

Recommendations for Improving Federal Online Student Loan Counseling

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Loan counseling can play an integral role in helping student loan borrowers make wise borrowing decisions and avoid delinquency and default. In recent years, the U.S. Department of Education (the Department) has improved the federal online counseling that is used by student loan borrowers at colleges across the country. However, there remains significant room for improvement and there is bipartisan support for enhancing federal loan counseling. Below are two sets of recommendations for improving federal student loan entrance and exit counseling that do not require legislative or regulatory changes, including improvements that should be made immediately to the online tools and steps to further improve them through additional testing and data.

Recommendations for immediate changes to federal online counseling modules

Several aspects of the federal online counseling modules should be modified right away to avoid unintended consequences and to ensure the counseling provides more relevant information in a format that is easily understood and more likely to be retained by borrowers. Below are incremental changes that would immediately improve the counseling and do not require consumer testing or research.

1. Recommended Changes for Entrance Counseling

- *Avoid inadvertently promoting private loans.* Currently, entrance counseling unintentionally promotes private loans, which are as risky as paying for education with a credit card. For example, the “School Expense Budget” section suggests private loans as a way to pay for college before earnings or savings. In this interactive section, available private loan funds are presented alongside other “student aid” as a way to cover your expenses for the year. Meanwhile, parental contributions, savings, prepaid tuition plans and other income are listed separately under “other funds.” Additionally, other opportunities for informing borrowers about the risks of private loans are missed. For example, the “Private loan repayment requirements” box that is currently only included in exit counseling should also be included in entrance counseling.
- *Highlight options if Parent PLUS loans are denied.* In entrance counseling, the “Responsible Borrowing” section explicitly mentions that students are eligible for additional Stafford loans if their parents are denied a PLUS loan. This information should also be explicitly and prominently mentioned in the “Loan Limits” section. It could be included as a “Did you know?” box as well. Without communicating this clearly, the tool may discourage students and their parents with poor credit from ever applying for PLUS loans, and unintentionally steer them toward private loans as an alternative. Given the riskiness of private loans compared to federal student loans, it is very important that families understand that if they are denied a Parent PLUS loan, they will have the option to take out more federal Stafford loans.

2. Recommended Changes for Exit Counseling

- *Provide actual servicer contact information, as well as actual repayment dates.* In exit counseling, the “Entering Repayment” and “Navigating Repayment” sections miss an opportunity to provide specific and personalized information to students that is directly relevant to their repayment obligations. If it doesn’t do so already for logged-in users, the tool should use the loan data in NSLDS to provide students with actual dates for repayment, as well as actual contact information for their servicers. Currently, borrowers need to read through block text and identify for themselves which pieces apply to them in order to determine when they need to start making payments.

3. Recommended Changes for All Counseling Modules

- *Fully integrate income-driven repayment (IDR) plans.* In exit counseling, IDR is not currently fully integrated in the “Repayment Plan Options” and “Debt Burden Calculation” sections. When the tool tells the borrower that his or her expected payment burden is “high” based on the information entered by the borrower, it does not suggest IDR as an option. In addition, the “Repayment Plan Options” section of entrance counseling should include the calculator available in exit counseling that allows the borrower to adjust for location and family size in estimating potential payments. Assuming a family size of one greatly overestimates the borrower’s monthly payments in these plans and may lead a borrower to rule out IDR options. Additionally, IDR plans need to be listed along with the other repayment plans so borrowers can see their options all at once, and caps on monthly payments as a share of discretionary income should be made explicit. It should also be clear to borrowers that payments can be as low as zero depending on their income and family size. IDR also needs to be listed in the “Forgive, Cancel or Discharge Your Debts” sections in both entrance and exit counseling. Additionally, it needs to be clearly communicated that IDR enrollment requires application and annual income recertification, which is especially relevant for exit counseling.
- *Remove unnecessary text and break up sections to reduce text overload.* In general, much of the counseling content is unnecessarily text-heavy, often providing information that students don’t need and burying or not providing the information they do need. Several sections require users to scroll multiple times down the screen and many paragraphs of text could be reduced to a short statement. For example, the highly technical description on interest rate calculations, part-time status determination, and repayment plans in entrance counseling could be made optional by moving the text to a “Tell Me More” pop-up box. Without these changes, users face serious obstacles to maintaining focus throughout the counseling, which compromises their ability to not only understand important information, but also retain that knowledge.
- *Maximize the relevance of information provided.* In general, the counseling modules contain information for all borrowers and all possible borrower circumstances. This adds to users’ sense of being overwhelmed with information and adds confusion for students who need to figure out which information pertains to them. The burden of sorting through which information is relevant to the borrower also extends the time spent completing the counseling. To the maximum extent possible, the tool should only contain information applicable to the individual borrower completing the counseling. For example, the tool should only provide definitions and details on loans that the student actually has (e.g., if the student has no FFEL loans, FFEL loan information is not necessary). Additionally, a separate

tool could be developed for undergraduates and graduates so graduate students won't need to be presented with information about undergraduate loans.

- *Better and more accessibly define and explain terms.* Users should be offered an easy way to access definitions of unfamiliar and technical terms, and terms should never be used prior to being defined. For example, in exit counseling, “deferment” and “forbearance” are used in the interest savings calculator, which comes prior to the sections on deferment and forbearance in which definitions of those terms are provided. Loan-related terms that are likely unfamiliar to borrowers should be consistently and repeatedly defined in a manner that is easily accessible and avoids additional scrolling, navigation away from the tool, or searching of text, such as via a hover option. Such terms include: principal, interest, forbearance, deferment, grace period, capitalization/capitalized interest, and interest subsidy. The Department should ensure that users on mobile devices also have easier access to definitions of terms.

Additional steps to improve the effectiveness of federal loan counseling

Below are additional recommendations for improving the delivery, effectiveness, and uptake of entrance and exit counseling.

1. **Publish data on counseling completion rates and follow up with low compliance schools.** The Department should verify that schools are complying with the counseling mandate to ensure that student borrowers complete both entrance and exit counseling. Low-compliance institutions should receive letters highlighting their noncompliance and sharing selected policies and best practices from high-compliance institutions. This simple step of reinforcing the law and providing positive examples could significantly increase compliance and reduce loan delinquencies and defaults. Data answering the following questions should be made publicly available:
 - *What are the entrance counseling completion rates by institution and institution type?*
 - What number and percent of first-time federal student loan borrowers completed entrance counseling and when (e.g., how many days before or after signing of the promissory note and how many days before disbursement)?
 - What number and percent of students initiate but do not complete the counseling, and at what point in the module are they stopping?
 - *What are the exit counseling completion rates by institution and by institution type?*
 - What number and percent of all former students completed exit counseling, and when? These figures should be calculated for all students, and also broken out by program completers and non-completers.
 - What number and percent of students initiate but do not complete the counseling, and at what point in the module are they stopping?
2. **Enhance the repayment plan preference section in exit counseling.** Current online exit counseling offers students the ability to indicate which repayment plan they prefer, but it is unclear if servicers are acting on those preferences. If improved and strengthened, this section could significantly help

streamline the process for enrolling in alternative repayment plans. To that end, we recommend that the Department:

- *Publish data on servicer compliance in contacting borrowers who selected a repayment plan preference in exit counseling.*
 - What number and percent of students are indicating a preference?
 - What number and percent of students who indicate a preference were contacted by their servicers about the preference they selected?
 - What number and percent of students indicating a preference are currently enrolled in the plan they indicated?
- *Require servicers to provide tailored communications to borrowers based on their repayment plan selections during exit counseling.* Giving students an option to select their preference is of limited utility without a requirement that servicers use this information to follow up and provide borrowers with the materials and instruction necessary to actually enroll in their preferred plan.
- *Clarify language used in the counseling tool.* The language used in this section of exit counseling currently sends borrowers mixed signals, since borrowers are asked to select a preference, but then also instructed in small font to contact their servicer to provide the same information they just indicated in the tool.

3. Make clear that schools can require exit counseling for students at risk of withdrawing or dropping out. Research has clearly shown that students who do not complete their programs are among the most likely to default, and it is difficult for institutions to ensure delivery of exit counseling to students who have already withdrawn from their program. Department officials have indicated that current law and regulations do not prevent colleges from requiring exit counseling for students who appear to be on the verge of dropping out of school, and nothing prevents students from completing exit counseling more than once. Early delivery of exit counseling for students at risk of not graduating could help ensure that the students most in need of loan counseling receive and complete it. The Department should provide schools with clear instructions that they have the ability to require such students to complete exit counseling.

4. Work with the Social and Behavioral Sciences Team (SBST) and/or others to develop and test variations in the entrance and exit counseling, to measure and isolate the effects of various aspects of counseling on user experience and borrower behavior. As we and others have recommended for years, student borrowers should be randomly assigned to different loan counseling treatments—all of which would meet the current requirements but would vary in their presentation, wording, and emphasis on specific elements. Tests should also identify changes in borrowing behavior and repayment outcomes that result from varying loan counseling content and presentation. Some examples of variations that should be tested immediately include:

- *Enhanced personalization.* Tests should determine which sections of the online tools can be enhanced with personalization and how personalized elements affect user experience, retention, and decision-making. One such test could examine the effect of personalizing expected total debt, comparing three groups: 1) borrowers who are asked about their expected program length and then provided an estimate of total debt and monthly

payments under different repayment plans; 2) borrowers provided with average student debt, repayment rates, and default rates for their institution; 3) a control group completing the existing online counseling module.

- *Cost of exceeding program length.* A test should be developed to identify the most effective way to illustrate how extending time in school can affect how much a student needs to borrow. Displaying variations of a statement such as “An additional year of school may result in \$X more debt.” could be tested against the existing counseling module. One version of that statement could use the institutional average debt at completion for the borrower’s school for different times to completion (e.g., for a four-year program, debt at completion by year 4, year 5, and year 6). Another version could use the borrower’s actual first-year loan amounts multiplied by his or her expected program length, with adjustments made to account for increased borrowing limits as the student progresses.
- *Impact of video format.* The frequency and display of videos made available for borrowers throughout the counseling modules should be tested for effectiveness. Counseling that embeds the video in the module itself should be tested against the current format of text hyperlinks to videos, to determine which method results in a better user experience and enhanced comprehension and retention. Another test could compare students who complete a counseling tool comprising mostly videos with students completing the current text-dependent counseling.
- *Effectiveness of comprehension tests.* The Department should evaluate the effectiveness of requiring students to pass quizzes to move through both entrance and exit counseling. Do these quizzes actually affect user comprehension and retention of the information presented, and do some types of quizzes have a greater impact than others? It is critical to determine whether quiz requirements are successfully engaging users or merely prompting the user to go through the motions to get to the next section.
- *Usefulness of financial literacy component.* The “Make Finances a Priority” section in the existing counseling pertains to general financial education and is not specifically relevant to student loan counseling. While it could be beneficial to borrowers, it significantly extends the length of the counseling. We recommend that this section of the entrance and exit counseling be thoroughly consumer-tested and, if there are no demonstrated benefits, be shortened or eliminated.