

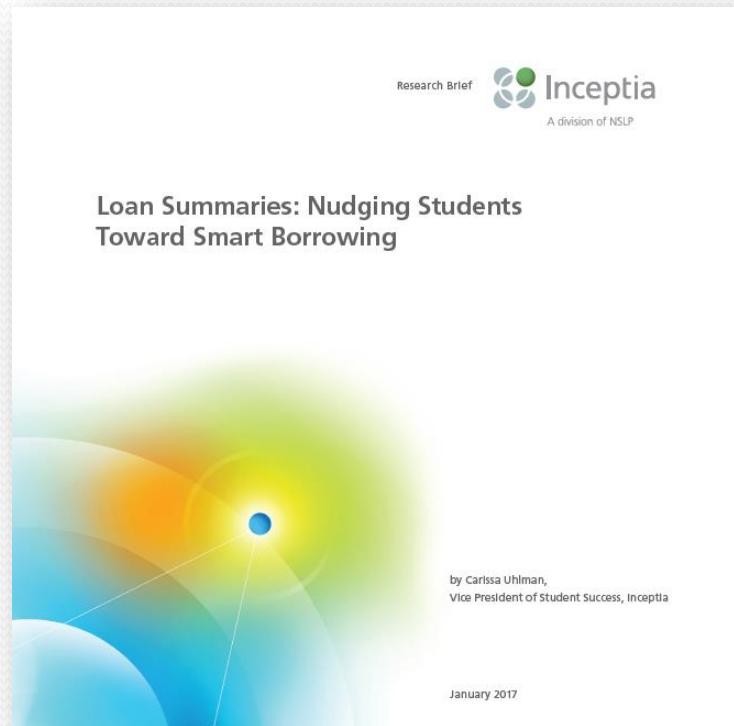
One Letter, Big Results: Using Debt Letters to Encourage Smart Borrowing

Presented by:
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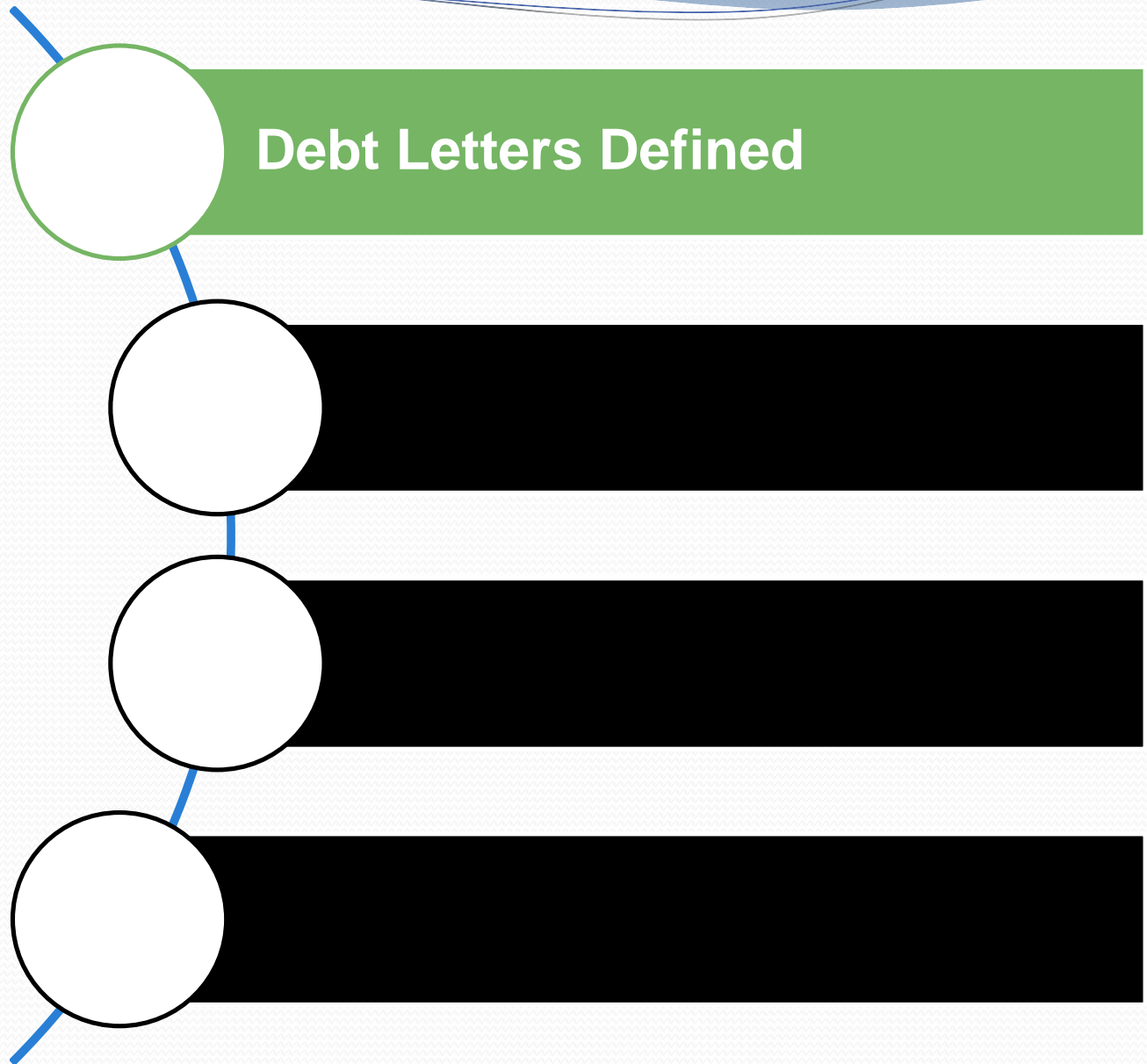
Research Brief

www.Inceptia.org/smart-borrowers/



Session Overview





The Struggle Is Real

48%

of student borrowers either don't know or incorrectly estimate the amount they have borrowed

28%

incorrectly believe they have no federal loans at all.

Source: Are College Students Borrowing Blindly? Brookings Institution

Debt Letters = Loan Summaries

- Elements

- Aggregate Loan Amounts
 - Institutional
 - Comprehensive
- Estimated Repayment Amount
 - Include interest rate and repayment plan
- Loan Limits

Debt Letters: Are They Magic?

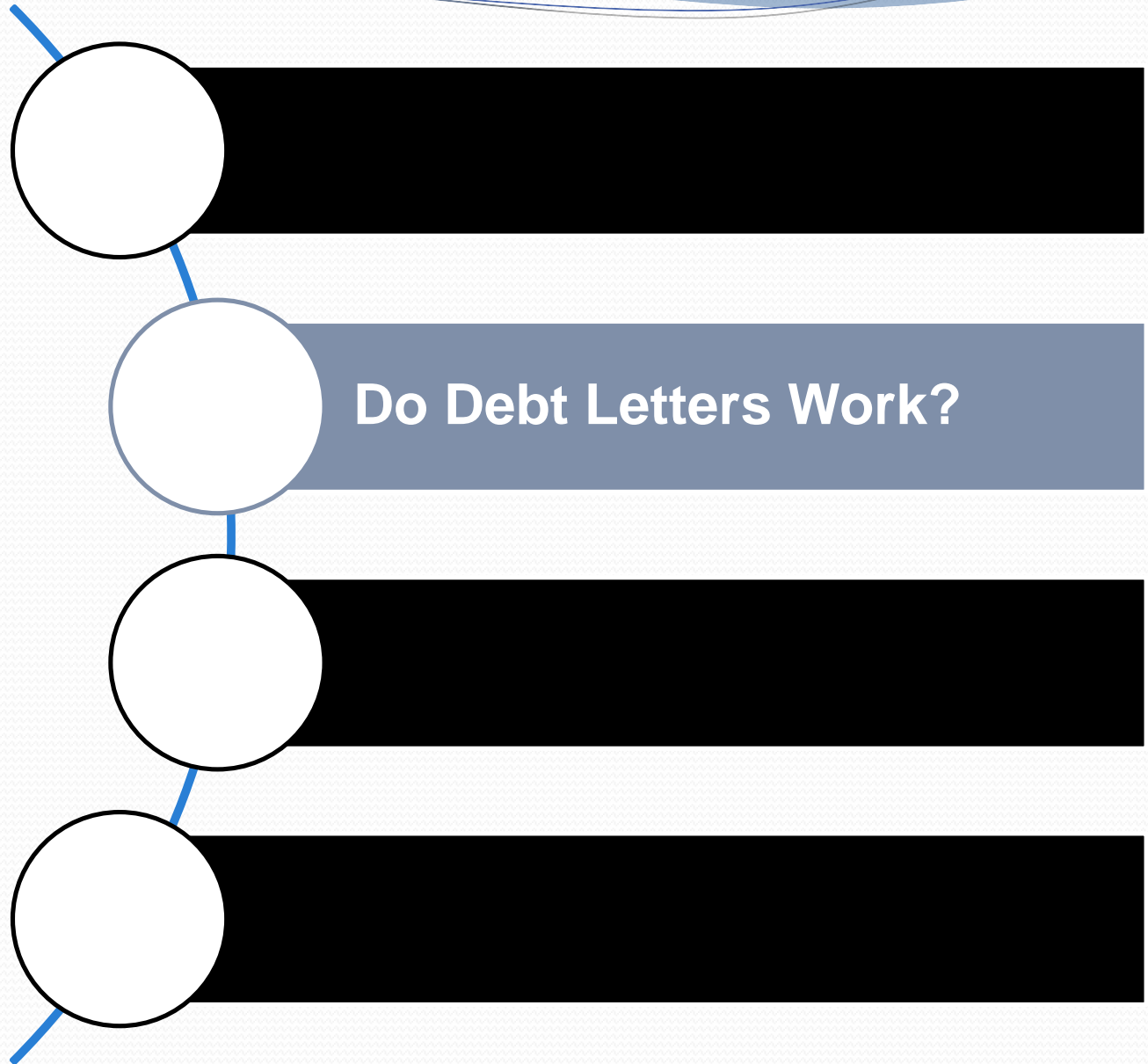
Well...no.

But there is some science to them:

- JIT Learning
 - Relevant
 - Timely

Debt Letters: Are They Magic?

- Behavioral economics
 - Irrational choices
 - Muddled by length, complexity, experience or timing
- Nudge Theory
 - Point people in the right direction
 - Has to be easy
 - Can include a call to action



Three Schools, Three Studies

- University of Missouri
 - Letters
 - Aggregate borrowing
 - Estimated repayment amounts
 - Average borrowing of peers
 - How to contact the FAO
 - March letter coincided with registration and loan acceptance choices for following year



Three Schools, Three Studies

- University of Missouri - Results
 - Did not significantly reduce borrowing
 - Exception: low GPAs and high aggregate balance
 - Increased contact with FAO
 - 2% more likely to seek assistance
 - 3.4% more likely if nearing loan limits



Three Schools, Three Studies

- University of Missouri - Takeaways
 - May need additional support
 - Reduced borrowing may not be top priority
 - Increased FAO contact is a positive

“...there is evidence that the letter induced a positive outcome, namely information seeking among students. There is value to encouraging a more informed student body, even if average short-term borrowing behavior does not demonstrably change. For example, informed students are more likely to actively choose an appropriate repayment plan and engage with their loan servicer, both of which may help students stay current on their educational debt post-college.”

Source: An Experiment on Information Use in College Student Loan Decisions. R. Darolia

Three Schools, Three Studies

- [Montana State University](#)
 - Targeted students with slow academic progress and higher-than-average borrowing amounts
 - Letters
 - Default warning
 - Block tuition
 - Gift cards for counseling



Three Schools, Three Studies

- **Montana State University - Results**
 - Borrowed an average of 1/3 less (\$1,360)
 - Increased GPA and credits completed
 - Increased retention rates
 - 2% points more likely to switch to higher-paying major



Three Schools, Three Studies

- **Montana State University - Takeaways**
 - Additional academic information contributed to positive academic outcomes
 - Early intervention is key

Source: Does Salient Financial Information Affect Academic Performance and Borrowing Behavior Among College Students? Federal Reserve Bank of Philadelphia



Three Schools, Three Studies

- **Indiana University**
 - Letters
 - Aggregate borrowing
 - Estimated repayment amounts
 - Additional school resources



Three Schools, Three Studies

- Indiana University - Results

23%

The percentage by which student borrowing has decreased during the first four years (\$114 million)

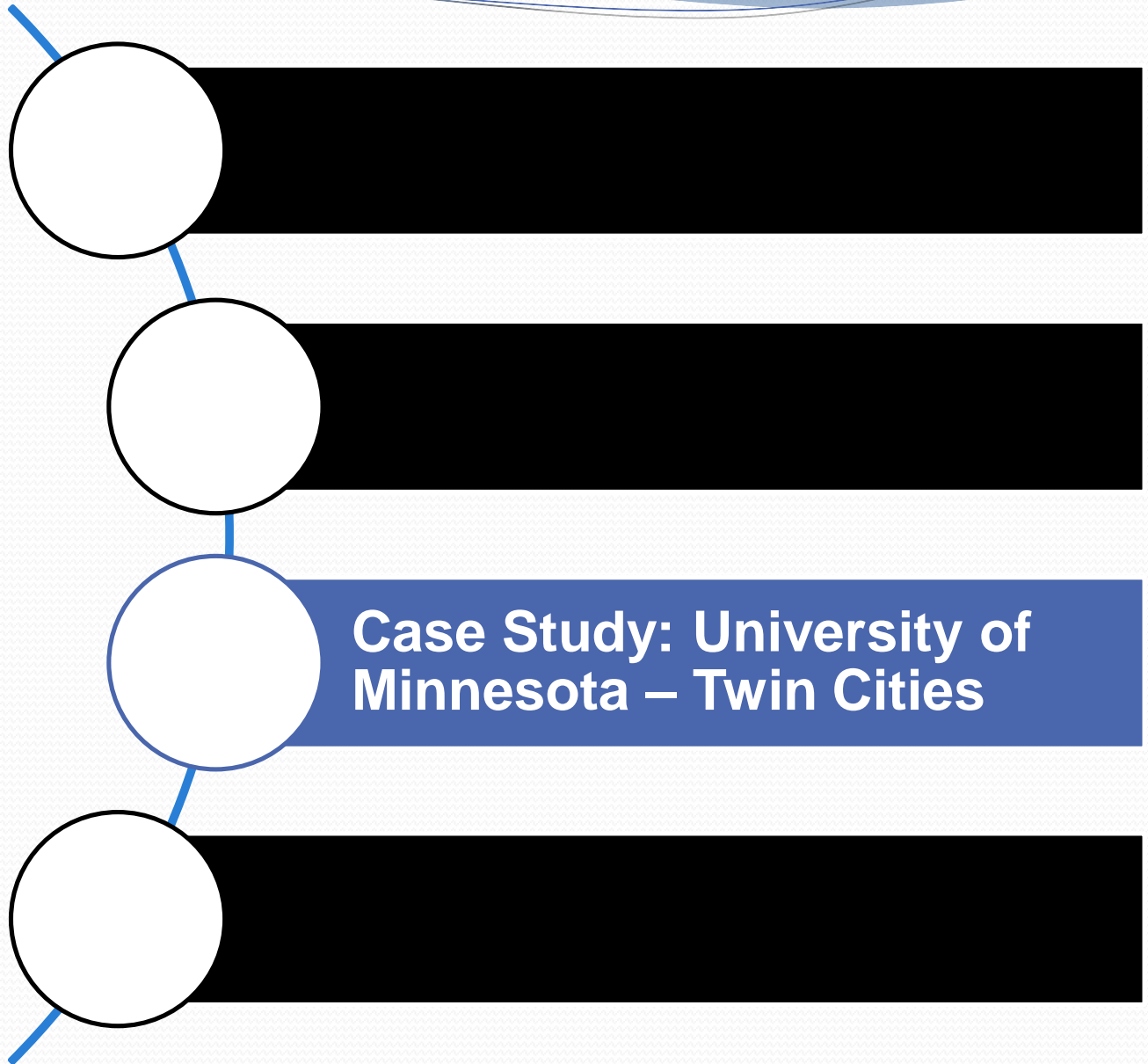
Source: Indiana University initiatives continue to pay off in reduced student borrowing. IU Newsroom



Three Schools, Three Studies

- What can we learn?
 - Define your outcomes
 - Reduced borrowing?
 - Increased GPA?
 - Measure
 - Control groups?
 - Previous years?
 - Support
 - Online resources?





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One Stop Student Services

University of Minnesota-Twin Cities

- Integrates financial aid and academic advising
- Supported by FAO and Registrar
- System upgrade in spring 2015
- MyU Student Portal

Integration of Financial Wellness

University of Minnesota-Twin Cities

- Identified need by students and staff for additional financial education, and growing student loan debt in early 2000's.
- Initial collaboration between Financial Aid, Student Accounts, and One Stop Student Services.
- Live Like a Student Campaign begins the current iteration in approximately 2008.

Borrowing History

University of Minnesota System

- Initial reports of the Indiana Letter
- Identified need for similar outreach effort at the University of Minnesota
- Pilot of program at University of Minnesota-Duluth in May 2016
- System-wide implementation at all University of Minnesota campuses (Crookston, Duluth, Morris, Rochester, Twin Cities) Fall 2016

Student Feedback

University of Minnesota System

- Name of initiative is important
- Call for more financial wellness outreach at institution
- Educational aspect was great, but still needed to borrow
- Caused students to examine borrowing practices and consider repayment prospects

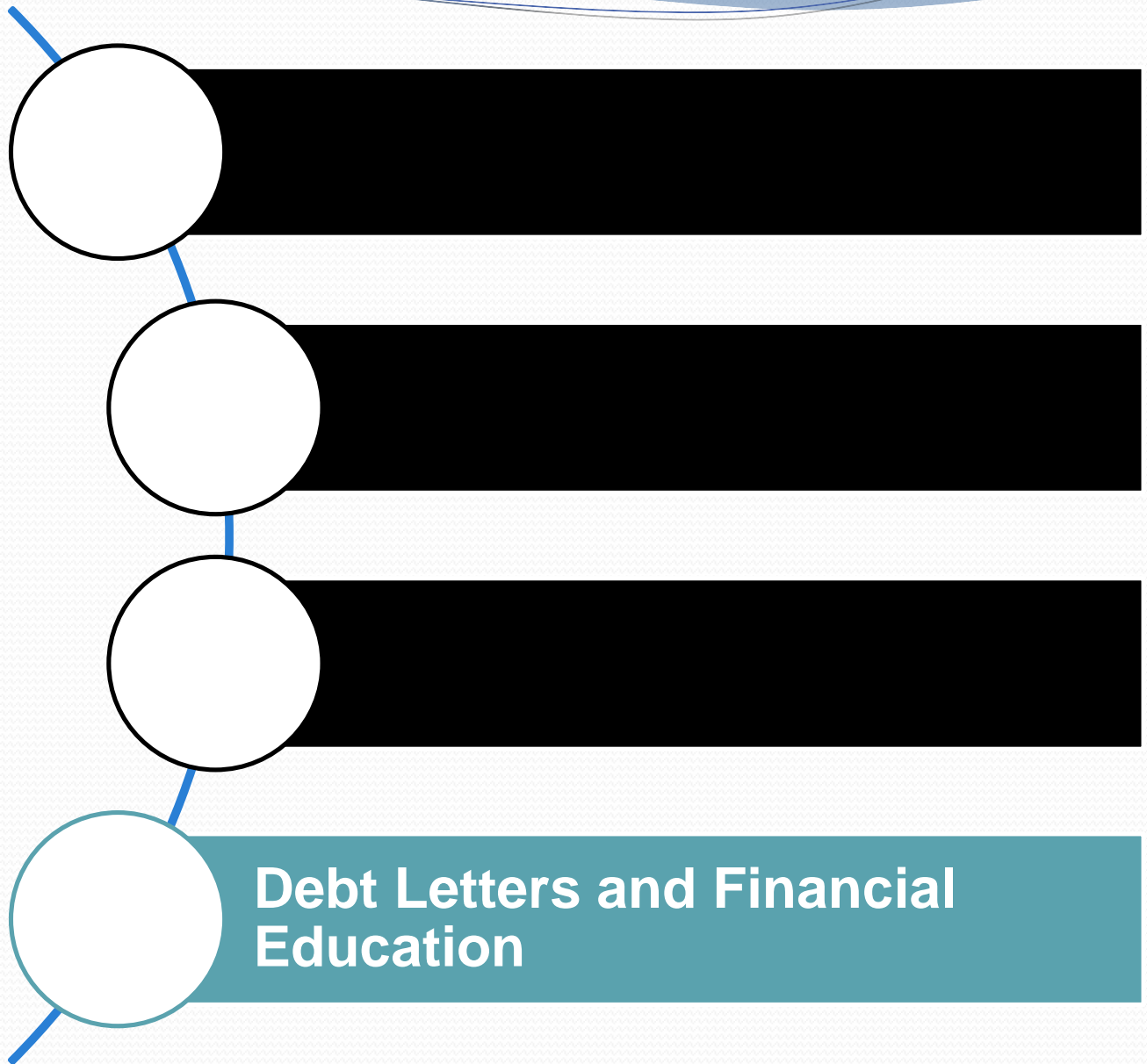
General Observations

University of Minnesota System

- Desired outcomes can vary depending on University circumstances
- Need for broader financial wellness initiatives on college campuses
- Cross collaborations between institutions can teach valuable lessons

Next Steps for Borrower History University of Minnesota

- Implementation for graduate and professional programs
- Continual student feedback and usability
- Additional resource and module development
- Integration of Student Degree Progress



Integration

- NSLDS
- www.annualcreditreport.com
- www.Studentloans.gov
- Canceled classes

Group Education

- Staff talking points
- www.fsapubs.gov
- www.consumerfinance.gov/library/resources/
- Track topics

One-on-one Education

- moneysmarts.iu.edu
- www.unl.edu/siminc
- www.fordcredit.org
- www.financialavenue.org

Online Education

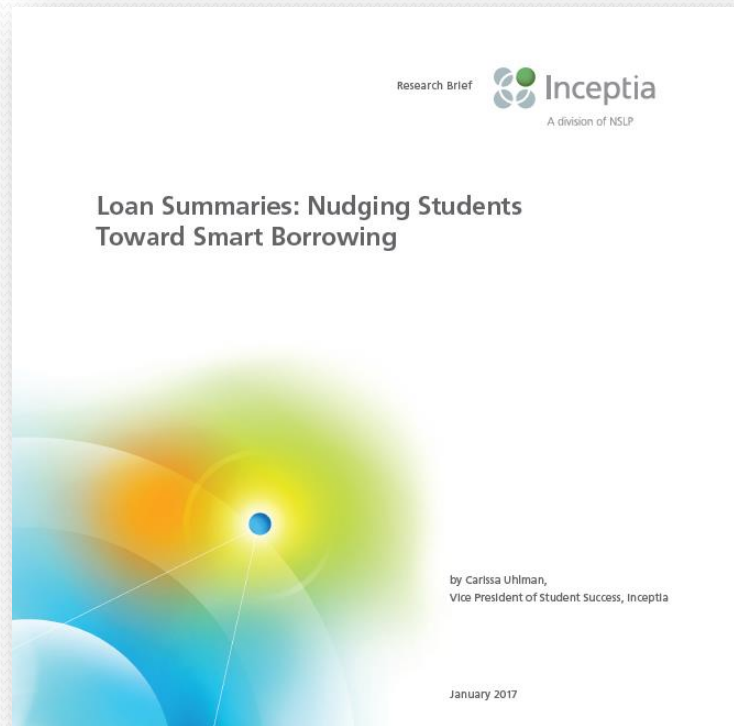
Additional Resources

- NSLDS Tutorial
 - <http://bit.ly/2jneKDB>
- Federal Student Loan Info Sheet
 - <http://bit.ly/2kfbsHi>
- Student Loan Borrowing 101
 - <http://bit.ly/2jOl3Fb>
- Inceptia can help
 - Loan Summary
 - Student Loan Knowledge Headquarters



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Contact Me



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www.inceptia.org

About Inceptia

Inceptia's mission is very simple: to support schools as they arm students with the knowledge needed to become financially responsible citizens. Moving boldly into the future without accumulating the burden of debt and default.