NASFAA's "Off the Cuff" Podcast – Episode 270 Transcript

OTC From the Field: All Things SAVE With Under Secretary James Kvaal

Allie Arcese:

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Justin Draeger:

Hey everybody, welcome to another edition of "Off the Cuff". I'm Justin Draeger, and joining us this week is James Kvaal, former Special Assistant for Economic Policy and a former Deputy Under Secretary of Education. He's done stints at the White House under the Obama Administration, a Deputy Policy Director for the Domestic Policy Council in the White House, and now a Under Secretary for Education for President Biden. Also, a former colleague and president of the Institute for College Access & Success, James has joined us at several NASFAA conferences in the past, and really glad you could join us. Thanks for being here, James.

James Kvaal:

Yeah, thanks so much for having me, Justin. It's great to see you again.

Justin Draeger:

This week, we're talking, and the administration is making a big push on the SAVE plan. Just a few highlights about this plan. Already, people are aware, I think, in our membership about many of the big benefits that have already been implemented flagged for early implementation. We're talking about higher income protection allowances, increasing it from 100%, 150, and 100% from the pay and IVR and ICR plans to 225% elimination of negative amortization, something we've been advocating for a very long time.

The exclusion of spousal income, credit towards maximum timeframes to forgiveness for all types of deferments, cancer deferment, deferments for military service, economic hardship deferments, those are all flagged for early implementation. And then we have other things that'll be coming down the pike in 2024.

Things like using half of the current percentage of discretionary income, lowering it from 10% to 5%, shorter timeframes to forgiveness, particularly for low-balance borrowers. It could be as few as 10 years on their original balance if their original balance is lower than $12,000. So James, very generous provisions, and I know the department is getting the word out this week, but it seems like you've already had some success. What are you guys seeing in terms of signup for this plan?

James Kvaal:

Yeah, we're very excited about the response to this plan, and I think it really speaks to how important it is and how much it helps people. We have, as of September 1, 4 million people enrolled in the plan, and that includes people who were previously enrolled in the repay plan.

It also includes about a million new signups, including through the revised application on our website. So we launched, about two weeks ago, a new way to enroll in IDR using tax information that is much simpler and you only have to do it once instead of coming back every year. And I think that's part of it too. The help borrowers need the help. It's also much easier to get.

Justin Draeger:

I want to circle back around to the tax information because that has implications for financial aid administrators that we'll be very interested in. But before we get to all of that, I wonder if we can back up a little further and talk about sort of the impetus and the thinking behind creating the SAVE plan. When the department was first thinking about engaging in rulemaking and regulation around this new income-driven repayment plan, the department has several. Maybe share some of the thinking that went into what ultimately became the SAVE plan.

James Kvaal:

Yeah, well, there's a lot of benefits to income-driven repayment plans. It means that people can repay their loans as an affordable share of income based upon how much they're earning. And after an extended period of time, whatever is left over is forgiven. So it really helps people for whom they can't afford their student loan debts because they have high debts and low incomes. That said, we saw some challenges with the program. We still had a million people a year defaulting on their student loans prior to the pause. The program was difficult to enroll in. You had to come back every year. We heard from a lot of people, especially low-income borrowers, that the payments that were expected under the IDR plans were still too high.

And then we also had the negative amortization problem that you mentioned, Justin. If the income-based payment was not high enough to cover the interest as it accrued, you had a lot of borrowers seeing their loans getting bigger instead of smaller and owing more than they borrowed, and that was demoralizing and made them feel like they were trapped in the plan. So the SAVE plan is really an ambitious effort to try and rethink how income-driven plan should work. It is a much higher income threshold below which you don't owe payment about $15 an hour for single people or more if you have families. And that's because we don't think student loans should come before the necessities. As you said, if you make your payments, interests don't accrue. We have a new, simpler application you only have to fill out once.

And then coming next summer, we have some additional benefits. We have a faster time for forgiveness for small loans. That's because if you only go to school for a semester or two, it doesn't seem fair to make you repay for 20 years. And it cuts the rate on undergraduate loans in half from 10% of income above the threshold to 5%. So it really is a very comprehensive overhaul of income-driven repayment. And the fact that the SAVE plan will have the lowest payment for almost everyone also goes a long way to simplifying student loan repayment. It allows us to say, for most people, you can get your lowest payment, enroll in the SAVE plan, and then we can think about whether you want to prepay or make additional payments [inaudible 00:06:26].

Justin Draeger:

So under the SAVE plan, you talked about this. This is going to be the best option for many borrowers who are struggling to make their payments. How do borrowers go about figuring out whether the SAVE plan really is the best option for them if they're trying to figure out their loan payments?

James Kvaal:

Well, in general, the SAVE plan is going to be the lowest payment for the vast majority of borrowers. That's particularly true once the plan is fully implemented next summer. As a general matter, if you have a particularly low debt or a particularly high income, you're the kind of person who might be more... have lower payments in the standard plan. And we have calculators on studentaid.gov, and we also have... If you want to be precise about it, I'd suggest you consider filling out the IDR application, and that will use real data to give you your actual IDR payment amount.

Justin Draeger:

Right. And if they use the loan calculators and they determine, for example, that the SAVE plan is the best option for them but then later determine, because their income might fluctuate, that going back into a standard repayment is the right option for them. There's nothing that prohibits borrowers from changing repayment plans to the one that best meets their needs, right?

James Kvaal:

They can do that. Yes, it is possible for them to come and go at any time. Now we do, if you go back into the standard plan, we expect you to repay in the time period of a standard plan. For most people, that's 10 years.

Justin Draeger:

Right.

James Kvaal:

And so if you're in the SAVE plan for an extended period of time and then you go back into the standard plan and your debt's re-amortized, you might see a significant jump in payments at that point.

Justin Draeger:

And that would all be borne out in the loan calculators that people would be...

James Kvaal:

That's right. Or always free to call you a loan servicer, of course.

Justin Draeger:

You talked about the application process and how that's a little bit different from some of the previous ones. How quickly, as schools or counseling their students and alumni and borrowers, how quickly can a borrower get enrolled in this program?

James Kvaal:

It takes about 10 minutes, maybe a couple of minutes more if you need to set up an FSA ID. I've done it. I'd say it's an easy 10 minutes. It's not asking you anything that you need to gather. You no longer have to get your tax returns or pay stubs or anything like that because we're authorized to go get your income information from the IRS. So plan on about 10 minutes.

Justin Draeger:

And that's really useful information to know, James, because especially for financial aid offices, the authority by which the department is using legislative authority, I mean, and this process that you've built to go get their information from the IRS is sort of the same bridge, I assume that and legislative authority that in the future we'll be using when we start importing data for the FAFSA starting in '24, '25. Any hiccups that we're seeing, or is there anything that we're noticing so far, or is everything going-

James Kvaal:

No, things are going very well. And as you say, that is a good sign. It makes us feel good about where we are in implementing the FAFSA, and it's an important reform for both programs. It's going to be much easier for students and borrowers and parents to fill out. And it's also going to help us get more accurate information, and that's going to reduce the burdens of the verification process on students in schools.

Justin Draeger:

One of the complaints we've had from the financial aid community, from our community, and several others, and this goes back a long ways as just the sheer number of repayment plans that we've had, and income-driven repayment plans are no exception.

We've had a number of them over the years, and as we've tried to play with the terms and conditions of these, we've only added to the number of repayment plans. This is the first time we've created a new plan to replace a previous plan, and that seems pretty significant to me. How big of a deal do you think this is?

James Kvaal:

Yeah, this is a big deal. One of our goals here was to try to simplify things. And it is a challenge when you had five different income-driven repayment plans that sound very similar philosophically and are quite complicated to explain the differences. So our plan is we replace the repay plan. We're going to phase out the other two. We're going to close them to new enrollment.

And that's because we think the SAVE plan offers lower payments. So we have no qualms about doing that again, except for perhaps a small number of borrowers with high incomes and low debts. So we think this is a substantial step towards simplification. The remaining plans were all created by Congress, and it'd be great if Congress wanted to look at further simplification.

Justin Draeger:

So we've talked about some of the provisions of this plan, and I think you just talked about what this is a little different than some of the previous IDR plans. Is it fair to say the reason that you are closing off those other IDR plans is because this is in fact more generous? This is the most generous IDR plan the Department of Education is offering.

James Kvaal:

That's right. It is. For the vast majority of borrowers, it will be the lowest payment for any income-driven repayment plan. And there will be some parents who want to continue to use the ICR plan. There may be some borrowers, again, with high incomes and low debts that will get a lower payment under IBR. But for the vast majority of borrowers, the SAVE plan will give them the lowest monthly payment.

Justin Draeger:

So we are now entering this the next several weeks when students, borrowers, more specifically, will have to begin making payments or get themselves into a repayment plan that offers them some protection or deferments or forbearances. And we've heard some stories, and we sort of expected this might be a bumpy ride as we're onboarding millions of borrowers back into repayment after a three-and-a-half-year pause on payments. A couple of things.

One is if borrowers are struggling, and some of this is very anecdotal. You all might have the data, James. But what we're hearing is sort of smatterings of stories popping up in the press and from some of our members and borrowers. But one of the things that we sort of expected but are also hearing are really long wait times for servicers. So what is the advice to aid administrators or borrowers who try to contact their servicer but end up in these really sort of untenably long queues? What should they be doing if they're looking for help but just can't get ahold of anyone right now?

James Kvaal:

Yeah, thanks for the question. I mean, this is obviously top of mind for all of us over here at the department right now. And in October, we're expecting more than 28 million borrowers to have their payments. Some of them have never paid before, others have been on pause for three and a half years, which is an unprecedented endeavor. And 28 million people, that's five times more than typically entry repayment in an entire year. So we're really jamming the system here.

We've been working very hard to get information out to borrowers every way we can, where we have expanded capacity within FSA to communicate directly with borrowers. We're working with loan servicers as well. We have plans to target at-risk borrowers. We have data-driven improvement to try and optimize our communications. And then we're asking help from outside entities as well. And I want to say thank you to you, Justin, for partnering with the SAVE on Student Debt Campaign, which is an effort to work with grassroots groups to get the best possible information in the hands of borrowers because this is... it's certainly going to be something where we need a lot of help.

And I know from talking to borrowers the extent of anxiety they feel. How worried they are. This is going to take people some time. They haven't been paying on loans for three and a half years. They need to make room in their budgets. They need to figure out what arrangements are best for them. So it's going to take an all hands on deck here. We're all reaching out to borrowers and recognize that we're going to need to be supporting borrowers for some time.

Justin Draeger:

Yeah, and I think you... I appreciate that, James, and you certainly have got some allies amongst the financial aid offices out there who have a vested interest in helping their borrowers try to navigate a really complicated system that many of them have just not navigated previously. One of the issues, and it's hard to really quantify whether this is really getting any steam or not, but there are some advocates advising borrowers to sort of protest the fact that the Supreme Court struck down the Biden Administration's efforts at debt forgiveness.

And the way that they're sort of advocating that they protest is by not making payments almost like a debt strike. And, of course, from the financial aid office, they're very wary of supporting anything that says, "Don't make any payments or don't contact your servicer." What would your advice be to these aid offices or to these borrowers, whether this is really a productive way to support a policy agenda or to handle their own student loan debt?

James Kvaal:

Well, look, I think we all need to understand how challenging this transition is for borrowers. And the borrowers I talk to are confused. They're frustrated. They're anxious, and I understand how hard a transition this is going to be for people, and I think we all do. Reality is that payments are due now. We are going to be sending bills, and interest is accruing. So I would encourage people to look at the options we have available to them. Look at the SAVE plan. Take a look at Public Service Loan Forgiveness, and make a plan to deal with loan repayment in an affordable way.

Justin Draeger:

The administration is moving forward on some plans to seek additional debt relief. You want to talk for just a moment about what's next in the Biden Administration's plan to seek debt forgiveness?

James Kvaal:

Yes, thanks. So, of course, as you know, the Supreme Court earlier this summer struck down President Biden's plan to cancel up to $20,000 in student debt. We do disagree with that decision, but we are moving forward, and we immediately began a new rulemaking process to look at whatever authority we have under the Higher Education Act to cancel more student loans. We've held hearings.

We received 25,000 public comments that we're going through. And in the coming weeks, we intend to convene a negotiated rulemaking committee to go through those ideas and work through what makes sense. And the president has asked us to offer help to as many borrowers as possible and to work as quickly as possible, and that's what we're going to do.

Justin Draeger:

James, there's another question that I think that's on a lot of folks' mind, and I don't want to get too wonky in budget details here. But servicers obviously have a contract with the Department of Education and Federal Student Aid. They're doing work on behalf of Federal Student Aid and trying to collect on loans and help borrowers navigate this system.

We don't need to dive into necessarily servicer contracts today, but there's sort of a cascading effect and a question as to whether FSA has the funding they need to carry out their work, servicers have the funding they need to carry out the work that they've been tasked with by FSA.

And I wonder if you could speak to sort of the request that the Biden Administration has made of Congress to seek what's being called inside the beltway sort of an anomalous funding, even if there's a continuing resolution and whether there is enough funding for FSA to do and the department to do all the things that are on its list of things to do between now and when the FAFSA is released in December.

James Kvaal:

Well, I appreciate the question. I mean, we're at a point now where we're implementing a number of reforms that were enacted by Congress on a bipartisan basis or were started by the previous administration, and were good ideas. These are things like FAFSA simplification and the transition to new servicing contracts we have planned for next spring. In addition, the return to repayment increases our costs because we pay servicers more when loans are active than when they're in forbearance. I think these reforms we're implementing are good things.

Students are going to benefit from the new FAFSA. They're going to benefit from the new servicing contracts, but they are more expensive for us. And so, it is a challenge for us to give borrowers all the support we would like to give them without funding increases, given the increases in our costs. And we have, as you noted, we're examining the potential that there won't be a budget passed by the end of the fiscal year, let's say, end of September. And the White House has asked for an anomaly to provide additional funding for FSA. And we really could put those resources to good use, and I think we'd be able to deliver more help to students with those resources.

Justin Draeger:

James, you obviously and the administration are aware that Republicans in Congress have introduced legislation that would seek to eliminate some of these benefits that you've sought to implement for borrowers. And some of the arguments and concerns that they have is that this is really a backend way of forgiving loan debt that has not been authorized by Congress. And I don't know if it's necessarily worth getting into the arguments for or against any of that.

But I do wonder if, and I'm always looking for silver linings of bipartisanship here, and maybe I'm searching for a pot of gold that doesn't exist. But I do wonder if, along with these very generous provisions that are in the SAVE plan for borrowers, there's also with the administration sort of a tangential policy agenda along the lines of institutional accountability or upfront limits on additional borrowing.

On the one hand, we want to protect borrowers with everything we can. On the other, there is the continuing issue of student loan indebtedness and how do we provide all of this protection, but at the same time, ensure that we don't perpetuate ongoing issues upfront with borrowing?

James Kvaal:

Yeah, I think that's a great question. And we need to be thinking about permanent solutions to the problem of student debt. And one thing that we've done, the SAVE plan, Public Service Loan Forgiveness, Disability Discharges. Folks who have trouble repaying their loans did not fully get the benefit of college that they were expecting that would've made these loans a good investment. We're trying to put in place permanent safeguards to protect them. The second step is investing in making college more affordable, and the president believes we should double Pell Grants.

We should make community college free. We should have new scholarships for HBCUs and MSIs. Those are things we're going to need to partner with Congress on. And then the third area is the one you mentioned is the question, where is all this unaffordable debt coming from? And it is still true that a disproportionate share of it comes from for-profit colleges. Almost half comes from for-profit colleges and depending on how you measure it.

So we are in the coming weeks going to finalize a Gainful Employment Rule for for-profit and career education programs that would require those programs to ensure that most of their students can afford to repay their loans. And we're also looking at other types of programs at other types of colleges and universities too because really no program should be routinely leaving most of their students with debts they can't afford to repay. And we may need to think more ambitiously about how we're financing the educational opportunities we want to provide to our young people.

Justin Draeger:

And I should add. Along with the Gainful Employment Rule that, as you just said, maybe coming out before November 1st for implementation next year, the administration had been working on regulations around low-value programs that would go beyond for-profit education. This would span all programs, which would be a step in that direction, right?

James Kvaal:

Yeah. Well, I think the occupational programs, the career programs were always intended to provide a financial ROI to students. And in some senses, that makes the policy question more clear. These are programs that are leaving students worse off instead of better off, and that's not the goal of career education programs.

And we've seen from past go-rounds with gainful employment that colleges respond with free orientation periods and scholarships and shorter programs. So it is possible to improve the value that they offer to students. For other types of programs, we may need to have more conversation about what the right solution is, but we can't tolerate a system that is routinely leaving young people with debts they can't afford.

Justin Draeger:

James, the administration has made huge strides on sort of taking care of a backlog of Public Service Loan Forgiveness, loans that never got their sort of day in court, and adjudication on Public Service Loan Forgiveness. And it seems that you sort of cleared an entire backlog of these. Can you talk a little bit about your efforts on PSLF and, for students who are still in the pipeline, what they can be looking forward to as it relates to Public Service Loan Forgiveness?

James Kvaal:

Yeah, I appreciate that. I mean, this is a program that, when this administration started, only 7,000 people had ever gotten Public Service Loan Forgiveness. And you're talking about people who plan their careers around this program only to find out years later that they had the wrong type of loan or they were in the wrong repayment plan, and none of the time served had counted toward forgiveness. They had years of additional payments than they were planning on, and it was just a poorly designed program that was poorly implemented.

So we've worked really hard to get people who are working, making payments on their loans, the credit that they've earned for Public Service Loan Forgiveness. We've now gone from 7,000 to 660,000 people receiving forgiveness, and it's part of an effort across all of our programs. There were 350,000 people with permanent disabilities documented by Social Security. On paper that entitled them to have their loans forgiven, but they'd never made it through their bureaucracy.

We had 800,000 people who've been in repayment for 20, 25 years. They were entitled to have their loans discharged, and they were let down by the bureaucracy. So we've total identified about 3.4 million people who are eligible for loan forgiveness under the existing programs that we already had to try and identify people for whom the bargain of college didn't pay off. And so I'm proud of that work. We've helped a lot of people already, and we're going to continue to do what we can to help the people that are eligible for that help that have earned that help.

Justin Draeger:

Yeah. And we really appreciate that too, James. This is a program that was started with the best of intent, but also feel sort of a kindred spirit with you as the department has sort of struggled with the fact that policy is only as good as what can be implemented.

That's something that financial aid administrators deal with every single day. And PSLF has been a good example of that and owe you all a big debt of gratitude, as it were, for really clearing a backlog of students that our members have been working with for a very long time and feeling like we've been making good on promises that were made to these borrowers.

James Kvaal:

I appreciate all of your work. I met with a college president last week who herself had received PSLF and was doing everything she could on her campus and her community to get people to apply. I met with a financial aid director who was doing webinars in concert with FSA to make... to get the word out. So I know how hard this community is working, and I really appreciate it.

Justin Draeger:

James, you saw probably last fall, and we've been working, a group of 10 associations, NASFAA included, have been working diligently on trying to put together minimal standards and principles around college cost transparency, specifically on their aid offers. Behind the scenes, we have a lot of schools that have signed up that serve a lot of students.

We expect to be public on this very soon. I wonder if you could speak to this initiative, the importance of this. How important it is just to get on the same page in terms of being really open and transparent about how much it costs to go to college and the debt that students and families might be taking on when they go to college, and how this plays into all this conversation.

James Kvaal:

Yeah. I really appreciate NASFAA's work here, both in terms of contributing expertise and political will to this effort and partnering with some of the presidential college associations. And I think it's just so important for us to help students and families make informed decisions about going to college, especially because we see what a high-stakes investment it is when you take out large amounts of student loans.

And too often, it's hard to tell from a financial aid offer, what is a loan? What is a grant? What is going to be repaid? It is challenging to compare offers from two different schools. So I think this is really an important step, and I know it's hard to bring everyone along on a change like this, but I think it's a great example of leadership from the association. So thank you for your work on it.

Justin Draeger:

Thanks very much. Thanks very much, James. Any final words to the thousands of aid administrators out there who are working day in, day out to help these borrowers help their current students navigate this really complicated system, pay for college, but then also pay for it on the backend and navigate these loan programs?

James Kvaal:

Well, Justin, you talked about the importance of implementation. I know the rubber meets the road at financial aid offices, and the work we do here would not reach students without the hard work of people in financial aid offices every day. And we know how important the work you all do to helping people achieve their college dreams is, and we know how important it's to helping us carry out our goals. So thank you for what you all are doing every single day to help students.

Justin Draeger:

Always a pleasure, James. James Kvaal, Under Secretary of Education, it's always a pleasure to talk to you. Thanks, James.

James Kvaal:

Thanks, Justin.

Justin Draeger:

We'll be back again next week. Thank you everybody for tuning in. Until next time, we'll talk to you very soon.