this yet?"

Aaron Lemon-Strauss:

Yeah. I'm not going to be able to give you a number yet because we haven't confirmed the exact numbers, but our intention is that we are able to reduce V4, V5 verification selection to a very small number once this system is up and running. Originally, it was going to be zero, and then the data science team pointed out that we need some very minimal number of selection in order to sort of maintain a baseline for statistical purposes, but our intention is that V4, V5 selection goes very low. Now, the number of applications that are rejected because we suspect fraudulent activity, I don't know the number on that. That's a function of how many fraudsters end up applying and that we end up flagging. But in my mental model of this, those applications go in the no-burden-to-school bucket. Because in those applications, while a school will be receiving an ISIR, as folks hopefully saw from the EA...

We should probably note, this conversation will probably go best if people have read the EA, and then this is a conversation where we're answering questions. So if you're listening and you haven't yet read the EA, I might suggest pausing the podcast and coming back.

Whilst institutions will receive ISIRs with these reject codes, in my mind, that is a non-burden ISIR, if you will, because we are not asking the school to take any action, and, in fact, we would expect that the school not take action. If we will be, so that everyone knows, as part of the sort of general statistical work that we do where we look for potential anomalies, we will be looking at the rates at which schools put through corrections to switch a transaction from fraud to no fraud.

Now, some of that will happen, I'll give you an example, in the same way that there are examples of schools, of all schools, that allow for disbursement to individuals who are on parole immigration status. As this group knows, there's a parole immigration status, and as long as you've been in the country at least a year on that status, it's dispersible, but it comes in with a C flag and it's not dispersible, very in the weeds. The rate that we see that, which is pretty consistent across institutions, because it happens... It happens that students come in and they need to be dispersed, and so a correction goes in, and of course that's fine. But there are schools that pop, and sometimes that's because they're working with a certain population, and that's fine. Sometimes it's more concerning.

And we're going to follow a similar process here where we're going to look at the rates at which schools flip what we have identified as fraudulent to non-fraudulent. Again, we believe that will happen. It'll

happen maybe not every school, we'll find out, but it'll happen at some low level where there are false positives that'll happen, but we would not expect it to happen very frequently. If we see that there are institutions that are flipping that flag way out of proportion to other institutions, we're going to take a look. Now, again, there might be some reason. There might be some population that was missed in the modeling, and then we'll need to update the model, and we'll need to rerun it. It is in a scarlet letter, but it is going to be something we're looking at. And I say all that not to be scary, I say all that as evidence of we do not expect schools to need to take much action here, and so that's why we think of this as a lowering burden move.

Melanie Storey:

Got it. Just because not everybody maybe is deeply in the weeds of FSA as you are, when you talk about the model, you're talking about your machine learning model that identifies these, right?

Aaron Lemon-Strauss:

That's right.

Melanie Storey:

As you are doing this kind of review and looking at institutions, there may be, as you said, very valid reasons, but that's information that then can be kind of fed into the model, and it will be refined as you go forward.

Aaron Lemon-Strauss:

That's right.

Melanie Storey:

Great.

Aaron Lemon-Strauss:

Yeah, the way this is going to work mechanically is an analysis will be done on each application throughout the application in an ongoing way, and then a determination will be made, whether to ask the student to do additional document verification or, even if there's an extreme level of fraud, to not even need to do document verification because there's so much confidence that it's fraudulent. There's a lot, as you can imagine, of factors that go into that determination. The real technical step forward here that we're launching on April 26th is our ability to tune those knobs, add other factors, put weight on those factors, and that gives us far more control and observability around why we make the determinations that we make, which is good for today, and it's even better for tomorrow because it allows us to keep getting smarter.

Melanie Storey:

Yeah. I already have a billion questions, but I'm sure Karen-

Karen McCarthy:

Yeah, I do, too.

Melanie Storey:

But Karen is much deeper in the EA, so I'm going to turn it over to Karen, and I'll let you start with your billion before I get to mine.

Karen McCarthy:

Yeah, sure. And when we were talking about this podcast, I was kind of thinking also that people will have read through the EA, seen generally what's going to happen. An EA is a government document, so you can't put all of this context and background and why we're doing this... I think of what we're doing here as filling in all of the, "But why?" and the, "What abouts?" and all the stuff that you couldn't include in the EA. If you don't mind, I wonder if we can kind of step through the process and kind of talk about the information that's not in the EA. I think you kind of touched on a couple of the things that you just said, Aaron. I was like, "Ooh, I was going to ask about that a little bit later," but let's see.

You mentioned that the applicant starts the FAFSA and this real-time screening... So this is what you meant when you said that we are going to confirm the identity of everybody who files a FAFSA, because I know that some people, some of our members will think that means everyone who files a FAFSA is going to have to come on camera and show their ID, and that's I don't think what you are saying. So when you're talking about the screening, the initial screening that happens, that will put people into a risk category. Is that right?

Aaron Lemon-Strauss:

That's right. So that's exactly right. Keep in mind, everyone who fills out the FAFSA today needs to have their identity confirmed by the Social Security Administration. Everyone who creates an FSA ID, we send their information to the Social Security Administration, and they respond back to say, "Yes, this is a valid person. This matches an actual record." One could ask, "Well, then why do we have a fraud problem at all?" and, of course, one knows that the answer to that is that people are impersonating other people and their stolen identities and so forth, but I bring that up because that actually is an important step. Given that we are confirming with Social Security Administration that this person's information is valid, that it's a real person, that they're alive, and so forth, the open question then is, is the person who's at the keyboard or on the phone or whatever, is the person who's filling out this FAFSA actually the person who they say they are? Right? It becomes a more narrow question, and that's why we say we're confirming their identity for all people.

Now, for a vast majority, and based on the pilot that we did in August, we feel pretty confident saying a vast majority, for a vast majority of people filling out the FAFSA, we will be able to confirm their identity without asking them to come on camera or show an ID or any other documentation, but that will be a step that we took, which makes it far more secure. And this is where the real win comes in part for FAAs and the lack of burden. Previously, there are people in that bucket who we might have selected for V1 or V4 or V5 or who schools might have chosen to select in self-selection. Well, now, that population, our analytics mean that we have looked at that person and we have confirmed that they are who they say they are and that the Social Security Administration confirmed is alive and eligible and so forth. So that's that first category, that's that lowest risk category, and that's a real step up in detection and confirmation for that category, even without needing to have anyone come on camera and show ID.

From our standpoint, we don't see any purpose in having them come on camera and show ID. These are legitimate, eligible applicants who, as our mission and is clear to everyone as an administration priority, should be eligible for financial aid and should be able to access it and proceed to higher education and a pathway to the middle class. Then you step up...

So I don't know if we want to sort of then step up to the other categories now.

Karen McCarthy:

We'll wait, yeah. Before we move on to the problem people, I'm still at the real-time screening. This happens, you said, as they're completing the FAFSA. So it's not obvious to the FAFSA applicant. They're not seeing anything. They're just moving along, answering questions on the FAFSA, they're tripping red flags or they're not, but they don't know yet because this is just part of the real-time screening.

Aaron Lemon-Strauss:

Exactly.

Karen McCarthy:

Is that correct?

Aaron Lemon-Strauss:

That's right.

Karen McCarthy:

Okay. Okay, because that was one of my questions, is when does that happen exactly? I was thinking it was like a point in time. And then, does the applicant know at all? I think we've answered that.

Then based on their cumulative responses and behavior as they're filing the FAFSA, they get put into one of the categories that are in the EA, the low, moderate, high risk, very high risk. It sounds like from the EA that the folks, the applicants that are in the highest risk category... And I know you can't give us any details. I know some people will ask, but you can't give us any details about what are the red flags, how do they trip that, so I understand you can't share that information. But assuming that they do and that they are high risk, you say that then those are the people who will be asked to come on camera and show an ID. I guess I'm curious how exactly that happens. What do they see? What are they told? Can we get some screenshots? All of that? What is the messaging there?

Aaron Lemon-Strauss:

Yeah. I think what we'll probably do is we'll update the EA with screenshots. Our hope was to put screenshots in the EA, but it just wasn't quite ready in time. I think what we'll likely do is update the EA with screenshots. We may also put in a... We have a help article that's going live on the 26th that's student-facing and we put them there, but we'll find a place to put screenshots for sure. The basic way that this will work is the user will be told that they need to take a couple of more steps to confirm their identity. At the point that that comes up, they can decline right there and not take any of these steps. If they decline, then it goes into that... I should have had the EA in front of me, but I don't, so I can't give you the exact comment number, but it goes into that Reject 74 and the comment code that says, "They did not complete." As a reminder, Reject 74 is they were in the high risk category, and they didn't successfully complete.

But there's two different comment codes. There's a comment code for they did show documents and failed, and there's a comment code for they didn't complete, and that's meant to give additional information to anyone who can see the ISIR.

Karen McCarthy:

If they just leave, if they say, "Oh, I'm not doing this," and they just abandon, what happens?

Aaron Lemon-Strauss:

If they fully abandon, then that means their FAFSA isn't submitted because if they [inaudible 00:22:56]-

Karen McCarthy:

Okay, so it's not a reject because... It wasn't submitted, so it's not a reject. They just left.

Aaron Lemon-Strauss:

Yeah, it's the same as if they abandoned at any other time during the FAFSA.

Karen McCarthy:

Okay, yeah. Okay.

Aaron Lemon-Strauss:

If you don't make it through the FAFSA and sign and submit, then you didn't complete the FAFSA, and so there's nothing that happens there. But if they click the... There's like a Decline to Participate button. And if they click that, it takes them back to the FAFSA flow where, presumably, they would go through and then submit. And at that point, that would generate an ISIR, and it would generate an ISIR with this Reject 74 comment code, I think I know the number, but I don't want to say it and then everyone will yell at me, the comment code that is they failed to complete identity verification, document verification.

Now, so then, there's two other options. They could then go through the process. And if they go through the process and they come on camera and they show a valid government-issued ID... It's worth being very clear for everyone. It needs to be government-issued. We are not able to accept school-issued IDs. Now, we're using the broadest use of government-issued, so it does not need to be a driver's license. There are a lot of other government-issued IDs that work, and really any state or federal-issued ID will work, but it does need to be government-issued. So worth everyone knowing that a school-issued ID, either high school or college, is not going to work. They come on camera, they show an ID, and it checks out, great. We're going to add a comment code to that transaction, to that ISIR, that says they completed document verification with us, but otherwise... Well, depending on, of course, everything else about their application, but assuming everything else about their application is dispersible and eligible and so forth, it'll go through and have an SAI and be dispersible.

Karen McCarthy:

Okay. In the EA, it says that this process is automated. I assume it's not a person that pops up. What do they see?

Aaron Lemon-Strauss:

Yeah. It's not a person, which is an advantage. There's a lot of advantage to that of course, but one advantage is it means it's instant, right?

Karen McCarthy:

Yeah.

Aaron Lemon-Strauss:

We get results immediately and can pass them right through the process. There's a window with instructions that comes up. One thing worth noting, which we do say in the EA, is that this process needs to be completed on mobile... or sorry, on a device-

Karen McCarthy:

Yeah, that was going to be my next question. Why? Why?

Aaron Lemon-Strauss:

For the ability to have the camera and then some other components of verification. If they're on a laptop, they will need to move to a phone or a tablet. It can be any phone, any tablet, so it does not need to be their phone, it does not need to be a phone that they're logged in on. Once you get to that phone, you do not need to log into studentaid.gov. It's just a phone. If mom's there with a phone, you can use mom's phone. If your counselor's there with the phone, you can use the counselor's phone, FAA's phone, anyone who's got a phone, obviously the student's phone. It'll show a QR code. And then using the QR code, the person... it'll transfer you to a webpage on the phone.

Karen McCarthy:

Okay. Is that secure? If you're using your counselor's phone, you don't need to worry about your FAFSA information going anywhere, right?

Aaron Lemon-Strauss:

Exactly. It does not bring over any FAFSA information. Again, you do not need to log in, so there's no ability to sort of steal passwords or whatnot. It's merely using the phone for this activity, which is the camera and then getting the ID.

Melanie Storey:

So if they're completing the FAFSA on their phone or tablet, what happens?

Aaron Lemon-Strauss:

It just goes-

Melanie Storey:

It is automated?

Aaron Lemon-Strauss:

Yes, then you just sail through, yeah.

Karen McCarthy:

Huh, okay.

Melanie Storey:

Yeah, that's going to cause... I see a lot of people going, "Oh, how are we going to figure that out?"

Karen McCarthy:

Yeah.

Melanie Storey:

Okay.

Aaron Lemon-Strauss:

I think because financial aid administrators are naturally mission-focused, helpful, solution-oriented people, I know there's a lot of wheels turning about how do we support our students going through this process, and I think that's a good instinct and encourage that instinct. I will just say, we believe this will only trigger for people filling out the application for which we believe there's a high degree of likelihood that they are fraudulent.

While it is of course not impossible and certainly at scale, it will absolutely happen that a legitimate person sitting in your office filling out their FAFSA gets tripped over this. It will be a very small percentage where that happens, which is not to say that it's not worth planning for or thinking about support for. Again, we will have help articles, we will train our contact center, et cetera. You should, too. But I just want to emphasize that before people feel like this is something that you're going to need to be ready for at a FAFSA completion event or whatnot. If you've got a couple hundred people in a gym at a FASA completion event, most likely, none of them will experience this because they will just go through the FAFSA process as before, except with the added confidence that we've screened them and verified their identity.

Melanie Storey:

They do it on a laptop, they get the QR code, they hit the QR code, they get the phone, they do the thing, they finish what they need to do on the phone, then it automatically feeds back to the application on the laptop, and they can continue to proceed.

Aaron Lemon-Strauss:

That's right. On the phone, it'll say, "You've completed. You can now go back to your application." And then on the laptop, they'll be able to then go back to the application.

Melanie Storey:

Sorry, Karen. I'm still trying to-

Karen McCarthy:

No, that is good.

Melanie Storey:

Good girl.

Karen McCarthy:

I am thinking, I'm glad that you keep referring back to the low numbers of people who will be going through this process because I can already envision everybody being concerned about all of their, say, high schoolers who don't have a driver's license, ID. I'm wondering about, if you are a college senior filling this out, no school ID... I guess it's the same documents that are acceptable for the V4, V5 verification. However, when you're selected for verification, you have more time because this is like an

instantaneous... There's some amount of time, although the EA didn't say. You have some amount of time to gather your ID. And what if you don't have anything?

Aaron Lemon-Strauss:

Yeah. So if you just don't have anything because you just don't have anything or maybe you don't have anything with you, then you can decline to fill it out. Assuming you then still complete your FAFSA, this is why we need, an ISIR to be generated, the school to get it. And then that would be an example where a school will then follow the procedures associated with V4, V5. Again, the challenge we have here is when we talk about this as... We're trying to balance two different things here. One is we want to make sure that people understand that this is not V4, V5, in that vast majority are fraudulent, likely international fraud ring, AI-generated applications. We would not want or expect schools to take any particular action with them. I think if you were to try to get into an email conversation with someone like this, you're more likely causing yourself harm than otherwise. We want to make sure that that... lowering burden, most likely fraud.

The other thing we're trying to balance is, for a legitimate student who's been caught in this, we want this to be as easy as possible. So that's where, for that student, the experience really shouldn't be any different than if they were selected for V4, V5 in the previous world. They are going to need to interact with the school. They're going to need to follow V4, V5 identity verification procedures. When they do, the school will go into FPP, we'll mark that they've successfully completed those procedures, and then the ISIR will become dispersible, and eligibility will be determined. The problem with trying to balance those two things is I know that there are folks out there who will say, "This reduction in burden claim you're making is crap because you're just-"

Karen McCarthy:

Yes, they will. Give me a heads up. You are going to hear that.

Aaron Lemon-Strauss:

Yeah. "You're just going to send us all these rejected ISIRs, and now I'm going to get all these rejected ISIRs, and I'm going to have to do something with them." In the end, of course, that's up to the schools about what they do with that. There is a significant fraud problem on the FAFSA, and so we have to deal with it. It's costing the federal taxpayer \$1 billion a year, it's costing states and institutions likely even more, so we have to do something about this fraud problem. The alternative to sending the ISIRs through, but rejecting them, would be to just block the potential fraudster entirely. That then becomes a significant access problem for the legitimate student who happened to accidentally get caught in the net. So the way that we-

Karen McCarthy:

It would be few and far between? Few and far between?

Aaron Lemon-Strauss:

Which we believe will be few and far between, exactly.

Karen McCarthy:

Okay, okay.

Aaron Lemon-Strauss:

Exactly. You can debate this and disagree with this decision as much as you want, but the way that we have sought to balance those needs is through this system where we say, "We will allow transactions to go through. We will allow ISIRs to be sent." And then we will, as much as we can from all the rooftops we can find, make sure that FAAs hear us when we say, "These are rejected ISIRs that we believe to be fraudulent. We would not expect you to take any action, and we expect therefore that it reduces your burden."

Karen McCarthy:

Yeah, and I think one thing... So you're kind of at the next stage in the process in that, if somebody does not complete, it pops up, they're in a high risk category, they do not complete the process or their ID... they don't have the right ID, whatever, they decline, and the rejected ISIR then flows through to the school, and it will look like... It will have new codes that are in the EA, and all the appropriate guides will be updated, but it will be a rejected ISIR. One thing that I do want to make sure that everybody knows... because I think sometimes our aid administrators mix up what they do versus what they're required to do. With rejected ISIRs, I think the vast majority of schools do contact students who are missing signatures, "We got your rejected ISIR. Somebody didn't sign your FAFSA, and this is what you need to do to resolve it," but schools are not required to do that outreach.

So I think when you say, "These are rejected ISIRs," you can completely not do anything unless the student reaches out to you. You don't have to proactively reach out to these applicants. And I think some schools will say, "But it's a rejected ISIR. We need to program that and send out a letter," and you do not. Your school might choose to do all of that outreach for other rejections, but it's not... and that's a good practice. You want your people who just need a signature to get that signature on there so their FAFSA can be processed. So these are rejects like other rejects, but a little bit differently, and that schools might address these rejects differently in terms of how they do outreach or do not, it is optional, in ways that are different than how they handle other rejects.

Is that accurate?

Aaron Lemon-Strauss:

That's exactly right. It's a great clarification. One quick plug point from how I like spending more of my day job is we made a change in January that has significantly reduced the number of missing signature rejects, by the way. So we're-

Karen McCarthy:

That was just the first example that pop in my head.

Aaron Lemon-Strauss:

I know. I just was like, "I'm going to plug in for some of the actual product improvements." But that's exactly right, Karen. I think it's very well said, and I hope everyone can spend some time thinking about like, "What's the right procedure here?" Because to your point, there are times provisionally independent or the missing signature for sure where like... I don't want to overstep my role here, but I would certainly, if I were a financial aid administrator, I would want to be reaching out to those folks who-

Karen McCarthy:

I think with the provisional independence, they're required to.

Aaron Lemon-Strauss:

I guess that's true. Provisionally independent, you are required. Okay, so that's another-

Karen McCarthy:

Yeah. All the other... yeah.

Aaron Lemon-Strauss:

Yeah, but I agree with the point you're making, and I think that there are cases where we want to help support those students. But you're right, there's no requirement. And again, if I was a financial aid administrator and FSA said, "We ran a thorough best-in-class fraud detection analysis on this person, and we believe that this is fraudulent," I would certainly not reach out to that "sort of person," in quotes, because I think you're likely going to end up talking to a scam center overseas when you do, and I would even be somewhat suspicious about if a person who has been rejected in this reaches out to you.

Now, again, our job as FSA and then certainly the financial aid administrator job, the reason that we're in this job is to help students go to college and to help them achieve higher education and reach the middle class. The FAFSA exists to help support that. But keep in mind that following the step of then doing identity verification is only required for a student that you intend to disperse to, and that's always true. Right? Any required action in the specifications guide is only required in the event that you wish to disperse to them.

To go back to our V4, V5 example, V4, V5, identity verification is required. But if you list 10 schools on your ISIR and the school isn't planning to ever disperse to the student because they didn't accept them or they're not planning to attend or whatever, it's not like that school is going to reach out to do identity verification, freelance, of that student. Right? Similarly, if you're not planning to disperse to a student because you believe that they are fraudulent, there is no obligation to conduct identity verification of that student.

Melanie Storey:

I want to step back to a comment you just kind of made earlier though, which was that you would caution financial aid professionals to do identity verification for someone who reaches out to them directly. But the actual, as I understand, small number of students who are accidentally caught in the net, they are going to reach out to their institution because they need to proceed. They're a legitimate student. I don't know how to reconcile those two things.

Aaron Lemon-Strauss:

Yeah. I don't have a magic answer on that. You're exactly right. The small number who are caught in this by accident are going to reach out. I guess what I'm advocating for is this becomes the sort of place for judgment and for financial aid administrators to consider what they're seeing. We could go into sort of examples, and I'm happy to... We could do a one-month-later version of this where people bring examples or we bring examples of what we've seen, but... I guess what we've been thinking about for the last few months as we plan to roll this out is, "Well, what happens now with the fraudsters?" Because we've seen that the administration has successfully blocked \$1 billion of federal taxpayer money from going to the fraud rings.

We've seen evidence of fraudsters taking money and setting up sophisticated organizations. So it seems unlikely that, when we block this particular avenue and this particular vector, that they just sort of wipe their hands and say, "Aw, shucks. Guess we'll have to just shut down the old fraud ring and go back to doing something else." It seems more likely that they will look for other vectors. So that makes me interested in financial aid administrators using their judgment when they get outreach from a student who has been rejected under this mechanism. And again, as you said, there's the number that are legitimate people, and that will happen in any system. But also, it's a time to look at location, email address, all the sort of stuff you would do when you get emails from people you don't know and you don't expect, and they're asking you for unusual things.

Karen McCarthy:

Yeah. I'm thinking about the high school student who's at some FAFSA completion night and it pops up and, "Oh, I don't have a driver's license. I have a passport, but it's at home, so I just need to get through this thing." So they decline, they're rejected, but they are actually a real person. They are going to contact the school, I imagine, and say, "Hey, I have my passport now. Can we do this?"

Aaron Lemon-Strauss:

Yeah, I would put that in the bucket as an easy decision about what to do. And the other thing, another plug for some of the product work, we're close to, as I think everyone here hopefully knows, real-time FAFSA processing. For the students who are at an event and just don't happen to have an ID with them or just don't have an ID or whatever, but if there's... We're not far away from a world where a student might get caught up in this and they're literally sitting in front of you or they're sitting in front of a colleague or a counselor or whatever. And then you can just go right into FPP because, again, it'll be processed in real time. ISR will show up in the FAFSA Partner Portal for you in real time. I guess the person would need to get their passport for you to actually have done the verification.

But anyway, we can turn this around pretty quickly in a world of real-time processing.

Karen McCarthy:

I have one other kind of detailed question, and then I also want to talk about the screening of the previously submitted FAFSAs, because I think people will also have some questions about that. When we talked about the real-time screening and then it puts people in the buckets according to their risk, and it was low, moderate, high risk, those are the people who are presented the option to come on camera, but then there was the highest... I forget, what was the highest category? Very risky, like the... I don't know. What is it called?

Melanie Storey:

Super risk, uber risk.

Maria Carrasco:

I think it was called highest.

Karen McCarthy:

Highest risk, thank you. Thank you, Maria. But with the highest risk category, you do not present them at all. I think they're so risky that you don't present them the option to come on camera and show their ID at all. They're just rejected, flat out rejected. They flow through to the school. They have their own

little special code, so you know who's in that category, that highest risk code. But I guess I'm wondering about that... I understand that you are very, very confident in that this is a fraudulent application, but they haven't... So you're not going to screen them, but then they flow through to the school, and then the school... I know, I am predicting, that some schools would say, "Great. You didn't give them the opportunity to verify their identity, so now I have it. So you passed it to me as the FAA." Maybe explain the rationale, or maybe how would you answer that question like, "Why aren't you screening these, and why are you passing it to me?"

Aaron Lemon-Strauss:

Yeah. I think the thing to note there is screening... We believe that the document verification process that we will do is of a higher quality than is possible by FAAs at schools generally-

Karen McCarthy:

Exactly, yes.

Aaron Lemon-Strauss:

... which is no knock on FAAs-

Karen McCarthy:

Hopefully, yes.

Aaron Lemon-Strauss:

... of course, who are very hardworking, but we'll be conducting a screening that meets the NIST IAL2 standard, which is the highest standard possible virtually with a bunch of safeguards built into it. We believe that standard is very high.

Having said that, that's not unbeatable. There are sophisticated technical mechanisms by which it's possible, or it could be possible in the future, to dupe that system. There is a category of "applicants," in quotes, because these are certainly not legitimate students, but there's a category of applicants who we are so confident that they're fraudulent that we don't want to put them through our document verification. Because even if they passed, the most likely analysis of them passing is that they had some way to beat the NIST IAL2 standards, because we would still believe that they're fraudulent based on the data that we have for this category of person. So it's not even worth putting them through that document verification because there's a risk that they pass, but that would be no new information to us. We wouldn't treat that as new information or new data. We would still be confident that they are fraudulent. So that's the background about why there's that category.

So then, to your question that an FAA might ask, that's why we have a separate reject code for this category so that FAAs that receive this ISIR know, "This is someone from the FSA who was so confident they were fraudulent that they didn't even try doing document verification on this person," and that would be a... If you get an email from someone who says, "Woe is me. I've been rejected even though I'm a real person," that's the-

Karen McCarthy:

That should set off alarm bells.

Aaron Lemon-Strauss:

That should set off a lot of alarm bells. Is it possible that your great-grandfather really did die and leave you an inheritance and someone has obtained it and you just need to send \$500 and you'll get it? It's possible, but I would not send the money if it was me. Similarly, I would not disperse to someone who we are at this level of believing them to be fraudulent. And as a reminder, schools are not required to take any actions if they are not intending to disperse to the student. It's possible it's overly broad in some niche zones. There's some FAAs, some that are listening to this, being like, "But what about this very specific case?" Apologies for that. But certainly in this case, if you are not intending to disperse to the student, you are not required to do any form of identity verification, respond to them, et cetera. The governor on that is your own school's interest in enrolling and dispersing to the student and then willingness to take on the work of verifying identity.

And if they're coming in with this Reject Code 75, I sure hope I got that right, but this sort of heightened reject code, I would caution you against planning to disperse to that person.

Melanie Storey:

Yeah. What's the feedback loop you want from us and from our members as this rolls out?

Aaron Lemon-Strauss:

Yeah. We look very carefully... First off, this work is possible and it's possible at the level of fidelity that we're going to be able to do it because of the work that financial aid administrators have done over the last six months or so, especially when we flagged a couple of hundred thousand '25-'26 ISIRs in the fall and then had schools go in and do identity verification and report back results. That is the data that is crucial for getting-

Karen McCarthy:

Yeah. Thanks for mentioning that, Aaron, because I do use that. Our members don't mind... We kind of talk about reasonable administrative burden and them feeling sometimes that they're doing meaningless reporting and nobody's ever using this and we're just sending this information into the ether and nobody looks at it. But I have heard you say this several times that it's that V4, V5 reporting and the analysis of how good of a job you were doing in selecting the applicants for V4, V5, because that's what schools are reporting back to you.

Aaron Lemon-Strauss:

Yeah, that's right.

Karen McCarthy:

Yeah. Thanks for mentioning that.

Aaron Lemon-Strauss:

The V4, V5 flagging we did in August was based on an analysis that is very similar to what we're doing in production starting April 26th, but it was a pilot program where we didn't want to actually reject anyone because... and obviously we didn't have the practices anyway to deal with it, but we certainly didn't want to reject because we weren't sure. So we just V4, V5-flagged a lot of students, which we know certainly added burden. So this is not to say that there's not burden been added throughout this process. But that was, to your point, Karen, extremely valuable because every one of those people, the

reason we were flagging them was, well, in part, of course, to keep money from going out the door to fraudsters, but the long-term purpose was to learn about what works and what doesn't and what holds. To the question you asked, the feedback loop here is we will continue to use the data that FAAs put in both for the traditional identity confirmation steps, so the V1, V4, V5 reporting and FPP, and then corrections that come in on this FAA fraud override, which, keep in mind, as the EA makes clear, but just to make sure everyone understands, those are two different components that they're not repetitive. You would never need to do both. I think this made into the final EA.

Karen McCarthy:

Yes, I think so.

Aaron Lemon-Strauss:

In a unique case, which is almost statistically impossible, where someone was both V4-flagged and fraud-rejected, you would not need to do identity verification twice. That would be silly. Then in that point, you would just need to report. The reporting into FPP, with batch corrections, by the way, coming soon, we expect soon, that reporting is tremendously valuable to us. That's the sort of actual data component, so please do report that. More broadly, we would love to hear feedback about how this is going generally and what works, what doesn't, if this isn't reducing burden, why it's not reducing burden, what we could do to reduce burden that doesn't sort of trip over this basic decision of we need there to be an out for legitimate students. So, please, send in feedback. It does not need to go through NASFAA.

As you guys probably know, certainly as Melanie knows, I love engaging with NASFAA because it's a great way to reach so many of our constituents and it's a great way to reach them at scale. But, of course, NASFAA's a membership organization, and we want to hear from all FAAs at all institutions, so it does not need to funnel through NASFAA. Anyone's welcome to gain contact with me directly. And we'd love to hear feedback, so please keep it coming. The whole point of this is to get it right, so we anticipate that this is a evolving iterative process.

Karen McCarthy:

And I assume... Well, do you expect there to be... I don't know what you think are out there in terms of fraudulent applications. Do you expect this would have a significant impact on FAFSA completion? You could say if FAFSA completion goes down, "Oh, hey, it's because we kicked out all the fraudulent applications," or it could be that there are additional barriers and real people don't get through the process. I don't know. I'm sure you've thought about that, the impact on FAFSA completion.

Aaron Lemon-Strauss:

Absolutely. We think about that deeply. As we mentioned at the training conference, our number one goal is to increase the overall number of people who complete the-

Karen McCarthy:

Legitimate applications?

Aaron Lemon-Strauss:

Legitimate applications.

Karen McCarthy:

Legitimate people, yeah.

Aaron Lemon-Strauss:

Legitimate people. So we look very carefully at what impacts, what goes up, what goes down. I'll note that, without going into too much detail for obvious reasons, we see fraud in some pretty reliable places. I don't mean places geographically, but I mean in terms of profiles. While it's possible that that morphs, and we start seeing fraud in different places, I think we have a couple of... We have places where we can keep an eye on where we have not traditionally seen fraud, and we would expect therefore to see very little impact on completion rates, starting rates, disbursement rates. And if they were to be impacted because there's overall a harder process or it causes concerns in the student community or whatnot, then that'd be something we would be looking at very carefully.

Karen McCarthy:

Hey, Aaron, I know we've been talking about this new screening for new applicants going live at the end of April. Towards the end of the EA, there was also a very significant paragraph saying that you are going to be doing the real-time screening, but not really real-time, but the screening against all previously submitted '26-'27 FAFSAs, and that, as a result of that screening, schools will see another batch of... I think it said V5. So that was one question. Why is it not V4 and V5, but V5 selected applicants? I'm sure that some schools may miss it and other schools may see that and say, "Oh, no, again? We're doing that again?" So tell us about that. Why are you doing that? I think there will be some questions about showing ID. These are previous filers. So if you can clarify how that will work, when that will work, if you know what the volume will be, all the details on that.

Aaron Lemon-Strauss:

Yeah, good question. This is the final batch unless something-

Karen McCarthy:

You keep saying that. You keep saying that.

Aaron Lemon-Strauss:

Well, but I don't believe I've said it before now because we always knew we would have to do this. This was always going to be the final batch and this was always going to need to happen because we knew that we needed to have real-time screening in place before disbursements happen for the '26-'27 award year, which of course starts with summer header schools this summer. Having real-time screening in place before disbursements start for '26-'27 gives us the ability to be able to confirm that any school that wants to make a disbursement for '26-'27 can have confidence that that disbursement is going to a real person.

Now, the only way you could have that level of confidence is if we then went back and gave you that confidence about applications that already came in before the real-time screening was in place. This is the final batch, and again was always... Not to say I've always-

Karen McCarthy:

All right, you're on the record.

Aaron Lemon-Strauss:

Yeah.

Melanie Storey:

Maria, can you clip that, just like a quick bit of just that, that we can boomerang maybe at some point?

Aaron Lemon-Strauss:

Yeah. So this is the final batch and, again, always intended to be the final batch because we have to do that catch-up, or else the fraudulent person was able to get the ISIR in before that. We'll go through... As you said, Karen, it is of course not real time because of course they've already submitted their FAFSA, and we will not be going back to anyone and asking them to come show ID, for instance. That's why we need to still use V5 as a tool because... I guess there was some alternative process where we could have tried to contact these students and said, "Please come show us ID," but that sounds like that would've been a mess. That's why we're going down this road of V5.

Karen McCarthy:

Agreed.

Aaron Lemon-Strauss:

The reason it's V5, not V4 is a technical... As folks may remember from the fall, we were intending to flag the batch of people with V4 and ended up coming in as V5, and that was because of a technical limitation in how we work this, which is only able to put people into V5 selection. As a reminder, there's guidance, certainly in the handbook, maybe in the regs, that if you have someone who selected for V5 and they had their FTI transferred from the IRS, you do not need to confirm anything that was transferred. The parts of it that are V1 slipping into V5 are much less onerous, assuming that they had their information transferred from the IRS, which of course almost everyone has.

It'll be V5 selection. I won't be able to tell you the exact number until we're ready to do it, but schools will get updated transactions and updated ISIRs that will have V5 selections, and that of course will require some additional work, so we appreciate that in advance. But this is the final batch, and it gets us out of this old model of selections for V4 or V5 and allows us to enter the new world where we'll have this real-time detection on the FAFSA.

Karen McCarthy:

Okay. So can I make sure I understand this, what you're going to do with the previously submitted '26-'27s. You, FSA, will run those previously submitted FAFSAs through the initial screening that you would do as somebody is filing a FAFSA, that you're doing for the new applicants. But if they would fall into that risky category, then rather than... They already have a processed FAFSA, so you're not rejecting any new FAFSAs, you're just going to select them for V5.

Aaron Lemon-Strauss:

That's right.

Karen McCarthy:

And then schools will follow the same V5 resolution processes that they are already using.

Aaron Lemon-Strauss:

That's right. Exactly.

Karen McCarthy:

And then, that way, everyone for '26-'27 has been through that same initial kind of initial screening of your new algorithm and identity fraud detection.

Aaron Lemon-Strauss:

Yeah, that's right. Only asterisk I put on there is that it's not our exact full process because it wasn't live, and there's things that we're able to do when it's live. But yes, that's the basic idea is that then-

Karen McCarthy:

Okay.

Aaron Lemon-Strauss:

The goal here from the perspective of the user, the financial aid administrator, is I'm sitting down to originate a package. Assuming that I've done any selected V5s and assuming that I've got a dispersible ISIR, which I guess I would need to if I'm going to originate, I can sit down and have confidence that I'm actually originating a loan or a Pell Grant to a real person and have much more confidence in that than I've ever been able to have before. That's the goal here is that the FAAs have that confidence, real students then are able to get the aid they need, we save the taxpayer the billion dollars a year, we save the institutions and the states... That's the goal of this work.

Karen McCarthy:

Yeah. Did you say when this will happen?

Aaron Lemon-Strauss:

It'll happen soon... It'll happen very soon after April 26th launch. We just need... Obviously, there are people who are going to fill out the FAFSA on April 25th, and so those need to be included in this batch. We're going to pull that batch together, we're going to run the numbers, we're going to make the selections. I don't have an exact date to give you, but we're going to do it as quickly as we can because, again, we want to get it done before folks start their summer headers.

Melanie Storey:

Yeah. I wanted to loop back to summer headers and just be clear... We're hearing a lot. There's a lot of challenges for our summer header schools this year, not just related to this. Summer headers, really, those disbursements can start in May, depending on when their summer sessions start. I appreciate as soon as possible because they are needing to move on their summer headers pretty much on the same timeframe.

Aaron Lemon-Strauss:

Yeah.

Karen McCarthy:

Kind of one other... Yeah, I'm thinking about it's going to be a tight window for the summer header schools. For all these previously submitted '26-'27 FAFSAs, will schools get new transactions for all of them, or would it be only the ones that are selected?

Aaron Lemon-Strauss:

Yeah. Only the ones that are selected, yeah, will get new transactions.

Karen McCarthy:

Okay. Okay. Will it be one giant dump or is it going to, because of the... Or, will it be like over a week or two, or are they all going to... I think when schools see them, they're like, "Is this it? Or, are there more? Going to be more?" I just don't know.

Aaron Lemon-Strauss:

We can make a decision right here, if you want. Our plan would be to do it as one single event because my sense is that would be the preference of schools. Everyone listening here, you've got like one week, get in touch if you want it to be metered out over a couple of days, and we could do that from our standpoint. We would do whatever makes the most sense for schools. Our sense is that what's preferable for schools is that it all comes as a single, one day, you wake up to having a bunch of new transactions that have V5 selections. But if you prefer it over a couple of days, we could do that.

Karen McCarthy:

I just don't know. I don't know if there are any technological considerations.

Melanie Storey:

Yeah, it's a good question. My sense is the same as Aaron's that a single... Because it is hard when you don't know how many more you're getting-

Karen McCarthy:

Yes, you just want to know.

Melanie Storey:

... getting them all and then letting the school figure out how to cadence them, how to chunk them out in a meaningful way. Who do they need to do right away for a summer enrollment? Who isn't enrolling until the fall? Right?

Karen McCarthy:

Right, right.

Melanie Storey:

They could be fall enrollees even if you're a summer header school. I think letting those schools have a minute to kind of analyze that big chunk and figure out who they have to triage right away and then who they can continue to work on is my sense. But welcome schools to reach out to you, to reach out to us, put something in communities, whatever, and we're happy to pass that along. That's my gut sense.

Karen McCarthy:

Yeah, that makes sense.

Melanie Storey:

Being in an office, I welcome practitioners to weigh in on that.

I have one other big picture question for you, Aaron, and then we'll wrap it up. This is, I think, a much more refined... and hopefully it will deliver on the promise of reduced burden. My question is, are there not similar kinds of analyses that could be done at the FSA ID level so that they never access Title IV? Why can't we stop them earlier?

Aaron Lemon-Strauss:

It's a great question and a great point, and I think we can all expect to see more on that coming soon. For us, the urgency was we needed to have this live in April before May summer header terms started. That's been the North Star for us in this work is it has to be done and it has to be live by April 2026 so that it's in place and protecting the program before summer headers... before the '26-'27 academic year starts disbursements. We're happy to be able to accomplish that via putting it on the FAFSA. I completely agree that getting this level of confirmation of identities and confidence in identities at the FSA ID level would be desirable. I would expect that we'll have more to say on that at some point.

Karen McCarthy:

A little teaser there.

Melanie Storey:

I know.

Karen McCarthy:

Yeah.

Melanie Storey:

We'll be eager to hear more.

Karen McCarthy:

Yeah.

Melanie Storey:

Well, wonderful.

Well, Aaron, Karen, thank you so much. This was super informative, really helpful just to get some color and context around the EA, which everyone will parse every word and have lots of questions, and I think, and I'm hopeful, that this will really help clarify for that. It will ease concerns about the language of confirm identity of every FAFSA completer. Most of that happens on your end and doesn't come to us. We will look forward to the reduced burden and hope that it plays out, even if there might be another little bump once we get this big tranche potentially of additional transactions in preparation for going forward and that we're flagging the right people and we're getting better at that. I think that will be deeply appreciated, so thank you so much.

Good travels. Thank you for joining us on your leave. We really appreciate it. Without anything else, I'll just say thanks again to everyone for joining Off the Cuff Inside the Beltway edition. We'll remind everyone to please consider joining us for NASFAA's 60th anniversary national conference this year at National Harbor, I like to say DC-adjacent, this summer at the end of June into early July, which is a really important time as we will be meeting right as we are at the full implementation of OB3. Exciting times to come this summer, so please consider joining us. Thanks again all for joining us. Have a great day.