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EFFECTIVE COUNSELING, EMPOWERED BORROWERS:

An Evidence-Based Policy Agenda for Informed
Student Loan Borrowing and Repayment

Trellis Research

By Chris Fernandez

With Carla Fletcher and Kasey Klepfer

ABOUT THIS REPORT

Beginning in 2013, Trellis conducted four discrete but related studies as part of a multiphase research project on student loan counseling in the United States.

These studies included:

- ▶ *Informed or Overwhelmed? A Legislative History of Student Loan Counseling with a Literature Review on the Efficacy of Loan Counseling*: A literature review on loan counseling and financial education, combined with a history of legislation, regulations, and major government actions pertinent to federal student loan counseling;
- ▶ *From Passive to Proactive: Understanding and Improving the Borrower Experience with Online Student Loan Exit Counseling*: An interview and observation-based study on the borrower experience with online student loan exit counseling;
- ▶ *A Time to Every Purpose: Understanding and Improving the Borrower Experience with Online Student Loan Entrance Counseling*: An interview and observation-based study on the borrower experience with online student loan entrance counseling; and
- ▶ *Above and Beyond: What Eight Colleges Are Doing to Improve Student Loan Counseling*: A study of the promising practices in financial literacy training and student loan counseling currently employed at schools whose student loan borrowers outperform expectations.

Separate reports describe each study's findings and corresponding recommendations. This paper, the fifth and last in the series, summarizes the findings and implications of the four studies and offers broader conclusions on the policy and practice of student loan counseling.

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¹ While NASFAA personnel reviewed and refined recommendations in collaboration with Trellis, the recommendations in this paper are ultimately Trellis' and do not necessarily reflect NASFAA's official policies or positions.

Table of Contents

EXECUTIVE SUMMARY	1
INTRODUCTION	3
STUDENT LOANS AND THE BORROWER KNOWLEDGE DEFICIT	4
THE TRELIS/NASFAA PROJECT ON STUDENT LOAN COUNSELING	6
POLICY RECOMMENDATIONS	10
CONCLUSION: LOAN COUNSELING MUST TAKE INTO ACCOUNT HOW STUDENTS INTERACT WITH AND USE INFORMATION	13
REFERENCES	14

EFFECTIVE COUNSELING, EMPOWERED BORROWERS:

An Evidence-Based Policy Agenda for Informed Student Loan Borrowing and Repayment

By Chris Fernandez
With Carla Fletcher, Kasey Klepfer, and Jeff Webster

EXECUTIVE SUMMARY

Efforts to improve conditions and outcomes for federal student loan borrowers typically revolve around changing the terms and conditions under which they borrow and repay their loans (e.g., lowering interest rates, and introducing more flexible payment plans). However, a growing body of evidence suggests that much of the difficulty borrowers experience may be due more to their inadequate knowledge of the student loan system than to the system itself. Several recent legislative proposals¹ and administrative initiatives include provisions designed to expand borrower education so that students borrow responsibly, know their repayment options, and successfully pay off their student debt.

Beginning in 2013, Trellis, in consultation with NASFAA, conducted a research project on student loan counseling. The objective was to inform policymakers and practitioners about the development, extent, and effectiveness of student loan counseling in the United States. This project consisted of four discrete but related studies², including:

- *Informed or Overwhelmed? A Legislative History of Student Loan Counseling with a Literature Review on the Efficacy of Loan Counseling*: A literature review on loan counseling and financial education, combined with a history of

legislation, regulations, and major government actions pertinent to federal student loan counseling;

- *From Passive to Proactive: Understanding and Improving the Borrower Experience with Online Student Loan Exit Counseling*: An interview and observation-based study on the borrower experience with online student loan exit counseling;
- *A Time to Every Purpose: Understanding and Improving the Borrower Experience with Online Student Loan Entrance Counseling*: An interview and observation-based study on the borrower experience with online student loan entrance counseling; and
- *Above and Beyond: What Eight Colleges Are Doing to Improve Student Loan Counseling*: A study of the promising practices in financial literacy training and student loan counseling currently employed at schools with robust counseling programs.

This paper, the fifth and last in the series, summarizes the findings and implications of the four studies and offers broader conclusions on the policy and practice of student loan counseling.

Several recent legislative proposals and administrative initiatives include provisions designed to expand borrower education so that students borrow responsibly, know their repayment options, and successfully pay off their student debt.

² Each study is presented in its own report, which describes the study's findings and recommendations; they can be accessed at <https://www.trelliscompany.org/research/trellis-company-research-and-reports>. This final report synthesizes the findings and implications of the four studies and offers broader conclusions on the policy and practice of student loan counseling.

Key Findings

Student loan counseling legislation allows for online delivery while prescribing detailed explanations of numerous topics, resulting in long, text-heavy counseling. The original legislation mandating counseling for federal student loan borrowers envisioned a borrower or group of borrowers meeting in-person with a college staff member who would present information and then discuss that information and answer questions. Changes to this legislation have increased the number of topics that counseling must cover and specified that it may be delivered online. Modules created by the Department of Education (ED) currently satisfy the loan counseling requirements for most borrowers at most institutions by presenting a large amount of detailed text explaining each legislatively mandated topic — an experience that is not equivalent to in-person counseling.

As past research would predict, borrowers tend to find the online counseling modules tedious, cumbersome, and generally unhelpful; however, simple changes could result in large improvements. Borrowers' poor experience with the ED entrance and exit counseling modules is rooted in a variety of issues. The most common and damaging of these issues include the timing of counseling; complex language; irrelevant, impersonal information; and overall length.

Many institutions have implemented more rigorous counseling programs that may provide models for other schools and for policy changes. Analysis of innovative counseling and financial education programs at a number of institutions revealed several guiding principles for developing better institutional resources for student loan borrowers.

Key Policy Recommendations

- Give ED greater flexibility to revise the student loan counseling modules.
- Allow institutions to mandate additional loan counseling.
- Simplify the student loan system and refocus counseling on practical knowledge and skills, not unhelpful details.
- Introduce loan counseling as part of filing the Free Application for Federal Student Aid (FAFSA).
- Incentivize institutions to enhance their loan counseling resources.

In efforts to improve outcomes for postsecondary students, making more information more readily available is a necessary but insufficient step. The success of any information-based intervention at achieving behavioral improvements depends in large part on its sensitivity to its target population, including how that population will access, interact with, and incorporate information in accordance with their circumstances. For loan counseling to effectively equip borrowers to manage their borrowing and repayment, it should better accommodate borrower needs, challenges, biases, limitations, and goals.

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INTRODUCTION

Conversations regarding student loans, student debt, and the cost of college have occupied an increasing portion of public and policymaking discourse in recent years, and with good reason. Faced with rising tuition, insufficient grant aid, and a lackluster job market, more postsecondary students are borrowing, borrowing in larger amounts, and struggling to repay their loans. These trends primarily threaten the academic achievement, financial wellness, and socioeconomic mobility of former, current, and future students. They also endanger taxpayer investment in higher education and affect the nation's overall economic growth and vitality. In addressing this issue, it is crucial that policymakers have access to studies that rigorously explore every aspect of the borrowing and repayment process.

In 2013, Trellis initiated conversations with the National Association of Financial Aid Administrators (NASFAA) to determine a productive avenue for new research on student loan borrowing. An examination of current issues and research literature in student loans suggested that one topic in particular had been paid far too little attention relative to its importance: student loan counseling. This paper:

- Summarizes the reasoning behind that determination,
- Outlines the findings of the four studies that resulted, and
- Presents a series of policy recommendations designed to translate those findings into more effective student loan counseling and better outcomes for student loan borrowers.

STUDENT LOANS AND THE BORROWER KNOWLEDGE DEFICIT

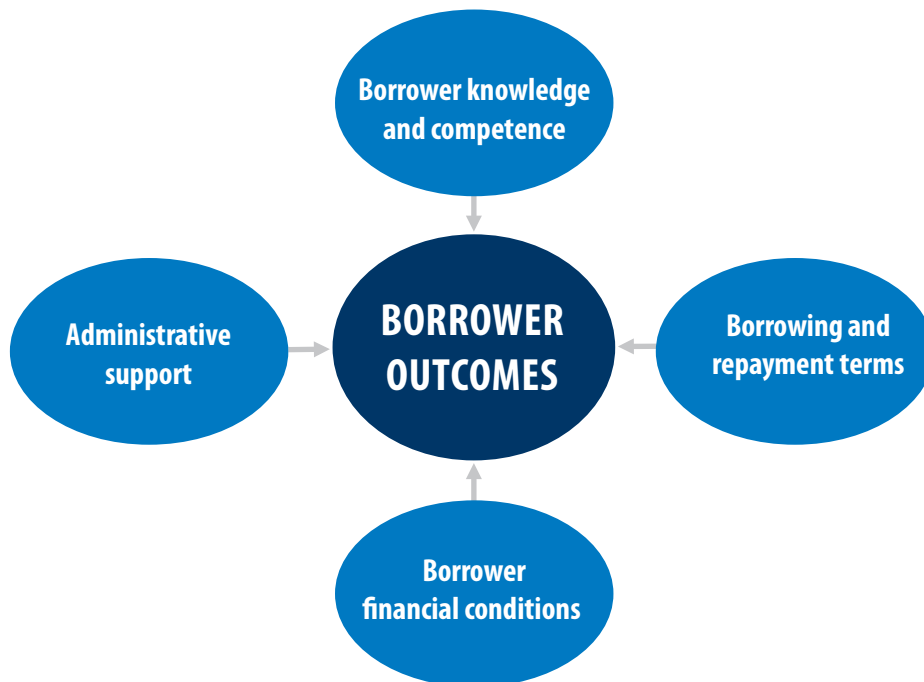
From a policy perspective, trends in federal student loan borrowing and repayment can be modeled as a product of four distinct sets of factors amenable to policy remedies: 1) financial conditions, 2) borrowing and repayment terms, 3) administrative support, and 4) borrower knowledge and competence. The first refers to available resources and expenses at different points in time; the second to the various rules and programs that govern borrowing and repayment; the third to the systems and entities through which borrowers interface with the borrowing and repayment processes; and the fourth to borrowers' ability to successfully manage the first, navigate the second, and work with the third.

To an extent, an abundance of support in one area can compensate for deficiencies in the others, but for the federal student loan system to serve borrowers well, each area must provide at least some minimum contribution. A hypothetical

student with excellent financial discipline and unerring knowledge of the student loan system would still struggle to manage borrowing and repayment given insufficient resources and demanding, inflexible repayment terms. By the same token, while borrowers with exceptionally good financial circumstances have little need of repayment assistance provisions or knowledge of those provisions, they still require basic knowledge, reasonable repayment terms, and adequate administrative support in order to repay their loans. Given more information and strong financial competence, students can better manage loan borrowing and repayment and increase their chances of success in any financial circumstances. On the other hand, even the most generous, flexible, borrower-friendly student loan system would require some degree of borrower awareness and involvement in order to realize a benefit.

Given more information and strong financial competence, students can better manage loan borrowing and repayment and increase their chances of success in any financial circumstances.

FIGURE 1. Keys to Successful Student Loan Repayment



While new policies addressing borrowers' finances, repayment terms, and administrative supports would likely produce marginal benefits in borrower outcomes, heavy borrowing and widespread repayment issues may suggest a more urgent need for policies targeting the fourth factor: borrower knowledge and competence. This can be inferred from the current repayment system, which would be essentially default-proof if borrowers knew about and utilized flexible repayment plans and relief provisions.³ Large numbers of struggling student loan borrowers — the 2012 three-year cohort default rate was 11.8 percent, and recent cohorts have experienced default rates as high as 25 percent when monitored over a longer periodⁱⁱ — point to significant gaps in repayment knowledge and/or financial management.ⁱⁱⁱ The moderate apparent success of targeted awareness campaigns at increasing enrollment in income-driven repayment plans also suggests that borrowers need more information to navigate the repayment process.^{iv} Many borrowers lack the proficiency needed to successfully manage their personal finances and student loans. This inexperience severely inhibits the effectiveness of policies that seek to boost borrowers' finances, provide additional repayment flexibility, or ensure the quality and availability of administrative support.

A small but fairly consistent body of prior research corroborates the interpretation that borrowers' ignorance contributes significantly to their repayment difficulties. Several studies suggest that many student borrowers are woefully uninformed regarding student loans.^v The Federal Reserve Bank of New York recently conducted a survey that uncovered exceptionally low knowledge rates regarding the consequences of student loan default and the difficulty of discharging student loans through bankruptcy among student loan borrowers.^{vi} This survey found that only half

of bachelor's degree recipients with student loans (the most knowledgeable group among those surveyed) were able to identify the consequences of default correctly. Borrowers are frequently unable to identify either the annual cost of their education or their loan balances, which suggests that they are not monitoring or trying to reduce their borrowing as they proceed through postsecondary education.^{vii} Mandatory loan counseling appears to have so little impact that many borrowers cannot recall having been counseled at all; one survey of high-debt borrowers found that 40 percent of borrowers had no memory of receiving any student loan counseling.^{viii} Another survey found that nearly two-thirds either misunderstood or were surprised by an aspect of their student loans, leading the study's author to conclude that "statistics suggest that there are many student loan borrowers who are not well-informed or are not provided with the information necessary to make informed decisions."^{ix} This knowledge deficit has severe implications for borrowers' ability not only to manage repayment but also to take proper steps to limit their borrowing during and prior to enrollment.

In the words of Dr. Beth Akers (2014) of the Brookings Institution, "We need to take steps to develop a culture of informed and critical decision making in higher education."^x Policy must do more to get students the information and guidance they need to effectively think through the litany of choices involved in pursuing postsecondary education. How to pay for college — including such concerns as financial aid, student loans, personal financial management, loan repayment, and default prevention — is a crucial subset of those choices. Rigorous investigation into how students make financial decisions must help determine the policy steps that can best empower students to face the financial challenges of higher education.

³ Concerns have also been raised regarding the quality of loan servicing and the level of burden involved in using relief provisions, each of which may also contribute to needless defaults. In this context, it is even more important that borrowers have the knowledge and skills to be their own advocates in the borrowing and repayment process.

In 1986, in order to contain alarming student loan default rates, Congress required that schools provide borrowers with exit loan counseling.

THE TRELIS/NASFAA PROJECT ON STUDENT LOAN COUNSELING

Beginning in 2013, Trellis, in consultation with NASFAA, planned and executed a series of research studies on the history and contemporary practice of student loan counseling. Designed to address the increasingly pressing need for better counseling from the perspectives of government policy, institutional practice, and information design, the studies sought to answer the following questions:

1. Historically and at present, how has policy addressed the need to provide counseling to student loan borrowers?
2. According to the research literature, what factors impact the effectiveness of student loan counseling?
3. How do borrowers experience the online counseling modules that the Department of Education (ED) provides for the fulfillment of the student loan counseling mandates?
4. Given both the positive and negative themes found in the typical counseling experience, what changes could promote more effective, user-friendly counseling?
5. What are some promising practices that institutions have implemented to encourage informed decision making with regard to financial management, career success, and student loan repayment?
6. What actions can government take to promote a student loan counseling experience that aligns with evidence-based principles and recommendations?

To tackle these critical topics, Trellis conducted four studies, identified here by the titles of their respective reports⁴:

- *Informed or Overwhelmed? A Legislative History of Student Loan Counseling with a Literature Review on the Efficacy of Loan Counseling*: A literature review on loan counseling and financial education, combined with a history of legislation, regulations, and major government actions pertinent to federal student loan counseling;
- *From Passive to Proactive: Understanding and Improving the Borrower Experience with Online Student Loan Exit Counseling*: An interview and observation-based study on the borrower experience with online student loan exit counseling;
- *A Time to Every Purpose: Understanding and Improving the Borrower Experience with Online Student Loan Entrance Counseling*: An interview and observation-based study on the borrower experience with online

student loan entrance counseling; and

- *Above and Beyond: What Eight Colleges Are Doing to Improve Student Loan Counseling*: A study of the promising practices in financial literacy training and student loan counseling currently employed at schools whose student loan borrowers outperform expectations.

Specific findings from these studies supported broad, thematic findings that correspond to the research questions above. These broad findings are presented below as bolded headings, while a selection of the specific findings that support them can be found in the paragraphs that follow.

Research Findings

1. Mandated loan counseling has changed significantly over its roughly 30-year history, evolving from a flexible, customized in-person experience to a highly regimented online module with numerous detailed requirements.

In 1986, in order to contain alarming student loan default rates, Congress required that schools provide borrowers with exit loan counseling (informative and advisory sessions delivered before borrowers leave school or drop below half-time enrollment). This was the first time such a requirement had been made. The mandated topics were 1) a review of repayment options, 2) average anticipated monthly payments, 3) average indebtedness of students, and 4) debt and money management planning. Entrance counseling was added in 1989. With the advent of the Internet and the proliferation of online tools to assist in loan counseling, Congress clarified that electronic counseling was sufficient to meet the requirement to provide loan counseling. By the mid-2000s, online counseling had largely replaced in-person counseling (which many schools had provided with help from FFELP lenders, secondary markets, and guarantee agencies), and ED's online tools, which were free and guaranteed to satisfy counseling requirements, became the most common way to deliver counseling. The move to online loan counseling also facilitated the addition of detailed requirements. Currently, both entrance and exit counseling must provide information on 20 specific topics in a session

⁴ These reports can be accessed at: <http://www.trelliscompany.org/research/trellis-company-research-and-reports/>

intended to last about 30 minutes. Available evidence from NASFAA membership surveys suggests that over 70 percent of schools today rely on the ED counseling tools and that in-person counseling is most often the first service that financial aid offices cut in response to budgetary restrictions.

2. Personalization, delivery method, timing, and the complexity, frequency, and volume of information are critical factors to the efficacy of student loan counseling.

The general consensus of the research literature points to several core principles of effective counseling. Information that is customized to borrower circumstances — for instance, their budgets, aid eligibility, academic interests, or career goals — appears to contribute to a better understanding of information. Face-to-face counseling may be the best way to deliver this personalized information. Timing is also a crucial determinant of effective counseling, which carries negative implications for student loan counseling. Entrance counseling generally occurs at the beginning of a student's first semester, which is a time of maximum distraction: students are still learning how to navigate daily life at their new institutions, trying to prepare for the start of classes, and often scrambling to pay off outstanding account balances. Exit counseling, which schools often deliver to graduating borrowers near the end of their final semester, has timing issues of its own. Six months elapse between exit counseling and the start of repayment, which can degrade counseling's effectiveness. However, students who drop out present an even more worrisome problem. When students leave prematurely and unexpectedly, schools can't provide exit counseling before their departure.⁵ These students stand to benefit the most from loan counseling, as research consistently shows that borrowers who leave schools with debt and no degree are far more likely to default.

Research also suggests that long, complex counseling can result in a "cognitive overload" that is highly detrimental to the retention of important information. According to the literature, when students receive clear, concise, customized information on a regular basis (and ideally in person), they retain the information better and are more likely to change behaviors, particularly when information is provided at a key "just-in-time" moment. Analyzing current practices in student

loan counseling (namely, the ED online modules) in light of the literature, researchers hypothesized that the lack of customization, highly impersonal delivery, poor timing, and large amount of complex information presented to students would result in a largely ineffective borrower experience.

3. In general, borrowers begin student loan counseling with focus and interest in learning, but issues with the material cause them to lose focus, become frustrated, and begin to skim and skip. Major issues include unhelpful information, navigational difficulties, and large amounts of dense, complex information.

Extensive observation and interviews with student borrowers completing their online loan counseling requirements revealed a system that often fails to deliver a helpful, user-friendly, or meaningful learning experience. While users of both the entrance and exit counseling modules expressed a desire to learn more about student loan management, several factors were found to diminish their interest, including:

- Overly generic or theoretical material, especially if it did not lead to actionable outcomes
- Bulky, text-heavy sections, especially when written in a formal, legalistic tone
- Technical vocabulary
- The lack of an overview and guidance for the counseling tool
- The absence of instructions for calculators
- A dearth of actual guidance or advice, especially related to the borrower's individual circumstances
- Mandatory questions, which often facilitated question-based skimming and a false sense of having learned the essentials
- Overall length, coupled with the inability to stop, save, and complete later
- The need to know details of current and post-college finances, like loan balance, expenses, and income, to utilize certain tools and understand the implications of repayment options (Predictably, this caused far more problems in entrance counseling)

⁵ In order to discharge their statutory responsibility to provide exit counseling to students who withdraw unexpectedly and do not complete exit counseling, institutions mail (or email) a packet containing the counseling information to the borrowers' last known non-school address within 30 days.

For both entrance and exit counseling, borrowers were observed to progress through a predictable sequence of moods and diminishing levels of attention, which the researchers characterized as the “skip dynamic.” While borrowers often begin alert and eager to learn information that may help them save money, motivation diminishes as the bulk, complexity, and frequent unhelpfulness of the material become apparent. Encountering irrelevant information has an especially withering effect on borrowers. Formerly attentive borrowers too often become drained, feeling helpless and passive about their student loans — a far cry from counseling’s intended effect of empowerment and self-advocacy.

Encountering irrelevant information has an especially withering effect on borrowers.

While the user experience with the modules generally followed this negative pattern, several positive themes also emerged:

- Students benefited from interactive tools, especially if they could use personal information in working with the tools. However, students often struggled to remember or estimate the information required, and some (particularly first-time borrowers) found the tools confusing.
- Any tools or materials that auto-populated with user information were viewed favorably.
- A detailed repayment plan chart in exit counseling that incorporates the automatically populated loan balance and the user-entered income information was very helpful; users appreciated the side-by-side comparison of personalized options.
- Borrowers understood the importance of communicating with the loan servicer, but often expected servicers to initiate contact in the event of issues.

4. Analysis of the borrower experience with counseling suggests ways to improve counseling materials and promote a more effective student loan counseling experience.

Colleges can help students get more from the online tool despite its shortcomings. The full Trellis/NASFAA reports on entrance and exit counseling contain a complete list of these recommendations for improvement, many of

which could be made either to the way colleges support borrowers as they use the modules or to the modules’ design (for instance, providing sample budgets specific to the school’s locale). Based on borrower feedback, colleges might increase the effectiveness of counseling by dividing it into multiple sessions, walking borrowers through the material in a classroom setting, providing median debt and income data (as available), and providing opportunities for borrowers to evaluate their finances and borrowing needs in the future. Colleges could also administer knowledge evaluations and use the results to target additional counseling resources. These strategies may not be appropriate for all colleges, so administrators should have the flexibility to select and adapt them as suitable for their institutions.

While colleges could take several steps to help students overcome the shortcomings of the loan counseling modules and maximize their effectiveness, there is also substantial room for improvement in the design of the modules themselves. Policy changes — for instance, amendments to the Higher Education Act of 1965 — would be either necessary or expedient for the adoption of many of the recommendations suggested here (see **Policy Recommendations** section) and in the full report, which provides the complete set.

Helpful changes to the modules could include⁶:

- A general introduction to the online tool that provides 1) a description of the learning outcomes, 2) navigational guidance, 3) embedded ED instructional YouTube videos, 4) and a reasonable estimate of the time needed to complete the counseling
- Smart filtering using skip logic to create an experience that minimizes irrelevant topics
- Simple and easy-to-use calculators
- Shorter, concise pages that guide the borrower through a logical sequence of topics
- Sample budgets and embedded income data to assist the borrower in estimating their current budget and future earnings
- Stronger repayment advising based on borrower circumstances

⁶ Trellis’ reports *From Passive to Proactive* and *A Time to Every Purpose* provide complete lists of recommended design changes for the exit and entrance counseling modules, respectively. These are available at: <http://www.trelliscompany.org/research/trellis-company-research-and-reports/>

5. To deliver more effective loan counseling that produces better loan outcomes for borrowers, colleges are pursuing a variety of innovative counseling strategies that go beyond the statutory minimum.

Based on extensive staff interviews at colleges with innovative or expanded financial education programs, institutional efforts to encourage better loan outcomes generally consist of seven components/themes, either alone or in combination:

- i. **Cross training** — Formal and informal training between and within departments improves communication and moves toward integrated messages that reduce student confusion and increase counseling’s practical effectiveness.
- ii. **Holistic** — Loan counseling is just one part of a student’s financial life. Because many factors can influence a student’s need to borrow and ability to repay, some institutions offer a broad financial education.
- iii. **Marketing** — Institutions may use many points of contact to get the attention of students. Information about loan counseling and financial education is peppered throughout campus and offered during many points in the student’s time in school.
- iv. **Targeting** — With limited resources, some institutions target specialized counseling to specific students. Many incorporate data and analytics into their targeting strategies in an effort to maximize the effectiveness of their resources.
- v. **In-person loan counseling** — Most institutions in this study used in-person loan counseling as a key strategy. Some focus on either entrance or exit counseling, some use one-on-one or small groups, and others have an intensive two-hour session.
- vi. **Peer-to-peer model** — This counseling model pairs well-trained students as financial coaches with peers. Students benefit from the personalized financial education and the coaches benefit from the hands-on experience that further develops professional skills.
- vii. **Data-driven approach** — With resources tight and schools being asked to do more with less, using data to uncover elements of student success has become more and more important.

Because many factors can influence a student’s need to borrow and ability to repay, some institutions offer a broad financial education.

TABLE 1. Institutions with Innovative Practices in Loan Counseling/Financial Education

School	Sector	Location
Baldwin Wallace University	Private, nonprofit 4-year	Berea, OH
Broward College	Public 2-year (offers bachelor’s also)	Fort Lauderdale, FL
El Paso Community College	Public 2-year	El Paso, TX
The Ohio State University	Public 4-year	Columbus, OH
Northern Virginia Community College	Public 2-year	Annandale, VA
SUNY College of Environmental Science and Forestry	Public 4-year	Syracuse, NY
University of South Florida	Public 4-year	Tampa, FL
Western Technical College	Private, for-profit 2-year	El Paso, TX

POLICY RECOMMENDATIONS

Based on a historically informed understanding of the origin of student loan counseling and its evolution over nearly 30 years, a review of the research literature, close observation of borrowers as they experienced the online loan counseling, and in-depth cross-departmental interviews with personnel at schools demonstrating promising practices, Trellis has developed several policy recommendations to improve the efficacy of federal student loan counseling.

- 1. Provide clarity and executive flexibility for HEA counseling requirements.** The Higher Education Act of 1965 (as amended) prescribes the individual topics that must be covered during entrance and exit counseling. These statutes limit the ability to tailor the counseling to individual borrower needs by adding, subtracting, emphasizing, or de-emphasizing certain topics based on their circumstances. The requirements may also contribute to problems with the length, complexity, and consumption of the counseling modules. Legislation should focus on the creation of effective, engaging, user-tested modules and allow ED to determine the details of content, timing, and other particulars. Such flexibility will provide regular opportunities for improvement and make the counseling more responsive to future developments in higher education, financial aid, and research in counseling and learning.
- 2. Allow institutions to require annual/interim loan counseling.** Some schools would like to provide more robust loan counseling, but current statute prohibits them from requiring participation in any loan counseling besides the mandated entrance and exit counseling (ED DCL GEN-15-06). Based on factors like borrowing patterns and academic performance, institutions can predict which students are more likely to experience future academic and financial difficulties, including student loan default; however, schools have few effective tools with which to intervene before problems arise. Because supplemental counseling programs are strictly voluntary, students tend to

underutilize them, and those who do participate are often more proactive, better informed, and generally less in need of assistance.

- 3. Allow loan counseling requirements in the SAP appeals process.** Prior to the clarification provided in DCL GEN-15-06, some schools had required supplemental loan counseling as part of the appeals process for failure to meet Satisfactory Academic Progress (SAP) standards. Staff at these institutions believed this practice to be helpful, and research supports them: poor academic performance is a strong indicator of future repayment difficulties, especially in cases where the student drops out. Even if the statutory changes in the prior recommendation are not implemented, schools should be permitted to require loan counseling and/or financial education as a condition for a successful SAP appeal.
- 4. Increase financial and professional resources for loan counseling and financial literacy.** Surveys have found that financial aid administrators know that personalized, face-to-face loan counseling and financial education is more effective; however, these services are often the first to be cut in response to budget restrictions. More resources for this purpose made through federal-state partnerships or by earmarking a portion of the loan disbursement fee, could help schools reintroduce valuable in-person counseling services, at least for a subset of higher risk borrowers. Administrators might also be able to provide counseling services both more effectively and more efficiently if they had access to certain professional tools, like tracking and flagging systems for identifying high-risk borrowers, live chat capability, or relevant professional development opportunities (e.g., financial planning certification).
- 5. Use additional counseling and/or demonstration of knowledge for professional judgment appeals.** Many financial aid practitioners have suggested that the current professional judgment process, by which

Legislation should focus on the creation of effective, engaging, user-tested modules and allow ED to determine the details of content, timing, and other particulars

⁷ The federal government holds institutions accountable for their federal student loan borrowers through the three-year cohort default rate (CDR), which is the percentage of borrowers who enter repayment in a given year and then default during that year or the two following years. An institution temporarily loses eligibility for Pell Grants and Direct Loans if its CDR reaches certain thresholds: 30% for three years in a row, or 40% for one year. ED also grants the benefit of additional fund disbursement flexibility to institutions that maintain exceptionally low CDRs, but it is not clear how strong an incentive this benefit creates, particularly for schools whose CDRs are significantly higher than the benefit threshold.

⁸ Section 487A(b) of the HEA created the Experimental Sites Initiative (ESI), under which ED may waive statutes or regulations pertaining to Title IV aid programs at a subset of institutions to study the impact of regulatory flexibility.

financial aid administrators may limit the maximum amount that students can borrow in federal student loans for a given term, is unduly burdensome and allows some students to overborrow. They advocate for a simpler, more effective method for reducing the borrowing maximum. If enacted, these reforms should be accompanied by an appeals process requiring students to take steps that enable them to better manage their borrowing. For instance, affected students might be permitted to borrow the statutory maximum upon demonstration of a more advanced understanding of student loans and personal finance, perhaps by passing a financial literacy/student loan awareness test and creating a personal spending plan. Such a test could be administered at the end of online entrance counseling, with the results automatically reported to institutions.

6. Explore incentives for supplemental, innovative, or more robust counseling methods. Even though enhanced loan counseling could benefit many borrowers, institutions have little structural incentive to invest in counseling innovation unless their cohort default rate (CDR) is very high.⁷ The combination of free, online counseling guaranteed to satisfy statutory requirements and threshold-based CDR accountability creates a safe harbor that depresses innovation. Policymakers should explore financial or regulatory incentives for schools to experiment with more robust forms of loan counseling and invest in face-to-face, supplemental, or annual counseling or other innovative strategies for information delivery and knowledge retention. ED could facilitate testing of different forms of student loan counseling under the Experimental Sites Initiative (ESI)⁸, which would have the added benefits of facilitating evaluation of different counseling methods and communication of successful strategies to policymakers and other institutions.

Recent legislative proposals that would hold colleges responsible for a portion of their former students' defaulted loans ("skin in the game") would likely create an incentive for more robust loan counseling at most institutions. However, policymakers should also consider possible unintended consequences of such a policy. If the cost of new counseling programming would outweigh the cost of simply paying the penalties on defaulted loans, institutions might pay the penalties through

further reductions in counseling services, putting some students at even higher risk of default. Schools might also admit fewer students from disadvantaged backgrounds or stop participating in the federal loan program altogether, both of which would reduce access to higher education for disadvantaged students. The addition of tiered penalties based on counseling opportunities (e.g., schools offering more robust counseling must reimburse the government for a lower percentage of defaulted loans) could help to make this incentive more formal and predictable and therefore more effective at encouraging better services. Policymakers should also strongly consider mechanisms to adjust the incentives that accompany higher-risk students, like Pell grant recipients. For instance, in determining an institution's loan default reimbursement penalty, a former Pell recipient's defaulted balance might receive a discount if the institution provided more robust counseling, while a former Pell recipient successfully paying down his/her loan principal might cancel out a portion of the school's defaulted loans.

7. Offer grant funding for studies of online pedagogy. Resource constraints and the scale of student loan borrowing will likely require that the majority of student loan counseling continue to be delivered via online modules. Designers of these modules must have access to research identifying the general principles of effective online teaching and to the resources to rigorously user-test new products, tools, and materials. Given the thorough integration of the Internet in business, education, government, and other sectors, basic research on the ways in which people interact with online resources should provide broad economic benefits, which makes it a prime candidate for public investment. Proven examples of public-private research partnerships, often centered around a university hub, already exist and could provide a helpful model for this work.

8. Increase resources for high school counseling. Counselors at high schools with high student-to-counselor ratios often face a very different set of challenges, issues, and concerns compared to their less burdened peers. As a result, their students tend to receive different services. Between insufficient school counseling and disparate levels of family experience

Policymakers should explore finance or regulatory incentives for schools to experiment with more robust forms of loan counseling.

Having time between receiving personalized financial aid information and application deadlines offers promising new opportunities for students to make the best possible use of loan counseling.

with financial management, financial aid, and student loans, some students — often, those with the least ability to pay — face a far more daunting challenge when it comes to paying for higher education. Furthermore, where students apply and enroll can have enormous implications for their borrowing and financial success, yet they must make those decisions long before they receive student loan counseling or have access to college student services. Investments in additional counseling staff and professional development resources in the areas of financial literacy, college choice, and federal student loan guidance at the high school level could help ensure that more at-risk students are better prepared for the financial challenges of higher education. Initially at least, this may be most effectively pursued through grant-funded pilot programs, which would also provide needed opportunities for rigorous assessment.

9. Simplify and streamline the student loan system.

The number of different loan programs, repayment plans, and relief/forgiveness options, each with its own, slightly different set of terms and conditions, was a common source of confusion and frustration for both entering and exiting borrowers. The system could be streamlined by combining or eliminating some of these options, particularly repayment plans that are already largely redundant in light of new income-driven plans. Simplifying the system will substantially reduce the amount of arcane detail in the counseling modules, allowing borrowers to more quickly and easily grasp the basics and focus on improving their own situations with actionable plans. Under a simplified student loan system, counseling can focus on ensuring that students have the practical knowledge and financial skills to pay for college and repay any loans in the manner best suited to their circumstances.

10. Use early FAFSA filing to introduce entrance counseling earlier and facilitate institutional comparisons.

Beginning in October 2016, the switch to the use of prior prior-year tax information for FAFSA filing will allow prospective postsecondary students to easily submit the form as early as October of the year before the student is seeking to enter college. Before their applications for admission are even due, students should be able to gain a fairly accurate understanding of the financial implications of enrollment at various institutions, including whether and how much they would likely have to borrow. Having time between receiving personalized financial aid information and application deadlines (to say nothing of enrollment deadlines) offers promising new opportunities for students to make the best possible use of loan counseling.

Currently, most students complete entrance counseling only after they decide to enroll at an institution that has offered them a financial aid package including loans. They completely miss the opportunity to apply important information about student loans to their enrollment decisions. A student who enrolled at a community college to avoid debt might have preferred to start at a four-year institution if he had known that income-driven repayment was available. A freshman at a private college might wish that she had chosen a public university on seeing her projected cumulative borrowing and standard monthly payment relative to her likely income. Students should be encouraged to complete entrance counseling as soon as possible after submitting the FAFSA so that they can take advantage of such valuable information. The online entrance counseling module should accommodate earlier use with a tool that assists prospective students in making institutional comparisons using personalized borrowing and repayment projections based on their FAFSA data.

CONCLUSION: LOAN COUNSELING MUST TAKE INTO ACCOUNT HOW STUDENTS INTERACT WITH AND USE INFORMATION

After years of high prices, heavy loans, and worrisome outcomes in higher education, the combination of the upcoming presidential election and reauthorization of the Higher Education Act appear to be supplying the momentum necessary for major student loan counseling reform. Historical trends, current proposals, and recent developments suggest that more data and more information will play an expanded role in the higher education landscape of the future. From online student loan counseling to the College Scorecard to state-level consumer data tools, federal and state government entities and other organizations have already made significant investments in expanding access to information and data, and many other institutions are poised to go further.

By making information and data more readily available to students and families, these initiatives pursue a set of important goals: improve institutional quality; assist students and families with college financial planning; and better align the enrollment in, cost of, and borrowing for postsecondary programs with the workforce opportunities associated with them. In theory, this strategy makes perfect sense. Access to accurate information regarding the costs and likely returns of higher education should enable personally optimal investments that will result in broader economic gains as well as institutional improvements via transparency and competition.

Though the Trellis/NASFAA study focused on only a small subset of the large and growing range of online postsecondary information tools, its overarching conclusion should inform any effort to improve outcomes through information: resources must accommodate decision

makers. Efforts to improve student behavior through information should consider not only how students will interact with the information but also how to bring students into contact with the information in the first place. This requires rigorous examination of the information — including its timing, medium, location, use or promotion by institutions, text, presentation, and marketing — in the context of students' goals, decision-making processes, prior knowledge, interests, and constraints.

The effectiveness of an information-based intervention depends heavily on the degree to which its design and execution takes into account how the target population interacts with and experiences the information — in this case, counseling information. Ultimately, delving into the details of the borrower experience with student loan counseling was the goal of the Trellis/NASFAA Project on Student Loan Counseling. Each recommendation for improving student loan counseling is rooted in the analysis of empirical patterns in how students conceptualize the challenge of paying for college and interact with the counseling resources meant to help them do it. The legislative history, literature review, and promising practices study provided information on additional contextual factors that shape the experience as well as suggestions for turning an understanding of that experience into better policy. More of the same rigorous empirical analysis of students' attitudes, thoughts, behaviors, and patterns of interaction with different material designs will be required for new information resources to have any reasonable chance of significantly improving student choices and outcomes.

Each recommendation for improving student loan counseling is rooted in the analysis of empirical patterns in how students conceptualize the challenge of paying for college and interact with the counseling resources meant to help them do it.

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