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INFORMED OR OVERWHELMED?

A Legislative History of Student Loan Counseling with
a Literature Review on the Efficacy of Loan Counseling

Trellis Research

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With Chris Fernandez, Carla Fletcher, and Jeff Webster

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ABOUT THIS REPORT

In 2014, Trellis Company (Trellis) conducted four discrete but related studies as part of a multi-phase research project on student loan counseling in the United States. These studies include:

- 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;
- An interview and observation-based study on the borrower experience with online student loan exit counseling (the subject of this report);
- An interview and observation-based study on the borrower experience with online student loan entrance counseling; and
- A study of the promising practices in financial literacy training and student loan counseling currently employed at schools whose student loan borrowers outperform expectations.

Each study is presented in its own report describing the study's findings and the recommendations they inform. An additional fifth paper will synthesize the findings and implications of the four studies and offer broader conclusions on the policy and practice of student loan counseling. Look for these reports in spring and summer, 2015.

ACKNOWLEDGEMENTS

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INTRODUCTION

The stakes are high for borrowers in student loan repayment. Those who fall into delinquency or default can damage their credit history, have their wages garnished, and lose eligibility for federal student aid. First-generation college-goers can have a particularly difficult time, navigating a gauntlet of college payment decisions without the advice and experience of family members who have attended college. Given the complexity and importance of financial aid decisions, the federal government requires that federal student loan borrowers complete loan counseling twice: before the first disbursement of a borrower's first loan (called entrance counseling), and before the student has graduated, fallen below half-time enrollment, or dropped out of college (called exit counseling).¹

However, even with mandatory loan counseling, students are entering default or becoming delinquent on their loans at alarming rates. More than 650,000 federal borrowers who entered loan repayment in fiscal year (FY) 2011 defaulted on their federal loan within three years (U.S. Department of Education, 2014). Many more borrowers are delinquent on their loans (Hardekopf, 2013). To avoid

the consequences of delinquency and default, students need to understand their rights and responsibilities as borrowers and have a strong grasp of the tools available to help them in repayment. While a sluggish economy and rising college costs can make student loan repayment challenging, borrowers do have options when it comes to staying out of default. Why aren't more students using these options? To answer this, Trellis, in consultation with the National Association of Student Financial Aid Administrators (NASFAA)², first considered the background of loan counseling, including why counseling became necessary and mandatory. Section I of this report describes the social and policy context for loan counseling. Next, we examined the legislative intent of the counseling requirement and how counseling evolved over time in response to changing regulations. Section II presents our findings in this area. And last, we reviewed existing research on loan counseling's effectiveness in improving borrower comprehension and decision-making. Section III summarizes our findings in this area and provides relevant insights from behavioral economics and other fields for which consumer counseling is vital.

While a sluggish economy and rising college costs can make student loan repayment challenging, borrowers do have options when it comes to staying out of default. Why aren't more students using these options?

¹ Entrance and exit loan counseling are required for all student borrowers with a federal Direct subsidized, Direct unsubsidized, or Direct PLUS loan. For borrowers with a federal Perkins loan, exit counseling is required, and while entrance counseling is not mentioned by name, institutions are required to provide select information to borrowers before the first disbursement of each loan. Entrance and exit loan counseling are also required for borrowers under the Federal Family Education Loan Program (FFELP); however, loan originations were ended for this program in 2010. A full list of loan counseling requirements can be found in Appendix A.

² NASFAA personnel consulted with Trellis in devising the multi-part student loan counseling study. Though NASFAA reviewed this report, and others from the study, these reports do not necessarily represent NASFAA's official policies or positions.



SECTION ONE: POLICY CONTEXT

Students increasingly rely on loans

With the economic downturn in 2008, student loan debt has gotten more attention from economists, higher education researchers, policy makers, and the media. Why? Student debt is on the rise. In fact, since 2011, student loan debt has grown by 20 percent (Rice, 2013). Today, cumulative student debt tops \$1 trillion, the second highest form of consumer debt after home mortgages (FRBNY, 2014 Q3). Almost 70 percent of students rely on loans to help pay for college (National Center for Education Statistics, 2013). For many students, taking out student loans can be their first borrowing experience. Given these circumstances, loan counseling offers a great opportunity for educating novice borrowers in their rights and responsibilities and emphasizing the consequences of default.

Deciding whether to borrow is a complicated one, but for many students the choice is either to borrow or not attend school. Recent research indicates that half of all first-year students borrow in their first year of college, and half of the

remaining students borrow within six years of enrolling (Gladieux & Perna, 2005). Working while in college is one way that students can minimize or avoid borrowing, but this strategy was more effective in the past. In 1980, a student need only work 24 hours a week at minimum wage to pay for a bachelor's degree at a public university. Today, a student would have to work 63 hours per week at minimum wage to cover the average cost of attendance (Creusere, Fletcher, Klepfer & Norman, 2015). Students who choose to attend school part time while they work — or take time off of school to work — may be able to finance their education without loans, but these students have a greater chance of not finishing a degree. Working more than 20 hours a week while attending school has been shown to significantly increase the chance a student will drop out (Pike, Kuh, & Massa-McKinley, 2009). Some believe loan counseling could offer students a time when they could consider how certain financial decisions — like working while in school — will affect getting a degree.

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When grant aid is low, first-generation and low-income borrowers turn to loans at greater rates

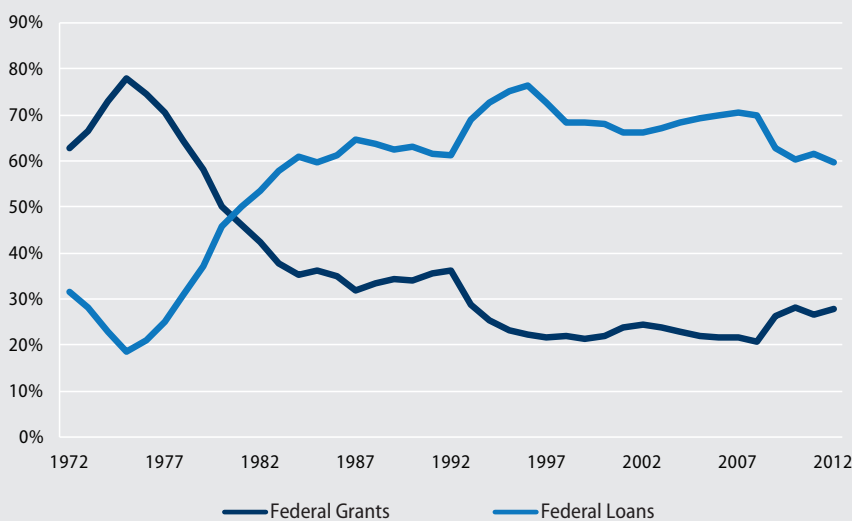
Grant aid can reduce the risk of either borrowing too much or working too much, particularly for low-income students (Gladieux & Perna, 2005). However, over the past two decades, grant aid has not kept up with the rising cost of higher education. In 1988, the federal Pell Grant, which is designed to help low-income students finance higher education and serve as the cornerstone of the federal student aid programs, covered more than half the average cost of a degree at a public four-year institution. Today, the Pell Grant only covers around 30 percent of a public four-year institution's tuition, fees, and living expenses (McSwain, 2008). Figure 1 tracks the percentage of federal grants and loans that make up total federal aid from 1972 to 2012. From the late 1960s through the 1970s, federal grants accounted for more than half of all federal aid. Today, grants make up around a third of total aid. As grants have become a smaller portion of aid, low-income students have turned to student loans at higher rates. Many of these low-income students may have little if any experience with borrowing, or they may have family members who have had negative experiences. Many of these students are also first-generation college-goers, who have to navigate borrowing without family support. All these factors make effective loan counseling crucial.

There are reasons to believe that low-income or first-generation students could greatly benefit from loan counseling. Disadvantaged students generally have little knowledge of student loans and the consequences of borrowing (Perna, 2007). They tend to be more averse to taking out loans, and more willing to enroll part time, stop out, or drop out when facing financing challenges (Cunningham & Santiago, 2008). These borrowers in particular need quality consumer counseling about borrowing. They also need to consider what they will need to earn in order to repay their loans.

Student loans, like grant aid, help many students earn a degree or credential. Unlike grant aid however, the decision to take out a student loan is not simple. Loans are contracts with complicated terms, legalistic disclosures, and a potentially confusing system of deferment, forbearance, delinquency, and default. Smart borrowing requires that a student forecast future earnings, which can be difficult in a changing economic environment. Students can have vastly different experiences with loans depending on major, prior experience with debt and borrowing, income level, and the prospects of finding employment. Over-borrowing or failing to repay can harm a borrower's financial well-being. All these factors drive home the need for loan counseling that helps borrowers make smart repayment choices.

Students can have vastly different experiences with loan repayment depending on major, prior experience with debt and borrowing, income level, and the prospects of finding employment.

FIGURE 1. Federal Grants and Loans as Percentage of Total Federal Aid: 1972–2012



Source: Source: College Board. (2013). *Total Student Aid and Nonfederal Loans in 2012 Dollars over Time*.

There can be harsh consequences to becoming delinquent or defaulting on federal student loans

When managed prudently, student loans can make both college and career possible without leaving the borrower an undue financial burden. Missteps, however, can have harsh consequences. Default can damage credit, which can add expense to borrowing for a car or house, and even make it difficult to find a job or get an apartment (The Society for Human Resource Management, 2010).

Added collection costs and the loss of Treasury offsets (i.e., tax refunds) that come with student loan default can strain finances, while wage garnishment can be embarrassing in that employers become aware of an employee's default (See side bar below for more details). These consequences can be avoided by exercising some of the debt relief options available under federal law.

The Potential Consequences of Delinquency and Default

▼ Damaged Credit History

Consumer credit agencies receive notification of payments, as well as delinquency and default on student loans. From 2003–2009, the credit scores of young borrowers were within a few points of non-borrowers. However, since 2009 this trend has shifted. In 2012, young borrowers had credit scores that were 15–24 points lower than non-borrowers (Brown & Caldwell, 2013). While credit scores typically range from 300 to 850, even a small decrease in the score may increase the chance of a higher interest rate on loans, especially for those on the cusp of an adverse credit range.

▼ Risk to Current or Potential Employment

A negative credit history from loan delinquency or default can harm a borrower's current or potential employment. Employers can and will access an employee's credit report under the federal Fair Credit Reporting Act (Rice, 2013). A national survey found that 47 percent of surveyed companies use credit background checks for selected employees, and 13 percent conduct credit checks for all employees (The Society for Human Resource Management, 2010).

▼ Wage Garnishment

A borrower in default can have up to 25 percent of his or her disposable income withheld. However, if

the borrower is in default on loans held by multiple sources, no single agency may withhold more than 15 percent.

▼ Treasury Offset

A borrower in default could have his or her income tax refund or other federal money withheld through the Treasury Offset Program.

▼ Loss of Federal Student Aid Eligibility

A borrower in default loses eligibility for federal student aid, essential for many students pursuing new or ongoing education.

▼ Release of Student Transcripts and Records

Some higher education institutions will withhold official transcripts and academic records if a student borrower enters default.

▼ Collection Costs

To receive loan funds, borrowers must agree to pay the cost of collecting on a defaulted debt, which can be up to 24.34 percent of the total loan amount.

▼ Withholding of a Professional License

In some states professional licenses can be suspended or withheld if a borrower enters default. This includes licensure for nursing, optometry, real estate, cosmetology, and law (Rice, 2013).

There are many tools to help borrowers in repayment

The numbers of student borrowers struggling to manage their debt is particularly troubling given the helpful tools available to prevent delinquency and default. Here is a brief review of these borrower benefits.

▀ Grace period and extended delinquency period

Student borrowers have a six-month grace period after they graduate or fall below half-time enrollment and before they begin repayment. In addition, borrowers have 270 days after a missed payment before they enter default — much longer than typical consumer loans.

▀ Varied repayment plans

The standard repayment plan for federal loans structures repayment over 10 years, but there are other plans that offer lower monthly payments designed to help students manage their debt. With graduated repayment, repayments start low and increase over time. Borrowers with debt that exceeds \$30,000 can take advantage of extended repayment and pay reduced amounts each month over a repayment period of up to 25 years. There are also plans that may take into account the borrower's income and total debt and cap repayment at a percentage of the borrower's disposable income if the borrower's income is low enough. It would seem that a diverse group of plans would be a great benefit given the diverse needs of borrowers. However, without effective counseling, borrowers may become confused and overwhelmed by all their options and unable to focus on the best plan for them (Advisory Committee on Student Financial Assistance, 2011).

▀ Repayment benefits

Borrowers can consolidate their loans for easier repayment or set up direct debit payments for an interest rate reduction.

▀ Loan forgiveness

The federal government offers several loan forgiveness programs by which qualifying borrowers can get some or most or all of their debt discharged.

▀ Deferment and forbearance

Eligible borrowers can take advantage of deferments, which provide a temporary postponement of repayment. Deferments are granted for a variety of reasons, including enrollment in school or economic hardship. During deferment, Direct subsidized loans generally do not accrue interest. Forbearance also provides temporary postponement of repayment but can be more expensive, since interest accrues on all loans.

If there are serious consequences to delinquency and default — but numerous tools available to help in repayment — why are student borrowers defaulting on their loans at such high rates? Many industry professionals believe that borrowers could be better informed during loan counseling about the terms and conditions of their loans, the consequences of delinquency and default, and the tools available to manage debt. In this next section, we consider entrance and exit loan counseling more closely, reviewing how particular counseling requirements came to be and why they changed over time.

SECTION TWO: LEGISLATIVE HISTORY

The Higher Education Act of 1965 (HEA), as amended, is a multifaceted law that provides the authorization and funding for the majority of the federal government's higher education programs. The HEA was signed into law in the context of the Civil Rights Movement, the War on Poverty, and the changing role of women in society. As part of President Lyndon Johnson's Great Society legislation, the HEA allowed more low-income students to gain access to, and pay for, a higher education.

"In a very few moments, I will put my signature on the Higher Education Act of 1965. The President's signature upon this legislation passed by Congress will swing open a new door for the young people of America. For them, and for this entire land of ours, it is the most important door that will ever open — the door to education. And this legislation is the key which unlocks it."

**— President Lyndon B. Johnson's remarks
upon signing the Higher Education Act of 1965**

The HEA not only made college more affordable by offering grants and low-interest loans, but expanded educational opportunities for women, students of color, and the poor. For almost fifty years, the HEA has been the main legislative mechanism for federal support of higher education, with new programs and funding added through reauthorizations that occur approximately every five years.

Title IV of the HEA was one of the most ambitious sections in the law. Title IV altered past models of aid that targeted specific students (e.g., service members) or areas of study (e.g., science, technology, engineering, mathematics, or defense-related fields). Instead, Title IV provided grants for the neediest students and federally insured loans with

interest subsidies for low- and middle-class students. Created by the HEA, the Guaranteed Student Loan Program (GSLP) expanded access to student loans for low- and middle-income students (Cervantes, et al., 2005). It also encouraged private lenders to lend to students with little or no credit history or collateral, since loans were federally guaranteed and interest subsidized on certain types of loans. Over time, the GSLP helped raise college enrollment across the country.

In 1968, Congress passed the first reauthorization of the HEA. In this reauthorization, the Talent Search and Upward Bound Programs of Title IV were combined with the newly created Student Support Services, forming what we know today as the TRIO programs (Cervantes, et al., 2005). TRIO programs provide counseling, interventions, mentorship, and academic tutoring to low-income students. TRIO programs were created to address concerns that the most disadvantaged students knew very little about college, how to pay for it, or how to succeed academically. In many ways, these concerns still exist and are central to federal mandatory loan counseling. Because low-income students default on their loans at higher rates than other students, there is concern that they know less about the consequences of borrowing or the tools available to avoid default. Mandatory loan counseling is one strategy to help ensure all students, especially disadvantaged students, know their options and make smart repayment decisions.

The HEA also granted the Department of Education (ED) the authority to review schools for their administration of federal programs. ED did not exercise its authority broadly until the late 1980s, when it began using participation in federal student aid programs as a way to ensure school compliance with rules and regulations, including regulations regarding entrance and exit loan counseling.

Mandating entrance and exit counseling

In the early 1980s, the United States was caught in a global recession that contributed to high unemployment and inflation (FDIC, 1997). The HEA reauthorizations of this decade signal mounting concerns about the growing costs of the loan program, borrower default, and the complexity of the financial aid process. Policy makers and higher education leaders then and now shared similar concerns: Are students borrowing too much and then defaulting? Will rising student debt hurt the economy

(Hansen, 1987; Proceedings, 1986; IHEP, 1997)? By the late 1980s, more than 15 percent of student borrowers across the nation were defaulting within two years of entering repayment (Department of Education, 2014). Concern about default was fueled by the actions of for-profit, proprietary institutions, whose students were defaulting at higher rates than students from other higher education sectors. By 1989, proprietary schools would account for more than 80 percent of all defaults (GAO, 1989).



"In a very few moments, I will put my signature on the Higher Education Act of 1965. The President's signature upon this legislation passed by Congress will swing open a new door for the young people of America. For them, and for this entire land of ours, it is the most important door that will ever open — the door to education. And this legislation is the key which unlocks it."

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Policymakers were concerned that students were uninformed about their borrowing — particularly at proprietary institutions — and began taking steps to ensure students borrowed responsibly. The HEA reauthorization in 1986 marked the first time loan counseling was required by statute. The HEA, as amended in 1986, required all schools to provide exit counseling to their student borrowers for all federal loan programs that are “made, insured, or guaranteed under part B or E of Title IV” (Govtrack.us, 2014). To promote a better understanding of repayment and default, exit counseling must be provided to students just before they graduate, fall below half-time enrollment, or drop out of college.³ According to statute, counseling must include general information about students’ average indebtedness, anticipated monthly loan payments, and a review of all repayment options (U.S. Government Printing Office, 2014). In 1987, Secretary of Education William Bennett announced a proposal for reducing federal defaults, which had become “intolerable” (Fraas, 1989). His plan was to make higher education institutions accountable for the defaults of their borrowers. In 1989, ED took steps to disqualify institutions with high default rates from access to financial aid, and began formulating new regulations around consumer information and borrower counseling (Fraas, 1989). Holding institutions partially responsible for default was controversial (Fraas, 1989). Many lawmakers and higher education leaders felt the move went too far and risked punishing institutions that served disadvantaged students. Many felt that Bennett’s proposals were draconian, dooming institutions to closure by denying their access to federal aid (Fraas, 1989). There was also substantial debate over the cohort default rate (CDR) level that would trigger a cut-off of federal aid. Secretary Bennett proposed the level be set at 20 percent. Critics in Congress worried that a low limit would punish good institutions that served disproportionately at-risk students. They wanted the threshold set at 40 percent. ED’s final rules represented a compromise, requiring institutions to create default management plans if their CDR exceeded 20 percent, and invoking harsher penalties — including ineligibility for federal aid — for higher rates (Fraas, 1989). Bennett’s proposals were a watershed for ED and its regulatory power. ED always had the ability to make rules, sanctions, and regulations surrounding the eligibility

for student aid, but these proposals gave teeth to that power. Under Bennett’s direction, ED began using access to federal loan programs as a way to enforce compliance with regulations (e.g., mandatory loan counseling) and hold schools accountable for student outcomes (e.g., default rates).

In 1988, a group convened by Rep. Pat Williams of Montana — called the Belmont Task Force — was commissioned to review the GSLP and student default problems.⁴ Members included lenders, guarantee agencies, institutions, students, financial aid officers, congressional staff, and ED.⁵ The task force recommended that schools provide entrance counseling as well as exit counseling. The group also suggested that schools collect information on borrowers during exit counseling, including family and personal references (Subcommittee on Postsecondary Education, Committee on Education and Labor, 1988). Rep. E. Thomas Coleman of Missouri, a task force member, said, “The schools themselves ... have a central role in breaking this cycle by providing better counseling and educational support services, particularly for those students who are at risk” (Subcommittee on Postsecondary Education, Committee on Education and Labor, 1988).

Many of the Belmont Task Force recommendations were implemented in the Student Loan Default Reduction Initiative, proposed by Secretary of Education Lauro Cavazos in June 1989. This initiative led to new regulations for entrance counseling, including new rules that required all institutions provide loan counseling to first-time borrowers or else risk losing access to federal loan programs (Fraas, 1989). Prior to releasing student aid, institutions would be required to make clear the terms of the loan and the consequences of default and provide an approximation of the borrower’s eventual monthly repayment (U.S. Government Printing Office, 2014). The initiative also turned the exit counseling requirement into a regulation, where it had been only a statute. Exit counseling regulations required that the counseling session be in-person and feature the average student loan debt from that institution (Fraas, 1989). The regulations also mandated that technical, trade, or career programs offer consumer information to prospective students — another sign that ED was concerned about student decision making on repayment (Fraas, 1989).

Bennett’s proposals were a watershed for ED and its regulatory power. ED always had the ability to make rules, sanctions, and regulations surrounding the eligibility for student aid, but these proposals gave teeth to that power.

³ Appendix A in this report highlights the current statutory and regulatory requirements of entrance and exit counseling.

⁴ Congressman Pat Williams (D-MT) was a chairman of the House Subcommittee on Post-Secondary Education.

⁵ A full list of the 1988 Belmont Task Force can be found in Appendix B.

During the late 1980s, the Advisory Committee on Student Financial Assistance (ACSFA) took on an important role in terms of conversations on student debt. Created by Congress in the 1986 HEA reauthorization to be “an independent and bipartisan source of advice and counsel on student financial aid policy,” ACSFA was comprised of leaders from higher education institutions and the financial aid community (Govtrack.us, 2014). Starting in 1987, ACSFA began studying the problem of student loan defaults. Soon after, the Belmont Task Force recommended that the committee review the effectiveness of borrower debt counseling (Subcommittee on Postsecondary Education, Committee on Education and Labor, 1988).

In a 1989 letter to the Secretary of Education, ACSFA agreed with new regulations promoting loan counseling, but expressed concern that these new requirements could create a regulatory burden on financial aid offices. The committee emphasized that the financial aid system was far too complex and said that default was perhaps a more likely outcome — or “structural default problem” — when loaning to disadvantaged students. ACSFA wrote:

“Over the last eight years the volume of GSL program loans made has increased by 124 percent ... During that same period, loans to high-risk students (those from low-income and disadvantaged families) have increased. Both of these facts are the result of a persistent budgetary policy which has established student loans as the primary means of federal financial assistance to needy postsecondary students” (Advisory Committee on Student Financial Assistance, 1989).

The Belmont Task Force shared these concerns about default, with one member noting that “strict and tough management of pre-loan counseling and of collections cannot change the characteristics of the populations which have the greatest difficulty in paying off a loan” (Subcommittee on Postsecondary Education, Committee on Education and Labor, 1988). ACSFA and other critics of stricter regulatory requirements feared that some schools would decide not to admit low-income or disadvantaged students out of worries about higher default rates (Fraas, 1989). However, all sides agreed that adding entrance counseling to the counseling requirement was good policy.

Electronic loan counseling becomes available

More than a decade after mandating loan counseling, the federal government began promoting electronic counseling. The rise of the Internet had implications for delivering loan counseling more efficiently, with less impact on the budgets of financial aid offices. The 1998 reauthorization of the HEA amended the statute to say “nothing in this subsection shall be construed to prohibit an institution of higher education from utilizing electronic means to provide personalized exit counseling” (Govtrack.us, 2014). Shortly after, ED began developing electronic materials for entrance and exit counseling, including interactive ways of selecting repayment plans, calculating repayment amounts, managing electronic debit accounts, using personalized information via the federal student aid personal identification number, or PIN, and viewing loan account history.

In 2000, ED unveiled new entrance counseling regulations. Now counseling had to explain the Master Promissory Note (MPN), review the consequences of default, and ensure that borrowers understood that loan repayment

was mandatory. ED also began offering its online entrance and exit counseling tool. The HEA reauthorization of 2008 promoted the use of interactive programs in entrance and exit counseling to improve student knowledge of loan terms, leading to 2010 ED rules that defined online counseling as an effective means of satisfying the regulation (U.S. Government Printing Office, 2014). In 2012, ED redesigned the online counseling tool to add more interactive features like calculators and personalized student information.

ED’s online counseling module provides institutions a cost-free means of ensuring compliance with federal rules; in effect, it supplies schools with a regulatory “safe harbor.” Consequently, there is less incentive for institutions to use any other method, since designing an online tool or providing in-person counseling can be costly and may not meet regulatory standards. Unless an institution’s CDR approaches penalty thresholds, the school has little incentive to go beyond the regulatory minimum or experiment with different, potentially more effective means of borrower education.

The rise of the Internet had implications for delivering loan counseling more efficiently, with less impact on the budgets of financial aid offices.

Loan counseling today

Recently, there has been a concerted effort to streamline the federal student loan program to reduce the level of complexity for students. However, the loan process still intimidates new students, especially those first in their family to attend college. Students must sometimes choose among multiple loan programs, each with its own eligibility requirements and terms and conditions. They must decide the amount they wish to borrow (within the limits for each program depending on their year of borrowing). They have to perform some financial analysis to choose among an array of subtly different repayment plans. To some extent, loan counseling reflects the complexity of the student loan program. But the proliferation of mandated topics seems to also

stem from federal policymakers' concern about the lack of college affordability and the economic uncertainty student borrowers face. Figure 2 (See pages 12 and 13) itemizes the number of topics added to student loan counseling over time. Though well intended, the growth in the number of required topics may have made counseling a wearing experience for students, overwhelming their ability to understand and retain key concepts. Which brings us to the question: How effective is loan counseling and what, if any, challenges do students face with the loan counseling tool? In the next section, we examine existing research on the efficacy of loan counseling, focusing in particular on how delivery and timing — as well as the volume and complexity of information — can affect student outcomes.

To some extent, loan counseling reflects the complexity of the student loan program. But the proliferation of mandated topics seems to also stem from federal policymakers' concern about the lack of college affordability and the economic uncertainty student borrowers face.

SECTION THREE: LITERATURE REVIEW

Federal regulations require that student borrowers receive entrance counseling prior to the initial disbursement of funds⁶ and exit counseling before completing their programs, dropping out, or falling below half-time enrollment.⁷ ED's online counseling tool is popular with schools according to a 2013 National Association of Student Financial Aid Administrators (NASFAA) survey. One reason for that may be that the tool offers schools a regulatory safe harbor: by using the tool, schools are guaranteed compliance with federal requirements. However, this reliance on one counseling tool may inadvertently stifle more creative or innovative approaches to counseling. Why is this cause for concern? There are reasons to suspect that students are not retaining information from these counseling sessions, which may hurt borrowers down the line

during repayment. To evaluate the effectiveness of ED's counseling, we considered relevant studies.

A literature review reveals that most loan counseling studies rely on survey data or focus group feedback from students and financial aid advisors. Very few studies use randomized research designs or advanced evaluation methods, which may leave gaps in our knowledge about loan counseling and its effectiveness. However, the more anecdotal data from surveys and focus groups can offer important insights. Also, research findings from other forms of consumer education can shed light on related questions about student loan counseling. In this section, we will examine research on the current model of student loan counseling and consider the effects of complexity, volume, timing, and delivery method on counseling outcomes. (See Appendix C: Table of Literature Review Findings.)

Are students receiving the information they need from counseling?

What makes for effective loan counseling? Generally, a consumer who was effectively counseled will understand the information he or she learned, retain that understanding over an extended period of time, and be able to apply that information in decision making. Understanding the terms and conditions of student loans is important for borrowers, but imparting that information can be especially challenging given its complexity. Also, misconceptions about loans are common, which makes effective counseling even more

essential. For example, financial aid administrators report that many students and families who finance college with private loans are misinformed about the availability and advantages of federal student loans. Also, some students and parents believe that they make too much money to qualify for federal student loans, some do not understand the risk of private loans, and others don't know to take advantage of grants and scholarships before taking out loans (Reed, 2011; Wroblewski, 2007).

⁶ This is the case except for Perkins loans, as noted earlier.

⁷ The definition of half-time attendance can vary between institutions, but generally half-time attendance requires six to eight credit hours, half a normal course load.

Student focus group data reveals that borrowers do not know or cannot recall the interest rate and terms of repayment on their loans (Mueller, 2013). Surveys also indicate that students don't feel that entrance counseling helped them become more informed borrowers. In a survey of high-debt borrowers, one student described online entrance counseling as "just something I needed to do to get my money" (Jensen, 2014). In this same survey, 65 percent of students said they misunderstood or were surprised by aspects of their student loans or the student loan process (Jensen, 2014). Most surprisingly, 40 percent of respondents reported never receiving exit counseling or did not remember receiving it (Jensen, 2014). Clearly, students don't find loan counseling to be a valuable or memorable experience, which raises concerns about retention of important loan information.

Student borrowers are making substantial financial commitments without having received or retained the information they need to be smart consumers. Several Government Accounting Office (GAO) reports have noted that colleges and universities can be the best source of financial aid information for students and their families (Perna, 2006). However, survey data show that many financial aid administrators believe student borrowers do not understand information provided during counseling, including the basic differences between loans and grants.

Financial aid administrators also do not believe that borrowers understand how their loan burden will affect life after graduation (Johnson, 2012). Effective loan counseling could improve student outcomes by spurring students to plan and think critically, but the current design is inadequate to this purpose. Many students — especially low-income students and those attending schools with few administrative resources — have very little knowledge about student loans and the responsibilities that come with borrowing (Perna, 2007). These low-income students are most in need of effective loan counseling, because they may be more affected by debt burden after college and have fewer family and friends to help navigate the student loan process.

Many student borrowers just aren't prepared for the realities of repayment after college. One-third of respondents in the National Student Loan Survey experienced a financial hardship because their loan repayments were greater than expected. While most parents and students agreed that loans were necessary for college, more than 50 percent of students felt "burdened by the repayment process," and would have borrowed less if they could go back and do it again (Mueller, 2013). Students could avoid regret like this if, with the help of effective counseling, they could set more realistic expectations and plan for loan repayment.

How the complexity and volume of information can affect counseling efficacy

To get more perspective on the effectiveness of student loan counseling, we turned to other forms of consumer education that benefit from greater testing and evaluation. What makes consumers in these fields adopt key behaviors and retain important information? Research indicates that the volume and complexity of information delivered during consumer education is important to retention. Studies of how consumers chose mortgages, retirement investments, and academic institutions, and made other high stakes decisions have shown that consumer information must be presented in a clear and timely manner to be effective. Whenever information is provided in large and complex forms, consumers make poor financial choices (Wroblewski, 2007; Federal Trade Commission Bureau of Economics, 2007). This fact poses a challenge for student loan counseling, because the federal financial aid system — with several different loan programs, interest rates, repayment plans, and repayment tools — can be very complex and hard to explain in simple terms. A 2011 Congressionally mandated report concluded that "the nation's current system of

student financial aid is daunting and onerous for many individuals, largely because of the inherent complexities of the aid process" (Advisory Committee on Student Financial Assistance, 2011). This report used an anonymous survey of 2,000 respondents from financial aid offices and senior campus administration. Survey respondents noted that offering information in a personalized way could simplify counseling for students. Survey respondents also called for enhanced user testing to determine if students comprehend materials (Advisory Committee on Student Financial Assistance, 2011).

In a 2013 hearing held by the U.S. Congressional Committee on Education and the Workforce, NASFAA president and CEO Justin Draeger stressed the need for testing loan counseling in order to "pare down the amount of information we heap on students in the name of good consumer information" (Committee on Education and the Workforce, 2013). Overall, surveys and interviews of financial aid administrators confirm that adding more information to counseling

Research indicates that the volume and complexity of information delivered during consumer education is important to retention.

may not be the best way to help students become better consumers. Surveys also underscore the need for user testing and research to learn how to customize counseling, help students retain information better, and reduce the amount of information borrowers need to make informed

The delivery method of counseling can affect learning outcomes

Financial administrators largely believe that counseling in person or by phone is more effective than Web-based counseling (Reed, 2011; Jensen, 2014). Surveyed financial aid administrators say they are skeptical of online counseling's effectiveness. They fear students just click through screens to complete the counseling without comprehending the information. However, according to Jensen, many administrators also said that most colleges and universities are not staffed to provide one-on-one or in-person counseling (Jensen, 2014).⁹

One study found students identify the clarity of student loan information as a broad principle necessary for good communication. They also said that administrator availability, personalized information, and a multimedia format could help boost comprehension (Johnson, 2012). In a series of six student focus groups held across the state of Texas, students reported that concise emails with links to other dependable websites, "live chat" tools, and YouTube videos could be effective ways of receiving information about their loans or financial aid. All students in these focus groups reported a preference for in-person consultations at the financial aid office (Trellis, 2013).

Students are comfortable and express satisfaction using online and interactive elements during counseling. However, student surveys have also found that Internet-only training could lead to potential confusion (Venegas, 2006). Web materials and online counseling can be effective, but, without a mechanism for personalized information or in-person support, these delivery methods may be insufficient (Dowd, 2008).

More research on the effectiveness of in-person counseling, including experimentation and meta-analysis, has been done in the medical field. In fact, health-related counseling has been evaluated much more than loan counseling. The resulting findings provide insight into information delivery methods that could affect positive behavior change. For example, a 2010 meta-analysis of health communication found that there are significant

decisions (Committee on Education and the Workforce, 2013).⁸ The delivery method and setting may play a part in effective loan counseling. It may be that counseling students in varied formats — in person, online, or by combination of the two — provides the best results.

positive results in terms of patients' health decisions when patients receive face-to-face counseling that offers messages tailored to their personal needs and background (Wanyonyi, Themessl-Huber, Humphris, & Freeman, 2011). The benefits of face-to-face counseling have also been recorded in alcohol-abuse counseling. In 2012, researchers from several institutions conducted a meta-analysis of face-to-face and computer-delivered alcohol interventions for college drinkers. They found that both types of interventions seemed to reduce alcohol drinking, but that face-to-face interventions reduced negative behavior across a wider range of outcomes. Researchers also found that face-to-face interventions had longer lasting effects when compared to computer-based interventions (Carey, Scott-Sheldon, Elliot, Garey, & Carey, 2012). These findings indicate that in-person counseling could be more effective and produce a wide range of positive borrowing behaviors.

Financial aid administrators agree that a personalized, face-to-face counseling session is preferable to an online tool; unfortunately, financial aid offices seldom have the resources to provide personalized service to all student borrowers (Johnson, 2012). In one survey of 107 community college financial aid administrators, more than 70 percent reported a caseload of 1,000 students or more per financial aid administrator (McKinney, Roberts, & Shefman, 2013). The administrative burden on institutions has risen with the number of students receiving aid. In 2012, around 41 percent of undergraduate students took out loans as compared to 35 percent in 2008 (Nelson, 2013). Two-thirds of financial aid administrators in one study indicated that they were facing a moderate or severe resource shortage, and nine out of ten administrators felt that resource shortages affected their ability to help students, particularly with face-to-face counseling (NASFAA, 2010).

More research is needed to determine why face-to-face loan counseling might be superior to online counseling. For example, face-to-face counseling might provide students

Web materials and online counseling can be effective, but, without a mechanism for personalized information or in-person support, these delivery methods may be insufficient.

⁸ Consumer testing is a process by which a product is examined to understand how well the product performs its desired functionality, if it has an positive or negative impact on consumers, and how the product can be improved.

⁹ Logistical barriers may also make it difficult to provide in-person counseling to online students.

FIGURE 2. Legislative Additions to the Loan Counseling Requirement Over Time

1986	1989	1999	2000
Review of repayment options	Review of repayment options	Review of repayment options	Review of repayment options
Average anticipated monthly repayments	Average anticipated monthly repayments	Average anticipated monthly repayments	Average anticipated monthly repayments
Average indebtedness of students	Average indebtedness of students	Average indebtedness of students	Average indebtedness of students
Debt and management planning	Debt and management planning	Debt and management planning	Debt and management planning
	Consequences of debt	Consequences of debt	Consequences of debt
	Estimated repayment burden	Estimated repayment burden	Estimated repayment burden
	Clarify terms of loan for first-time borrowers	Clarify terms of loan for first-time borrowers	Clarify terms of loan for first-time borrowers
		Interactive repayment plan selection	Interactive repayment plan selection
		Interactive calculators (e.g. deferment and forbearance)	Interactive calculators (e.g. deferment and forbearance)
		Electronic loan counseling materials	Electronic loan counseling materials
			Anticipated monthly repayment based on student indebtedness
			Consequences of default (e.g. adverse credit reports, federal offset, litigation)
			Explain student obligation of repayment
			Master Promissory Note
			Full or partial cancellation of a loan
			Information on ED's Office of the Ombudsman

2002	2013
Review of repayment options	Review of repayment options
Average anticipated monthly repayments	Average anticipated monthly repayments
Average indebtedness of students	Average indebtedness of students
Debt and management planning	Debt and management planning
Consequences of debt	Consequences of debt
Estimated repayment burden	Estimated repayment burden
Clarify terms of loan for first-time borrowers	Clarify terms of loan for first-time borrowers
Interactive repayment plan selection	Interactive repayment plan selection
Interactive calculators (e.g. deferment and forbearance)	Interactive calculators (e.g. deferment and forbearance)
Electronic loan counseling materials	Electronic loan counseling materials
Anticipated monthly repayment based on student indebtedness	Anticipated monthly repayment based on student indebtedness
Consequences of default (e.g. adverse credit reports, federal offset, litigation)	Consequences of default (e.g. adverse credit reports, federal offset, litigation)
Explain student obligation of repayment	Explain student obligation of repayment
Master Promissory Note	Master Promissory Note
Full or partial cancellation of a loan	Full or partial cancellation of a loan
Information on ED's Office of the Ombudsman	Information on ED's Office of the Ombudsman
NSLDS availability	NSLDS availability
Seriousness and importance of repayment obligation	Seriousness and importance of repayment obligation
Conditions under which loan may defer or forbear repayment	Conditions under which loan may defer or forbear repayment
Conditions under which loan can be fully or partially discharged	Conditions under which loan can be fully or partially discharged
Debt management strategies to facilitate repayment	Debt management strategies to facilitate repayment
Loan consolidation	Loan consolidation
Explanation of repayment plans	Explanation of repayment plans
Anticipated monthly repayment based on ranges of student debt levels in the same program or school	Anticipated monthly repayment based on ranges of student debt levels in the same program or school
	Impact of accruing interest on borrower's total debt
	Possibility of losing interest subsidy for Direct Subsidized Loans
	How a borrower's maximum eligibility, remaining eligibility, and subsidized usage period is calculated
	Loss of eligibility of student loans

with personalized information. If true, personalized and interactive components could be added to an online tool that may provide the same benefits without the added

administrative burden. Research also suggests that the timing of entrance and exit counseling is another key variable in the efficacy of loan counseling.

The timing of loan counseling can distract from student learning

In a large meta-study published in the January 2014 issue of *Management Science*, the authors found that financial literacy itself is strongly correlated with positive financial behaviors, but that training or counseling interventions have varying effects. The authors also found that the effects of financial literacy training on financial behavior tend to disappear quickly over time (Fernandes, Lynch, & Netemeyer, 2014). These findings suggest that brief financial education interventions have limited impact on financial decision making unless it comes right before or along with the decision. When information is given “just in time,” that is, at the same time a consumer makes a financial decision, the information is retained better. These findings are not encouraging for the effectiveness of exit counseling, which generally occurs just prior to graduation. Once students leave school, they enter a six-month grace period during which there is no required counseling. Six months removed from loan counseling, students begin the repayment process. The gap between counseling and repayment start may cause students to forget key facts, such as who to pay, how much to pay, and when and how to make payments. They may also have forgotten about the tools available to help them avoid default, e.g., multiple repayment plans and deferment and forbearance. A recent focus group study of Texas borrowers found that many students did not know their repayment start date (Trellis, 2013). Currently prescribed exit counseling does not occur during a “just-in-time” moment where relevant and concise information can be provided when financial decisions are made.

Entrance counseling often occurs at a time of maximum distraction, as students rush to complete orientation, sign up for classes, and make college-financing decisions (Wroblewski, 2007). Studies suggest that entrance counseling should be offered early enough to affect borrowing, with additional counseling provided annually thereafter. Many undergraduates also feel that entrance counseling comes too late for them to make decisions that could affect their existing loans or future repayment obligations (Wroblewski, 2007). Requiring or providing annual loan counseling — targeted to those

most in need — may be most helpful to students. In an article on reforming loan counseling, Cooley (2013) recommends that students receive personalized, in-person counseling prior to each loan disbursement. Market research indicates that students need the opportunity to revisit financial aid decisions annually. Also, parents often place more responsibility on students after their first year, and financial aid eligibility — as well as maximum borrowing amounts — may change between entrance and exit loan counseling (Wroblewski, 2007). Providing or requiring annual or interim counseling can give students an opportunity to change their borrowing habits or consider other types of aid (Wroblewski, 2007).

Currently, there are no federal statutory or regulatory requirements for additional or interim loan counseling. While some schools may like to, and do, deliver interim counseling, they have no authority to require it. (Cooley, 2013). Given limited resources, many financial aid offices will struggle to reach out to all student borrowers with interim counseling. Instead, they may leverage resources to provide counseling to targeted students. For example, as a way to direct additional counseling and resources to students who are at greater risk of default, some colleges target interim counseling to students whose cumulative loans exceed a certain amount. Burdman (2012) cites an example of one community college that required a written justification and two budget worksheets (one for current finances and one for projected income/expenses post-graduation) for students with debt surpassing \$20,000 (Burdman, 2012). When targeting students for additional counseling, schools often have to navigate a difficult and unclear line between competing directives — fulfilling their statutory requirement to provide counseling to students while not engaging in practices that could be perceived as a denial to an entitlement.

Timing may be another way to underscore loan counseling's message. Some studies suggest timing entrance counseling to coincide with the signing of the Master Promissory Note (MPN).

Timing may be another way to underscore loan counseling's message. Some studies suggest timing entrance counseling to coincide with the signing of the Master Promissory Note (MPN). The MPN is the legal document which borrowers sign to affirm their understanding of their rights and responsibilities as borrowers. Entrance counseling is not necessarily coupled with the signing of the MPN, but literature suggests this may be an important "just-in-time" moment, that is, a key time when students could receive relevant information before entering into a loan obligation (Advisory Committee on Student Financial Assistance, 2011). In a Consumer's Union market analysis report, the authors claim that entrance counseling does not do enough to address borrowing costs and the implications of repayment (Wroblewski, 2007). It may be that coupling entrance counseling with the signing of the MPN could provide students with a better understanding of their total loan obligations (Advisory Committee on Student Financial Assistance, 2011; Wroblewski, 2007).

Private loan certification provides another opportunity to leverage timing in order to improve student understanding. Private lenders will often seek "school certification" before granting loans to student borrowers. Basically, the lender wants to verify that a student asking for a loan has indeed enrolled at a given school. To do that, the lender sends a list of prospective borrowers to the student's school. Because of

concerns about the terms and conditions of private student loans and worries that students don't understand the key differences between federal and private loan products, some schools have used the school certification process to identify and counsel students who may be trying to take out private loans before exhausting their federal loan eligibility (McKinney, Roberts, & Shefman, 2013; Wroblewski, 2007; Reed, 2011).¹⁰ A number of these schools require special counseling sessions as a condition for providing school certification. Financial aid administrators have reported that interventions tied to private loan certifications have resulted in many students opting to use more favorable federal student loans (Reed, 2011). In fact, when institutions leveraged the certification process to counsel students on their financing choices, they saw a dramatic reduction in private loan volumes (Jaschik, 2007).

The literature demonstrates that providing counseling at key moments can substantially improve students' financial decision-making, though it often requires special effort to identify students approaching these junctions. Unfortunately, it is likely that, when there is leverage to ensure students complete counseling (just before a loan is disbursed or just before a student graduates or leaves school), there is also distraction that can prevent students from absorbing counseling's message.

The literature demonstrates that providing counseling at key moments can substantially improve students' financial decision-making, though it often requires special effort to identify students approaching these junctions.

Many students fail to complete loan counseling

The current timing of entrance counseling provides a strong incentive to complete counseling — students can't receive their first loan disbursement until after counseling. Mandatory counseling that occurs directly before a disbursement may be the best way to ensure participation. Mueller (2013) finds that loan counseling that is "mandatory" or made under "duress" tends to promote enhanced student acuity, enabling students to perceive information more easily. In other words, counseling that is a prerequisite to receiving disbursement funds or registering for classes or obtaining a private loan certification can focus students' attention on material (Reed, 2011; Mueller, 2013). However, Mueller also notes that mandatory counseling can make students feel apprehensive, overwhelmed, or anxious. Students who feel they are taking counseling under duress

also feel that they need more support to understand the information. Mueller suggests that stress could be mitigated with personalized, one-on-one support and easy access to support materials.

For exit counseling, financial aid offices have less of a "moment" to ensure compliance. Ensuring that students receive, complete, and retain their loan counseling information can be very challenging, especially for students who drop out of school. To fulfill their statutory obligations, schools only need make a good faith effort to get counseling information to the student borrower who doesn't complete exit counseling, usually by mailing materials to the student's last known address. Many institutions find holding back official transcripts or diplomas if a student does not complete exit counseling

¹⁰ During the private loan certification process, all schools are required under Title 34: Education, Part 601, subpart B, § 601.11 to inform the prospective borrower of any title IV loans or other assistance that they qualify for, and to present information about private loans "in such a manner as to be distinct from information regarding Title IV, HEA program loans." The researchers cited in this literature review reference schools that use the private loan certification process to provide more robust counseling beyond the information disclosure required by regulation.

to be an excessively harsh method of ensuring exit counseling completion, as it can be detrimental to the student's ability to find employment. What Mueller (2013) and others suggest is that moments like entrance counseling — in which the student must complete the task or else not receive his or her financial aid — helps

Conclusion

Three key components determine the effectiveness of loan counseling: the complexity of information, the timing of delivery, and the method of delivery. General consensus points to providing counseling early and often. When students receive frequent, clear, and concise information in their education, they retain the information better and are more likely to change behaviors, particularly when information is provided in a “just-in-time” moment. For example, providing counseling just before the disbursement of loans or private loan certification, or at another important time, makes it more likely the student will retain the information. Also, personalized information appears to contribute to a better understanding of information, and face-to-face counseling may be the best way to deliver this personalized information. Both students and financial aid administrators believe that some personalization, preferably face-to-face, is needed for comprehension.

ensure that students complete their obligations. While these moments may ensure that students complete student loan counseling, research suggests that they also may hinder information retention by creating a stressful or overwhelming environment.

Our understanding of effective entrance and exit counseling methods comes primarily from surveys of financial aid administrators and students. While these surveys and testimonials provide a good starting point, different approaches to student loan counseling need to be developed and subjected to randomized testing, with knowledge retention and outcomes tracked over time. Students themselves may play a key role in this research and evaluation. As consumers of loan information, students could provide fresh insights about how and when to deliver counseling. These insights could, in turn, guide policy and software development, and lead to a counseling experience that helps borrowers retain counseling content, stay on track to repayment, and drive down delinquency and default numbers.



APPENDICES

APPENDIX A: ENTRANCE/EXIT COUNSELING REGULATIONS

Entrance Counseling Requirements

As mandated by Title 34: Education, Part 685, subpart C, § 685.304:

- ▶ Entrance counseling must be conducted with every Direct Subsidized or Unsubsidized Loan student borrower prior to the first disbursement of the loan amount, unless the borrower has previously received a Direct Subsidized, Direct Unsubsidized, Federal Stafford, or Federal SLS loan.
- ▶ Entrance counseling must be conducted with every graduate or professional student Direct PLUS Loan borrower prior to the first disbursement of the loan amount, unless the borrower has previously received a student Direct PLUS Loan, or student Federal PLUS loan.
- ▶ Ways schools may provide information:
 - In-person counseling session;
 - Written materials including a form that the borrower signs and returns; or
 - Online or interactive electronic means with borrower acknowledging receipt of information.
- ▶ For online and interactive counseling the school must take reasonable steps to ensure the borrower receives counseling materials and completes the counseling, which can include an interactive program that tests the borrower's understanding of the terms and conditions of the borrower's loans.
- ▶ Schools must ensure that an individual with expertise in Title IV programs is reasonably available shortly after the counseling to answer borrower questions. As an alternative, in the case of a student borrower enrolled in a correspondence program or a study-abroad program approved for credit at the home institution, schools may provide these students with written counseling materials.
- ▶ Entrance counseling must include an explanation of:
 - The use of a Master Promissory Note (MPN).
 - The seriousness and importance of repayment obligations.
 - The likely consequences of default, including adverse credit reports, delinquent debt collection procedures under Federal law, and litigation.
 - The obligation to repay full loan amount even if borrower does not complete the program, doesn't complete the program on time, is unable to obtain employment, or is dissatisfied with the education purchased.
- Sample monthly repayment amounts based on a range of student indebtedness levels of Direct Loans and Direct PLUS loans depending on the types of loans the borrower obtained; or the average indebtedness of borrowers in the same program at the same school.
- The effect of accepting a loan on the eligibility for other forms of financial assistance, to the extent practical.
- How interest accrues and is capitalized.
- The option to pay interest on Direct Unsubsidized and Direct PLUS Loans, as applicable, while in school.
- The definition of half-time enrollment and the consequences of not maintaining half-time enrollment.
- The importance of contacting appropriate school offices if the borrower withdraws prior to program completion so the school can provide exit counseling.
- The National Student Loan Data System (NSLDS) and how the borrower can access the borrower's records.
- The name and contact information for an individual who can address questions about the borrower's rights and responsibilities for the terms and conditions of the loan.
- The limitation on eligibility for Direct Subsidized Loans and the borrower responsibility for accruing interest including the possible loss of eligibility, how eligibility periods are calculated, and the impact on accruing interest on the borrower's total debt.
- ▶ Although the term 'entrance counseling' is not used in regulation for the Federal Perkins Loan, institutions are required to provide information to students before the first disbursement, as provided in §674.16(a)(1).
- ▶ A school may adopt an alternative approach for entrance counseling as part of the school's quality assurance plan described in §685.300(b)(9), unless the Secretary of Education determines the approach is not adequate for the school.

Exit Counseling Requirements

As mandated by Title 34: Education, Part 685, subpart C, § 685.304:

- Exit counseling must be conducted with every Direct Subsidized or Unsubsidized Loan student borrower, and graduate or professional student Direct PLUS Loan borrower shortly before the student borrower ceases at least half-time study at the school.
 - Exit counseling must also be conducted for borrowers of a Federal Perkins Loan.
 - Exit counseling must be in person, by audio visual presentation, or by interactive electronic means, and must ensure that an individual with expertise in Title IV programs is available shortly after the counseling to answer borrower questions. As an alternative, in the case of a student borrower enrolled in a correspondence program or a study-abroad program approved for credit at the home institution, written counseling materials may be provided within 30 days after the student borrower completes the program.
 - For students who withdraw without the school's knowledge, exit counseling must be provided through interactive electronic means, by mailing written counseling materials to the student borrower's last known address, or by sending written counseling materials to an e-mail address provided by the student borrower that is not an e-mail address associated with the school, within 30 days after the school learns the student has withdrawn, dropped below half-time enrollment, or failed to complete the required exit counseling.
 - The school must ensure that the student information gathered from exit counseling - §605.304(b)(4)(xiii) – is provided to ED within 60 days after the student borrower provides the information.
 - If exit counseling is conducted through interactive electronic means, a school must take reasonable steps to ensure that each student borrower receives the counseling materials, and participates in and completes exit counseling.
 - The school must maintain documentation substantiating the school's compliance with exit counseling.
- Exit Counseling must include an explanation of:
 - The average anticipated monthly repayment amount based on the student borrower's indebtedness or on the average indebtedness of other student borrowers who have obtained the same types of loans for the same school and program.
 - The available repayment plan options including the standard repayment, extended repayment, graduated repayment, income contingent repayment plans, and income based repayment plans.
 - The repayment plan options, including the features, average anticipated monthly repayments, and the difference in interest paid and total payments under each plan.
 - The options to prepay each loan, to pay each loan on a shorter schedule, and to change repayment plans.
 - The effects of loan consolidation, including the effects on total interest to be paid, fees to be paid, length of repayment, grace periods, loan forgiveness, cancellation, deferment, changing repayment plans, and the different borrower benefit programs.
 - The use of a Master Promissory Note (MPN).
 - The seriousness and importance of repayment obligations.
 - The obligation to repay full loan amount even if borrower does not complete the program, doesn't complete the program on time, is unable to obtain employment, or is dissatisfied with the education purchased.
 - Strategies for debt management that are designed to facilitate repayment.
 - How to contact the party servicing the borrower's Direct Loans and Direct PLUS Loans, as applicable.
 - The likely consequences of default, including adverse credit reports, delinquent debt collection procedures under Federal law, and litigation.
 - The terms and conditions under which a borrower may obtain full or partial forgiveness or discharge of principal and interest, defer repayment of principal or interest, or be granted forbearance.

- The information the Secretary of Education makes available pursuant to section 485(d) of the HEA (the departmental publication of descriptions of assistance programs) in print or by electronic means.
- The availability of the ED Student Loan Ombudsman's Office.
- The availability of Title IV loan information in the National Student Loan Data System (NSLDS) and how NSLDS can be used to obtain loan status information.
- For Direct Subsidized Loans:
 - How the borrower's maximum eligibility period, remaining eligibility period, and subsidized usage period are determined;
 - The sum of the borrower's subsidized usage periods – as defined under §685.200(f)(1)(iii) at the time of exit counseling;
 - The consequences of continued borrowing or enrollment, including the possible loss of eligibility for additional Direct Subsidized Loans and the possibility of the borrower accruing interest on previous Direct Subsidized Loans;
- The impact of the borrower becoming responsible for accruing interest in total student debt;
- That ED will inform the student borrower of whether he or she is responsible for accruing interest on Direct Subsidized Loans; and
- That the borrower can access NSLDS to determine responsibility for accruing interest on any Direct Subsidized Loans.
- The types of tax benefits that may be available to borrowers.
- The types of information borrowers are required to provide including name, address, expected permanent address, address of next of kin, expected employer name and address, social security number, references, and driver's license number and State of issuance.

APPENDIX B: 1988 BELMONT TASK FORCE PARTICIPANTS

Participant	Institution
Robert Atwell, President	American Council on Education
Stephen Biklen, Vice-President	CitiBank – New York State
Stephen Blair, President	National Association of Trade and Technical Schools
Elias Blake	Howard University
William Clohan	Association of Independent Career Schools
John Dean	Consumer Bankers Association
Edward Fox, President and Chief Operation Officer	Student Loan Marketing Association
Jean Frohlicher, Executive Director	National Council of Higher Education Loan Programs
Ken Howard, Director of Financial Aid	University of the District of Columbia
Richard Jerue, Vice-President for Governmental Relations	American Association of State Colleges and Universities
Ronald Kimberling, Assistant Secretary for Postsecondary Education	U.S. Department of Education
Samuel Kipp, Director	California Student Aid Commission
William Lannan, Executive Director	Montana Guaranteed Student Loan Program
William Mann, Chancellor	Metro Community Colleges, Kansas City, MO
Dallas Martin, President	National Association of Student Financial Aid Administrators
Arnold Mitchum, Executive Director	National Council of Educational Opportunity Associations
Mary Preston, Legislative Director	U.S. Student Association
Kristen Rupert, Assistant Vice-President	National Association of Independent Colleges and Universities
Marcia Vance, Director of Student Financial Aid	Burlington College

APPENDIX C: TABLE OF LITERATURE REVIEW FINDINGS

Topic	Key Findings	Source
Are Students Receiving the Information They Need?	Some students and parents believe that they make too much money to qualify for federal student loans, some do not understand the risk of private loans, and others do not know how to take advantage of grants and scholarships before taking out loans.	Reed, 2011; Wroblewski, 2007
	In one survey, 40 percent of borrowers with high levels of debt reported never receiving the required exit counseling or did not remember receiving it.	Jensen, 2014
	A student survey indicated that many borrowers “do not know or cannot recall” the interest rate and terms of repayment on their loans.	Mueller, 2013
	Many students – especially low-income students and those attending low-resource schools – have very little knowledge about student loans and the consequences of borrowing.	Perna, 2007
	The National Student Loan Survey found that one third of respondents experienced a financial hardship because their loan repayments were greater than expected.	Mueller, 2013
The Complexity and Volume of Information	Whenever information is provided in large and complex forms, consumers make worse decisions.	Wroblewski, 2007; Federal Trade Commission Bureau of Economics, 2007
	Policymakers and the financial aid community worry that the complexity of information makes loan counseling hard for students to comprehend.	Committee on Education and the Workforce, 2013; Advisory Committee on Student Financial Assistance, 2011
Delivery Method of Counseling	Face-to-face counseling has been shown to be more effective than Web-based interventions in other areas, including alcohol and health management.	Wanyonyi, Themessl-Huber, Humphris, & Freeman, 2011; Carey, Scott-Sheldon, Elliot, Garey, & Carey, 2012
	Financial aid administrators report that a face-to-face counseling session is preferable to an online tool. However, they report that financial aid offices do not often have the resources to provide personalized service to all student borrowers.	Johnson, 2012; NASFAA, 2012; McKinney, Roberts, & Shefman, 2013
	Students prefer face-to-face counseling or Web-based messages tailored to their needs. They agree, however, that multimedia communication is important and that interactive online tools are useful.	Trellis, 2013; Venegas, 2006; Dowd, 2008

Topic	Key Findings	Source
Timing of Counseling	Entrance counseling usually occurs when students are in a rush to complete orientation, sign up for classes, and make financing decisions. Counseling should be provided earlier so that the information has a stronger effect on student decision-making.	Wroblewski, 2007
	Many undergraduates feel that exit counseling is provided too late to have an impact on their existing loans, borrowing habits, or future payment obligations	Wroblewski, 2007
	“Just-in-time” moments provide information around the time that a student needs to make a financial decision. Delivering concise and relevant information at just-in-time moments makes for better outcomes.	Fernandes, Lynch, & Netemeyer, 2014; Wroblewski, 2007
	Annual or interim student loan counseling can be more effective at helping students retain information, change borrowing habits, and consider other types of aid.	Wroblewski, 2007
	Providing face-to-face counseling for targeted students may help financial aid offices leverage their resources efficiently.	McKinney, Roberts, & Shefman, 2013; Wroblewski, 2007; Reed, 2011; Burdmen, 2012; Jaschik, 2007
Ensuring Students Complete Loan Counseling	Leveraging key moments, including the disbursement of loans and private loan certification, makes it more likely the student will be receptive to information and complete counseling. However, mandating counseling at moments of possible stress can cause possible confusion and lead students to feel they need more support.	Mueller, 2013; Reed, 2011

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