ANNUAL LOAN COUNSELING AND RESPONSIBLE BORROWING SESSION

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pasfaa Pennsylvania Association of Student Financial Aid Administrators

Why Bookend Loan Counseling May Not Be Enough –

- Why some schools have agreed to require more…

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Pennsylvania Association of Student Financial Aid Administrators
FUNDING TOMORROW'S DREAMS

About the Session-

- Entrance and Exit Loan Counseling Shortfalls
- Annual Debt Letters
  - Importance of education around sticker shock.
  - HB2124
- Finish on Time
- Borrow Responsibly
  - Prosper Act
  - Repayment Rates
- Importance of financial wellness for ALL audiences- *borrowers and non-borrowers* (Deregulation)

Entrance and Exit Loan Counseling Shortfalls

- Frequency
- Timing
- Content
- Delivery method
- Measurement

TG's "A Time to Every Purpose- April 2015- studied 7 diverse higher ed institutions

Annual Debt Letters-

- Required in- Indiana, Nebraska, Oregon, Florida, Texas, Washington…

- **Each year, schools must disclose:**
  - The cost of tuition and fees to be paid at the time of notification.
  - The total amount of federal education loans to date.
  - Estimated repayment cost, or a range which must include principal and interest, to date.
  - The anticipated monthly payment, and the percentage of borrowing limit student has reached on each loan.
  - The law does not apply to privately held loans or credit card debt.

"…if we expect students to make good decisions about loans, we need to help students develop the skills to properly process available information. Programs

that support students' efforts to develop this capacity–such as counseling, mentoring, and financial literacy courses before, during, and after college–are more expensive than low-touch informational initiatives." 12/5/17- Brookings – "False Promise of College Student Loan Debt Letters"

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Debt Letter Findings

University of Missouri-

½ of borrowers got letters, ½ did not

No change in borrowing but letters did lead to increased interaction with FAO

Montana State University –letters Univ of Montana-no letters

Sent to above average borrowers advising that the student might not be able to repay the amount and encouraged timely completion.

No difference in borrowing but positively effected grades, retention and credit completion.

Indiana University-

Borrowing went down $100M in 4 years with a multi facetted approach: Debt letters, MoneySmarts, Courses, podcasts, videos, presentations and one on one meetings.

Letters provide info not skills-

Prosper Act- Responsible Borrowing

More than changes in annual and aggregate levels-

Would mandate annual counseling for all Pell Grant and federal loan recipients as a condition of receiving aid. (Instead of requiring annual counseling, NASFAA supports providing the authority for institutions to mandate additional loan counseling at the institution's discretion.)

Link aggregate borrowing to year in school. Lower limits would apply to undergraduate students who have not yet successfully completed the second year of an undergraduate program. ***Do not allow students to continue borrowing without progressing toward degree completion.***

Give ***schools authority to limit loans***. Grant financial aid administrators the authority to limit loans for specific populations, academic programs, credential levels, or other categories established by the school (such as enrollment status, living arrangement, and dependency status) OR- higher limits to students at low CDR schools

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Repayment Rates-

a measure of student/ taxpayer protection- not of academic quality

What?

Measure the % of borrowers actively paying down debt or % of dollars in active repayment.

$1 same weight as $5,000

Includes Privates and Perkins

3-4 years into repayment

Why?

Goal to promote mindfulness regarding college affordability, student debt.

By disaggregating the rates by economic status, race/ethnicity, and other characteristics, shine a light on inequities in college financing that place the greatest burden on underserved students.

To illustrate how effectively borrowers retire debt vs. whether they avoid default.

Hope-

Data can help policymakers and institutional leaders redesign policies and practices to better serve students.

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ESI Defined

- **Experimental Sites Initiative (ESI)**

  Congress authorized the Experimental Sites Initiative under section 487A(b) of the Higher Education Act of 1965, as amended. This Initiative—or "experiments," as they are frequently called—tests the effectiveness of statutory and regulatory flexibility for participating institutions disbursing Title IV student aid. The Department of Education has waived specific statutory or regulatory requirements at the postsecondary institutions, or consortia of institutions, approved to participate in the experiments. By contrasting the results achieved with the flexibilities with results under current regulations, the Department has data to support changes to regulations and statute. The outcomes of experiments have the potential to benefit all postsecondary institutions and the students they serve.

- **Loan Counseling Experiment ESI**

  Under this experiment, participating institutions will have the flexibility to require additional loan counseling for student borrowers beyond the statutorily required one-time entrance and one-time exit counseling as a ***condition for the students to receive Direct Loan funds***, and to customize counseling based on students needs. For more details about the experiment, refer to the August 15, 2016 Federal Register Notice.

Why Participate in an ESI?

Often there is a benefit-

Example- a release from a federal requirement in exchange for participation. A regulatory relief.

But not for this experiment-

Actually more work with held disbursements

So WHY???

NYU *(private)*

Before ESI?

- Serving students/ to support borrower loan responsibilities
- Good work but less collaborative
- Student Affairs
- School level
- Some Financial Aid

What prompted you to apply for ESI?

- Not our 2% CDR but…
- Emphasis on Affordability and Student Success
- Build on NYSFAIS
- Students seeking more information, assistance
- Varying levels of financial education awareness
- Provides good data from traditional, large private institution
- Shows institutional commitment to students
- Shows support to ED initiatives

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Monroe *(for-profit)*

Before ESI-

- **Classroom outreach-** Office of Loan Management Counselors
  - **Topics:**
    - MPN - rights and responsibilities
    - Disclosure statements
    - Default consequences
    - Budgeting and credit
    - Repayment options and benefits etc.
  - **Class - DR 091** (only in New Rochelle) –
    - Features include pre-test and post-test, outside speaker for budgeting and credit matters, debates, financial literacy jeopardy games etc. Topics: loans, credit and budgeting.
    - 3rd Party Platform- for financial literacy.

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Monroe *(for-profit) continued*

- **Why ESI?**
  - ESI interest was spurred by 2009 Gainful Employment Requirements
  - DR_091 and the classroom outreach did not reach all the students
  - Many students were still ignorant of their loan balance at graduation
  - Especially those that did not participate in DR091 or classroom outreach
  - Create financial literacy awareness in student body
  - Looming Borrower Defense(1) and Repayment Rates(2)

(1) Under the law, you may be eligible for borrower defense to repayment forgiveness of the federal student loans that you took out to attend a school if that school misled you, or engaged in other misconduct in violation of certain state laws.

(2) Higher education advocacy groups and lawmakers on both sides of the aisle have called for the feds to rely more heavily on loan repayment rates than on default rates as a higher education accountability metric. They argue that colleges should be judged on whether students they educate are able to make progress paying down their debt, rather than just tracking percentages of borrowers who default.

ASU *(public)*

Before ESI-

- No issues with CDR, retention or graduation rates
- Wellness Hub- includes financial wellness
  - Goal -to ensure students/families make informed decisions (about where to attend, available resources to help pay, and if choosing loans, how they work, repayment, etc.

Why ESI?

- View as an opportunity to learn more about our students,
- Help our students learn more about loans, become responsible borrowers (and re-payers), potentially reduce overall borrowing, and to contribute to knowledge gain within the larger aid community.
- Existing 3rd party financial wellness partner offered a platform for the additional counseling- so easy

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What ESI looks like to the student borrower-

Annual Direct Federal Student Loan Counseling for Second Year Students (Est. time: 20 mins)

"Welcome to your second year of loan counseling at NYU! This course will help you understand the responsibilities of federal student loan borrowing. It will take approximately 20 minutes and is required before you receive your federal loan disbursement."

- Module 1: Smart Borrowing (Est. time 7 min)
- Module 2: Making the Most of the Funds You Have (Est. time 5 min)
  Locked until preceding module is complete
- Module 3: Your Future Loan Repayment (Est. time 8 min)
  Locked until preceding modules are complete

Sample Module Steps:

- *Complete all steps to get a score*
- *STEP 1 ✓*
- *Watch a video ›*
- *STEP 2 ✓*
- *Watch a video ›*
- *STEP 3 ✓*
- *Read an article ›*
- *STEP 4 ✓*
- *Watch a video ›*
- *STEP 5 ✓*
- *Use a calculator ›*
- *STEP 6*
- *Take a quiz ›*

Status to Date-

- **Student feedback/focus groups**
  - Surprisingly receptive despite time commitment
  - Completion rate remarkably high

- **Assessing statistical results- Post test Scores**
  - Averages of 3 schools-
    - Year 2: 82.1%
    - Year 3: 81.6%
    - Year 4+: 84.0 %

  - Range of 3 schools:
    - Year 2: 75.3%- 85.6%
    - Year 3: 75.8%- 86.0%
    - Year 4+: 78.8%- 88.1%

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Completion Rates

Totals	2nd Year			3rd Year			4th Year			Grand Total	
	Total	3889		Total	4533		Total	6705		15127	
	Incomplete	304	7.82%	Incomplete	264	5.82%	Incomplete	233	3.48%	801	5.30%
	Complete	3585	92.18%	Complete	4269	94.18%	Complete	6472	96.52%	14326	94.70%

Long Term Thoughts…

- $1.48 trillion in total U.S. student loan debt
- 44.2 million Americans with student loan debt
- Student loan delinquency rate of 11.2% (90+ days delinquent or in default)
- Average monthly student loan payment (for borrower aged 20 to 30 years): $351
- Median monthly student loan payment (for borrower aged 20 to 30 years): $203
- Average student loan debt for Class of 2017 graduates was $39,400*, up six percent from 2016
- Nationally CDR up from 11.35 to 11.5%

…and do we know why? There is valuable data to be gathered!!

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Key to Success-

- Identify Goal
- Multi Department Buy In
- Ownership
- Strategy
- Relevance
- Delivery/Accessibility
- On-Going/Prescriptive
- Measure
- Adjust

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Where Does that Leave Us?

- Consensus-
  - More in necessary
  - One size does not fit all
  - Living and learning
  - Share best practices
  - Times they are a changin'
  - Do something!

Thank You

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