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Ep.79: Withholding Transcripts to Collect Student Debt

(MUSIC PLAYS)

DOUG LEDERMAN:

The US government is casting a skeptical eye on college policies that withhold academic transcripts and otherwise punish students because they owe the institution's money. Hello, and welcome to The Key, Inside Higher Ed's news and analysis podcast. I'm Doug Lederman, Editor and Co-founder of Inside Higher Ed and The Key's host. Thanks for being here. Today's episode digs into an issue that may seem arcane, colleges and universities declining to release official transcripts, current and former students may need to apply for jobs or continue their educations because the students have unpaid bills or fines. This is a tiny piece of the \$1.7 trillion student debt problem in American higher education, perhaps more than most of the elements related to that massive issue. This one is very much in the control of colleges and universities. That's part of the reason why it is drawing the attention of federal officials in Washington, including Education Secretary Miguel Cardona, who urged colleges to stop transcript withholding and the Consumer Financial Protection Bureau, which last week said it was examining transcript withholding as a possibly unfair debt collection practice.

In this week's episode of The Key, we talk about transcript withholding in the larger context of debt students owe to their institutions and how colleges go about collecting it. I'm joined by two guests, Martin Kurzweil, Director of the Institutional Transformation Program at Ithaka S+R, and Melanie Gottlieb, Executive Director of the American Association of Collegiate Registrars and Admissions Officers or AACRAO. Kurzweil discusses Ithaka's research on what he calls stranded credits that colleges sometimes hold hostage from their former students, a practice that he calls pernicious, but he also discusses a promising experiment that could offer a way out for colleges and students alike. Gottlieb not surprisingly explains why higher ed officials think it would be a bad idea for the federal government to ban transcript holds or take other aggressive regulatory action. She acknowledges the need for colleges to limit the kinds of debt they try to collect from students and steps they can take to avoid preventing students from pursuing jobs or continuing their educations.

Before we begin the conversation, here's a word from the sponsor of this week's episode.

SPEAKER:

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DOUG LEDERMAN:

Now, on the discussion with Melanie Gottlieb of AACRAO and Martin Kurzweil of Ithaka S+R. Melanie and Martin, welcome to The Key, and thanks for being here.

MELANIE GOTTLIEB:

Thanks for having us.

MARTIN KURZWEIL:

Hashtag.

DOUG LEDERMAN:

The CFPB, just announced that it was gonna be examining this issue of transcript holds for students. And I wanted to get your sense of the significance of that move and what it says about the current landscape we're in.

MARTIN KURZWEIL:

Thanks, Doug. And I appreciate your focusing on this topic, which is important. CFPB, their announcement largely explained the reasons why they're focusing on it. They're focusing on it because it is a major problem for a lot of individuals, a lot of former students, but let's break down a bit why it's a problem and why it's coming up now. So, I think it's important to note that this is not just about the practice of transcript withholding in general. It's about transcript withholding as leverage for collecting debt owed to the institution. The institutional debt itself is highly problematic for the former students affected with all of the appropriate attention paid to student loan debt, it has gone under the radar. But just like other kinds of personal debt, institutional debt is a serious financial burden. The students affected are assessed fees or interest. They are often hounded by collectors. It affects their credit rating. Transcript withholding is a tool that institutions use to motivate students to pay down the debt.

And it's nearly ubiquitous. And I would say it's pernicious as a form of debt collection. What makes it so troubling is that former students need access to an official transcript to continue their education. They often need it as a condition of employment or to gain an occupational license. So, the hold on the transcript prevents them from doing some of the very things that may enable them to earn enough to be able to pay off the debt. Finally, just to address the question of why now, why is this suddenly the focus of attention by Secretary Cardona and the CFPB? Thanks to the research of a lot of folks. We finally have a sense of the scale of this problem, which was hidden for many years. So, just by our research, we estimate that over 6.5 million individuals in the US have their transcript held for unpaid balances and the face value of the debt is about \$15.5 billion. That's small by comparison to the trillions of dollars in outstanding student loan debt, but a huge number of people are affected.

And our research also shows that these stranded credits as we call them exacerbate inequities. So, the institutions that serve the highest shares of lower income, black, Hispanic, and indigenous students have the most former students with stranded credits. It's a longstanding issue, but it's newly on the radar. And so, it's attracting the attention of regulators.

DOUG LEDERMAN:

Martin, one quick follow-up before we bring Melanie in. I'm assuming maybe wrongly that these debts that the students owe are presumably real costs that they've accrued, is the problem that students are being held accountable for stuff that they shouldn't have been charged for in the first place? Or is it just that it's in the past and we should let it go?

MARTIN KURZWEIL:

It's a mix. For many students, they accumulate balance because they have a term bill, you know, their tuition and fees, and they are unable to pay the full balance and they leave school with it unpaid. In some cases that balance includes fees assessed by a variety of offices across the campus. And you may question whether all of those are the kinds of fees that the institution should be charging. But it, the basic is, it is real money, it's balances that the student has been charged by their institution and hasn't paid.

DOUG LEDERMAN:

So, Melanie, take a first shot at talking about how it looks from AACRAO's perspective and representing the institutions.

MELANIE GOTTLIEB:

From an institutional perspective, holds are something that institutions use to cause a student to take an action. It's one of those triggers and they use all kinds of holds. The research that we've done looks at all kinds of holds, not just transcript holds. Looking at the transcript holds, those tend to be about debt. It's one of the few kind of institutional tools in their toolbox to try to hang on to a student. It's the last thing 'cause usually, a debt hold means that the students separated from the institution. And so, they don't know where else to go. So, we recognize from an institutional perspective that debt collection is, is problematic and is a challenge. But as acknowledged by Martin and in the CFPB statement, it really is a particularly difficult challenge because holding a transcript can actually be really counterproductive to actually being able to collect the debt because you're stopping the student from progressing to the thing where perhaps they could be earning more money to pay back the debt.

From an institutional perspective, institutions employ all sorts of ways to try to keep a student from getting to that place. And that's where the other kinds of holds often come into play. And so, for example, if a student hasn't yet paid their tuition bill, they might add a registration hold, which would trigger the student to go and see someone. They have to go see the bursar's office to figure out what do I owe. They have to go to financial aid. Maybe they have paperwork that they haven't signed. It could be all kinds of things. And the goal of that is to not allow the student to rack up a giant bill, and then have to not be able to pay it and depart the institution. So, the intentions are good in terms of trying to do that. But if an institution doesn't have strong enough practices to stop a student from accumulating large amounts of debt before they leave the institution, well, then they've got this other problem that is really just counterproductive.

DOUG LEDERMAN:

I'm trying to square, Melanie, the good intentions you just talked about with practices that seem punitive and to use Martin's term pernicious. Can you give us examples of how institutions use holds in ways that actually benefit students?

MELANIE GOTTLIEB:

One example that I alluded to would be unpaid tuition bill. And often, so at the beginning of every semester, tuition bills go out, financial aid gets applied. And there's a series of things a student has to do in order to ensure that all of the funds are collectible. So, one hold might be that you've got to go to the financial aid office and you've got to talk to your financial aid advisor and you've got to sign the promissory note. That's a hold that says, "OK, you are eligible for this federal award. It's gonna cover your tuition bill. You actually have something you have to do to do it." And so, go take care of that. Then you can register for the semester. Institutions will in an attempt to not provide barriers to access will often choose to have levels of debt. And they'll say, well, if a student owes X amount, if it's 500 or less or 1,000 or less, or 1,500 or less, whatever those levels are, and those are, those are set institution by institution. They're attempting to provide access and allow a student to sort of catch up.

Those policies sometimes work, but sometimes can end up leading, you know, the road, the road is paved with good intentions, as they say. And then in the end, the student can't pay the bill. And so, that results in a transcript hold. Some of the other debt that we talked about, which is a little bit more complicated things like fines and parking tickets and library fines, and those kinds of added fees, which can be a little more problematic when you consider the amount of tuition that are paid.

DOUG LEDERMAN:

So, Martin, I wanna bring it back to you. Do you think that a lot of this stuff is well-intentioned or reasonable that has played out badly? Or are there fundamental underlying problems in the whole structure?

MARTIN KURZWEIL:

Again, I think it is important to differentiate and be nuanced about it. So, I completely agree with Melanie that there are a lot of good uses of registration holds for currently enrolled students to try to avoid getting into a bad situation. If you think about the stocks, you know, the students who have accumulated debt and are separated and have transcript holds, and then you think about the flow, you know, students passing through the institution, maybe on their way to separating with a debt, a lot of good reasons to employ holds proactively to try to avoid that separation. In fact, we've studied the processes of institutions that have used registration holds very effectively in the context of proactive advising to not only help students avoid those kind of financial calamities, but to help them make decisions about their academic programming that will get them to completion faster. But then, in terms of the stock, so once a student has separated, has the debt and their transcript is being held, I don't see a lot of positives to that.

We went over sort of why it's bad for the student, but I would say one of the other problems with that form of debt collection is that it doesn't appear to be all that effective. We don't know. It needs to be studied more. But the collection rate for these kinds of institutional debts is very, very low. Some of the best evidence I've seen is out of the state of Ohio, where institutional debts are collected centrally by the Office of the Attorney General. So, there's, you know, there's somewhat better data there than elsewhere from what we've seen the long-term collection rate. So, after about, after about a year, the long-term collection rate is only about 7 cents on the dollar. So, not a very effective collection tool, right? So, the institutions aren't really getting much from it. The students are being harmed by it, but there's this prisoner's dilemma or collective action problem where everyone's just kind of stuck and

can't get out of these situations. You know, the students, it's very, very hard for them to negotiate on their own with an institution.

It does happen. A lot of institutions are amenable to that, but it doesn't often get to that point.

DOUG LEDERMAN:

We'll turn in a minute to the appropriateness and potential effectiveness of federal government pressure and possibly regulation in this realm. But first, what are some institutional strategies you've seen or that we might see to address this set of problems?

MARTIN KURZWEIL:

There are a number of solutions out there ranging in, you know, sort of scope and scale. One that has increased in popularity at the institutional level is comeback program. So, if a former student with a debt re-enroll, the institution forgives the debt or a portion of the debt and the transcript hold is, is released accordingly. That is a complete solution in the sense that it deals with the debt and the transcript hold. Those programs tend to be small-scale because the majority of returning adult learners don't return to the same institution that they previously attended for a variety of reasons. They've moved. They want a different program. Maybe they had a bad experience, and that's why they left in the first place. Right. We've also seen again at a more sort of local level microlending programs, often facilitated by a not-for-profit. So, there's, there isn't, it's not, it's not a profit-making lending program, but it provides the students with a bridge loan in order to cover the outstanding debt so that they can continue their education or get the new job or whatever it is that they want to do with the transcript.

So, again, deals with the debt and therefore the transcript hold, I do have questions about encouraging students who have an existing debt to take on more debt in order to deal with that, you know, that debt, and the programs do tend to be very small scale. At the kind of other end of the spectrum, the sort of big scope kinds of solutions are bans on, on transcript withholding, which California pioneered and has a fairly comprehensive ban, a number of other states, including Washington and Louisiana, recently, Colorado have instituted bans of varying degrees of the practice. Those are what I think of as incomplete solutions, because although they eliminate or reduce the practice of transcript withholding, they do nothing for the debt. I actually have some concerns that there may be unintended consequences with those kinds of policy solutions, because as long as the debt is still on the books, the institutions have some incentive to collect on it or to deal with it in some way. And they may pursue other strategies that are just as bad as transcript withholding from the student's perspective in order to do that.

DOUG LEDERMAN:

Melanie, what's your sense of what institutions are doing should be doing to deal with both that on the holds issue, but also, presumably, on the larger debt issues that, that matter to them?

MELANIE GOTTLIEB:

The first thing that AACRAO would say is that institutions shouldn't be holding for trivial amounts of debt. When a learner separates from the institution, a good practice might be to examine the debt that is there, and what's real sort of cost of education debt, and what is additive kinds of things that could be easily forgiven. No one would argue that an institution doesn't have a right necessarily to, to try to recoup the cost of services rendered, but let's actually keep it narrowly focused there. Another thing to think about is allowing learners access to transcripts, even if it's just an unofficial transcript. If they have debt and they need a transcript for further employment for licensing, maybe for further enrollment,

that might be that, that that's an interesting conversation, an unofficial transcript, plus a verification of enrollment, which, you know, those two things often might get the student what they need to progress. I agree with Martin around bans on transcript withholding.

While those are having some impact, they don't really solve the problem. And some of the unintended consequences is that you find... we've seen some evidence of institutions coming up with creative solutions. And so, you can't hold the transcript, but maybe you could suppress the grades for the semester that's not paid for. Or there might be some other technical workaround, which really doesn't solve the problem. It just pushes it a little further down, down the road. The real problem is about student debt. Student debt is pervasive across the system and it's problematic. And none of these policies really solve the core issue, which is why does it cost so much to educate a student and why are students burdened with this level of debt as they depart education. (MUSIC PLAYS)

SPEAKER:

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DOUG LEDERMAN:

We're speaking today to Melanie Gottlieb of the American Association of Collegiate Registrars and Admissions Officers, and Martin Kurzweil of Ithaka S+R. Turning to the CFPB announcement and the recent comments from Secretary Cardona. I'm not entirely clear yet kind of what the feds have in mind, what the CFPB examining the issue means, is it going to start to? Is there a regulatory opportunity for them to punish an institution? I'm not, I'm not really clear, but I'm curious kind of what your sense is about what the federal scrutiny signifies, what it may be likely to lead to, and whether you think it's a potentially good and helpful thing.

MARTIN KURZWEIL:

Well, I do think more focused attention on the issue is a good thing. And that is one consequence of the (LAUGHS), you know, of the announcement. I don't have inside information about what the federal agencies are planning. I do think that there's a potential for a federal regulation of some kind that introduces a prohibition of some sort on the, on the practice. I did come up in the context of negotiated rulemaking at the Education Department. Although it doesn't seem like they're acting on that as far as I can tell. Again, I don't see much value to transcript withholding, and I see it harming students. And so, if that practice were to end as a debt collection practice, I wouldn't be upset, but I do worry a bit about the unintended consequences. And I wonder or worry about the possibility of there being kind of a mission accomplished moment like, well, we, you know, we, we got rid of the transcript withholding, we've done our job. And meanwhile, the debt, you know, the debt's still there.

There are two areas of federal, federal policy where I do believe some action is required. And I don't know whether this is really on the radar of the agencies. But on the other side of a ban on transcribed withholding, there's a recommendation to withhold transcripts. And that's actually what's on the books right now (LAUGHS) for the Department of Education. So, there was a dear colleague letter in, I believe, it was in 1998, recommending transcript withholding as a debt, debt collection practice for federal student loans where payment was outstanding. So, right now, the federal government's official guidance is that institutions should withhold transcripts and it would be nice to, to see that changed. The second

area is, is a bit more technical. And as of yet, I haven't seen really solid research on the scope of it, but it has the potential to be quite important. And that's the topic of return to Title IV. So, this is a policy. It's a regulation that was also introduced in the '90s.

The regulation basically says that if, if a student doesn't make it all the way through a term, then the institution has to pay back proportionally the financial aid that, that the student received and paid to the institution. And if that happens in a way where the student has outlay that is beyond the amount of federal aid that they can continue to apply, there's a balance, and the institution treats that as a balance owed by the student to the institution. And we've heard that that is a frequent source of unpaid balance that is leading to stranded credits, that's leading to a transcript hold. We don't know how frequent it is, we don't know the dollar amounts involved or anything like that, but there's a mismatch between federal requirement there and the way that students are, are paying for things with federal aid on the ground, and the institutions that's that maybe causing these gaps. And so, that would also be something I'd really want the Education Department to look into and to try to reconcile so that it's not leaving students on the hook.

DOUG LEDERMAN:

Melanie, the higher education institutions are usually loath to have the federal government jump in and new places, additional places. Although as Martin points out, this wouldn't be a brand new area for the federal government to dabble into. What's your sense of kind of what the feds have in mind here? Or more importantly, what might they do that it would be helpful? And what could they do that would not be helpful to institutions or desirable from the institutional standpoint?

MELANIE GOTTLIEB:

The latest negotiated rulemaking, it did come up withholding of transcripts. But it was brought up in a really narrow lane. We thought it was more broad, but when we actually sat in and listened to what they were talking about, the department really brought it up within the context of institutional errors in the application and awarding of aid that you can't withhold a transcript for debt that has been incurred because you made some error on the financial aid calculation, and we've corrected it for you. That seems fair (LAUGHS) to me. Like, honestly, that an institution ought to be held accountable if they make a mistake. We're human beings, we make errors. It's not a simple process. So, if we make a mistake, we probably ought to be accountable for that mistake. Now, that said, shifting to the thinking around the CFPB. Their goal, their mission is to protect consumers from unfair and deceptive and abusive practices, and then take action against that. And so to me, I think that they do have the authority to ensure that an institution has clear and transparent practices, and that they're acting in good faith in their tuition and billing practices.

And thinking about the return to Title IV, perhaps there should be some alignment of institutional withdrawal calculations and return to Title IV in a way that will not leave the student on a hook, because I think that that's really where the big tuition bills happen is when a student withdraws unexpectedly. When I was institution based, you would see a lot of students who maybe have a mental health issue or a medical issue, and they've gotta withdraw, or they've had some other big social or life experience that's causing them to tank for the semester, and they just choose to withdraw and they're left... We return their money and then they're left with a big bill. That's where the really big tuition bills come in. An institution is generally, it's not in their best interest to let a student rack up a bill and keep

accumulating. Nobody wants to have to chase that. And so, I think that's where a lot, a lot of these problems happen. There's definitely some improvement that can be done there.

I would step a little short of saying that the department should step in and do that. I actually think institutions could do that work and could do that work perhaps better within their institutional context. But I'm not averse to having the department issue some guidance suggesting we do that. We tend not to believe that the department should sort of get down in the weeds that level about how an institution should collect debt for services that they've rendered. There are 4,600 institutions in the US of all shapes and sizes. They all have their own sort of processes and methods and their independent entities. I think that level of detail is probably best left to an institution. But I think that AACRAO, NACUBO, NASFAA, we could all talk about these practices together and issue guidance, like the statement that AACRAO and NACUBO recently issued around the withholding of transcripts.

DOUG LEDERMAN:

It's not uncommon for higher education to either need or benefit from a kick in the ass, which is certainly something else that the feds might do. Martin, do you think a federal policy mandate is necessary would be a good thing here? I mean, you talked about the, why you think it might not actually address the problem, but do you have confidence that the institutions can, will, are likely to address this themselves? Or do we need more pressure?

MARTIN KURZWEIL:

Individual institutions can only do so much, I think they, especially because of some of the issues we raised before, so students are trying, they're often not trying to return to the same institution. And so, it's not just that institution's problem. It's another institution's problem. And I would also note that it's not... The federal government has some presidents in this policy space, but not that much. States have more. So, I think there's actually more potential for coordination and possibly, you know, legislation or regulation at the state level, especially in regards to public institutions 'cause where most of the students are, it's where most of the stranded credits are. Community colleges, in particular, have a lot of students with these institutional debts. And maybe that's a good segue to saying a little bit about what we're trying to do at the cross-institutional level with support and cooperation from some state agencies in Ohio. What we're trying to do there in a pilot over the next year is to create a regional compact wherein the participating institutions.

We have eight public institutions involved in this for public universities, for public community colleges, all in the northeast part of the state. They have all agreed that if a former student of any of them with a debt and held transcript seeks to re-enroll at any of the eight institutions, the original institution will settle a debt up to a maximum and release a transcript if the student meets the qualifying criteria. As a part of that, because we're coordinating among this group of institutions, it's all in a region, we're doing some centralized and a lot of coordinated outreach to the eligible students and offering them the opportunity to get pre-enrollment counseling to help them make a decision about whether and where to enroll and take advantage of this opportunity. And then the third really important component of this pilot is a feature that we think has the potential to make this sustainable and scalable. And that is that we are acting as a sort of clearing house for periodic transactions among the participating institutions that basically compensate an institution that is settling the debt for a student who enrolls at one of the other institutions.

It's paying them a fraction of the face value of the debt to make them whole in a sense for not getting the new tuition revenue of the returning student. But what makes that work is going back to what I said before, the institutions are only expecting to collect something like 7 cents on the dollar long-term from these debts. Meanwhile, the receiving institution, the new institution, is getting new tuition revenue that, and fee revenue that is worth way more than that. The way we've worked it out, they're gonna end up paying about 10 cents on the dollar. Back to the original institution, the original institution is better off, the new institution is better off, they're getting a new student with tuition revenue who otherwise would not have been able to enroll anywhere. And it's for one of those rare situations where you're going from kind of a lose-lose - the student loses, the original institution is not collecting, the region suffers because students aren't able to continue their education, to a win-win, everybody is better off.

DOUG LEDERMAN:

It's nice for a change to end a conversation about a vexing problem with a possible solution. We'll have to check back with Martin Kurzweil to see how Ithaca S+R's Ohio experiment plays out. Thanks to him and Melanie Gottlieb for their insights on institutional debt and transcript withholding, to Kaplan for its support of this episode, and to all of you for listening. Please join us next week for a discussion about the evolving landscape for defining and judging quality in online education. I'm Doug Lederman. And until then, stay well and stay safe. (MUSIC PLAYS)