THIRD WAY

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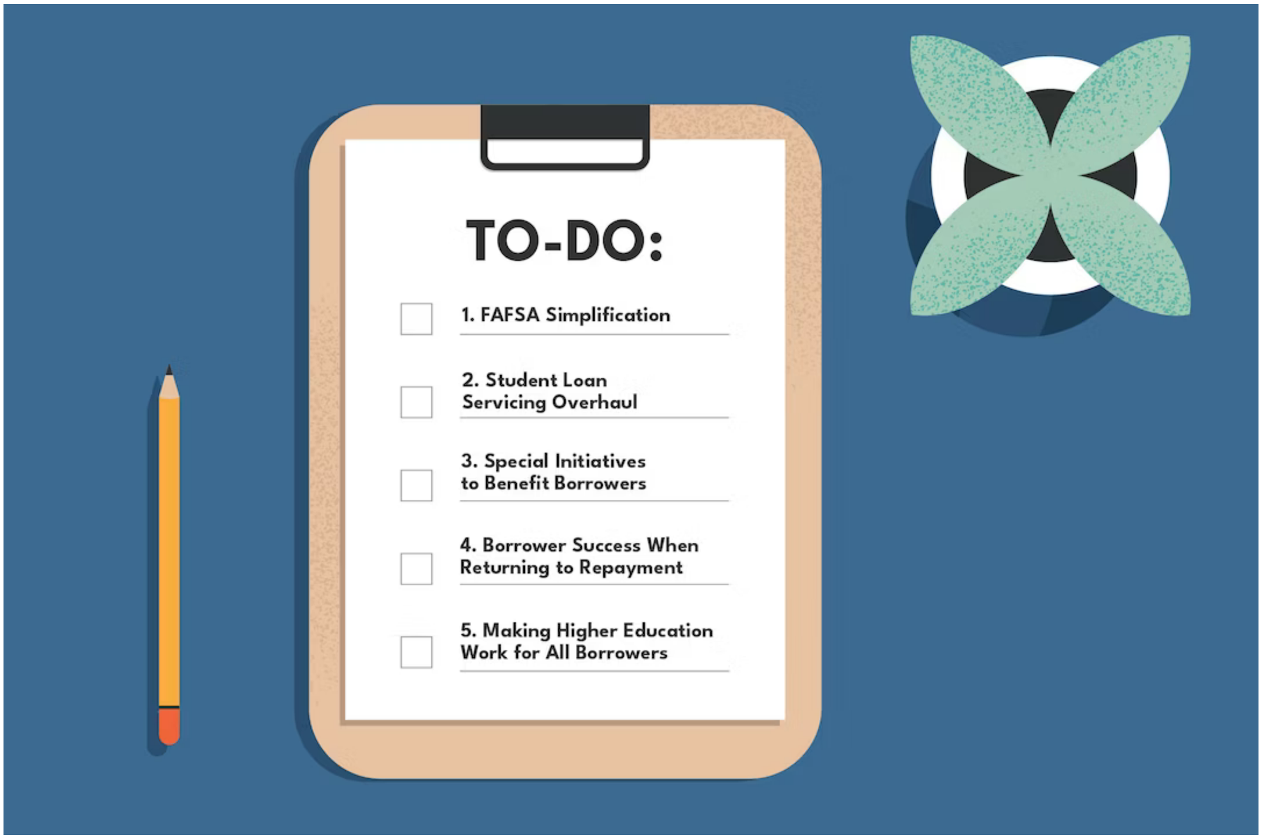
5 Big Things on Federal Student Aid's To-Do List—and How They Impact Borrowers



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The Office of Federal Student Aid (FSA) is an important player in the higher education ecosystem. Part of the Department of Education (Department), FSA is funded through Congressional appropriations to the Student Aid Administration account. [1] Its work spans the life cycle of students through higher education, from before they enroll in college through repayment after they leave, serving over 20 million students a year. [2]

It's a big job—and an expensive one. Implementing major legislative changes to the student aid process passed by Congress, standing up new and revised federal regulations, and initiating a new servicing environment with an unprecedented return to repayment for 40 million borrowers on the horizon requires time, staff capacity, and adequate financial resources. Below, we take a look under the hood at five pressing items on FSA's long and critical to-do list.

1. FAFSA Simplification

When you think of FAFSA, or the Free Application for Federal Student Aid, what comes to mind? Often, FAFSA's reputation of being complex, time-consuming, and challenging to complete round out the top of the list. Fortunately, the *FAFSA Simplification Act* and the *FUTURE Act* passed by Congress have laid the groundwork for significant improvements to the FAFSA form, making it easier for borrowers to complete. [3] These changes will dramatically improve the experience of filling out the FAFSA, work to link various government databases, and expand uptake of the Pell Grant by more eligible students, including those who were formerly incarcerated.

Notably, the laws replace what used to be called the Expected Family Contribution with a new formula, the Student Aid Index, which changes how the government will measure a student's and/or their family's ability to pay for college to paint a more realistic picture. The FAFSA form, process, and website are also undergoing a big makeover. The new FAFSA form cuts down on the number of questions to a third of its prior length and will allow students to directly import tax return information from the Internal Revenue Service (IRS). The *FUTURE Act* provides for streamlined cross-agency data sharing between the IRS and the Department, making the FAFSA application process far simpler for borrowers.

To implement these changes on the ground at FSA, significant technological improvements are needed—from overhauling outdated computer networks and hardware to building data exchanges between government systems at IRS and FSA to the copious user-testing typically undertaken to ensure the FAFSA doesn't crash when it goes live. These behind-the-scenes efforts are linchpins in the success of executing the goals of FAFSA simplification and getting systems and technology to the necessary performance level, and they require both technical expertise and financial resources. The Department of Education has already delayed its launch of the FAFSA from its standard October 1 release to at least December 2023, setting students back in their financial aid process, and any further delay would risk students' ability to plan ahead for their college enrollment and financing decisions. [4]

2. Student Loan Servicing Overhaul

Federal Student Aid contracts with student loan servicers, companies or organizations that oversee the day-to-day management of student debt repayment for the federal government. Servicer contracts represent the largest obligation of FSA's budget. The loan servicing apparatus is extremely complex: with millions of borrowers in each servicer's portfolio, servicers need the technical systems to process payments, manage accounts, and keep borrower data secure, as well as significant human capital capacity to staff call centers and provide timely responses to borrower inquiries. Training and onboarding servicing staff is also a time-intensive process, as staff working on federal student loans must go through a government background check process and learn the ropes of the available repayment options and borrower eligibility criteria for each.

Restructuring the current student loan system has been on the agenda for the last three presidential administrations, and there have been over five versions of plans to overhaul the student loan servicing system since 2014.[5] Recently, the Department announced five servicing contracts awarded to student loan servicing organizations through the Unified Servicing and Data Solution (USDS), a long-term servicing plan built to better support borrowers to, through, and beyond higher education.[6] USDS will provide a "single sign-on" experience for borrowers, through which they can access their servicer and FSA accounts using the same log-in, and ultimately shift account management for all servicers to StudentAid.gov rather than servicers' individual websites.[7] Implementing new contracts, as well as USDS, will require ongoing communication with borrowers, updating systems and processes at FSA, ensuring servicers meet robust technological, data security, and customer service requirements, and prioritizing as little disruption as possible for borrowers.

3. Special Initiatives to Benefit Borrowers

Under the Biden Administration, the Department has also implemented several programs that will ease eligible borrowers' paths to repayment—including limited-time initiatives for borrowers enrolled in Public Service Loan Forgiveness (PSLF) or an income-driven repayment (IDR) plan and plans for those who are in default. The communication campaigns required to notify borrowers of these important changes are multifaceted and expensive, yet essential to their successful implementation.

The PSLF program allows borrowers who work in public service careers to receive a full discharge of the balance on their Direct Loans after making 120 qualifying monthly payments (ten years total).[8] The Biden Administration issued a time-limited PSLF waiver, which allowed borrowers who opted-in to receive credit for previous payments that would have not qualified under normal PSLF rules. These changes contributed to over 615,000 borrowers receiving a total of $42 billion in loan forgiveness as of May 2023—an increase from only 7,000 borrowers having received promised relief at the end of the previous administration.[9] This marked increase is a testament to the work of FSA in communicating PSLF's updated rules and regulations with borrowers and servicers, as well as their ability to implement such changes quickly in the best interest of borrowers eligible for PSLF.

In a similar vein, the Department has instituted a one-time, automatic IDR account adjustment through which some past payments not previously counted as qualifying toward a borrower's IDR forgiveness can now be eligible—allowing for more borrowers to receive forgiveness or get closer to concluding their repayment obligation. FSA is also working to reform IDR tracking to make it easier for borrowers to track how many eligible payments they have made toward their IDR relief.[10]

The Fresh Start program is another one-time initiative that provides a streamlined pathway out of default, a status that comes with huge negative financial repercussions. Fresh Start benefits include restoring access to federal financial aid, returning loans to "in payment" status, and most importantly, removing the record of default from a borrower's credit report.[11] Like the PSLF waiver, Fresh Start is an *opt-in* program, meaning borrowers must enroll themselves—

necessitating clear, well-designed communication from FSA to connect borrowers to this important one-time opportunity.

4. Borrower Success When Returning to Repayment

Tens of millions of borrowers are returning to repayment this fall for the first time in over three years. This is going to be an extremely heavy lift, requiring FSA and student loan servicers to communicate the restart of payments to borrowers, many of whom haven't made payments in over three years, graduated during the pause and haven't made any payments before at all, or have had their loans moved to a new servicer. [12] To prevent borrowers from falling through the cracks with the payment restart, it will be vital for FSA to have sufficient funding to provide communications, education, support, relief, and flexibility to borrowers through its operations and servicing contracts.

The payment restart presents several challenges for borrowers and servicers—including the risk of default or delinquency among those who are unprepared to resume payments. [13] A key challenge will be locating and communicating with borrowers and connecting them to the best repayment option for their financial circumstances. This challenge is currently magnified by limited servicing capacity and reduced call center hours. [14] Proactive work by FSA and funding to help servicers hire and train staff and prepare to turn payments back on is essential to ensuring a smooth restart and managing what is sure to be a large uptick in call volume to customer service lines once bills come due again. With the Supreme Court overturning President Biden's loan cancellation plan, even more borrowers will reenter repayment—making for an even larger caseload for servicers to manage.

5. Making Higher Education Work for All Borrowers

Part of overseeing the federal financial aid program means ensuring that students receiving aid are protected from bad actors within the higher education system. FSA has several ways they accomplish this goal to protect the investment of taxpayers in students and higher education. In 2021, FSA announced the renewal of an Enforcement Office, reporting directly to the Chief Operating Officer of FSA. [15] This office is the main vehicle for oversight of institutions participating in the federal student loan, grant, and Work-Study programs, as well as enforcement against institutions who do not adhere to program rules. Additionally, the Enforcement Office will be a key collaborator with other enforcement agencies within the federal government, including the Federal Trade Commission.

As part of ensuring students are receiving the education they pay for, FSA's Enforcement Office also oversees the process of borrower defense to repayment (BD), available to borrowers who have been defrauded or misled by their institutions. Students or groups can submit BD claims to FSA for review to determine their eligibility for student loan discharge. Processing BD claims is a multifaceted process, involving investigation, verification, and communication with those institutions accused of fraud and the borrowers filing the claim—with necessary due diligence, training, and knowledge needed from FSA staff.

The Biden Administration has also pursued an ambitious regulatory agenda in its first term, with two sessions of negotiated rulemaking already completed and a third planned for the coming fall. These new and updated regulations—including improvements to the aforementioned borrower defense provisions, a strengthened gainful employment rule, and closing the 90/10 loophole for for-profit colleges—provide essential safeguards for student borrowers and will reduce costs to taxpayers in the long term. Still, the implementation of over a dozen regulations will continue to place significant demands on the Department and FSA in the year ahead, requiring thoughtful prioritization and sufficient funding.

Conclusion

The work that FSA performs on behalf of students and the higher education community is critical—and it requires a great deal of attention, care, and dedication to ensure students and borrowers are best supported. It also requires a significant investment of federal resources. It is essential that Congress supports an increase in funding to Student Aid Administration in FY24 budget measures to ensure FSA can implement ongoing improvements to the system for the benefit of students and borrowers while ensuring good stewardship of taxpayer resources.

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