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Improving Outcomes For Student Loan Borrowers By Providing More Effective Counseling:

Recommendations Derived From Demonstration Project By Center for Excellence in Financial Counseling

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The Problem:

Lack of Information about Repayment Options May Fuel Student Loan Delinquency, Default

National daily headlines attest to the reality that student loan debt is a significant and often financially debilitating burden for many consumers. Loan delinquencies and defaults damage consumers' credit scores and affect their ability to qualify for mortgages and other credit products, as well as to adequately save for retirement.

> *"…too many struggling borrowers are still unaware of the options available to them to help responsibly manage their debt."*
>
> —President Barak Obama,
>
> Presidential Memorandum**,** Federal Student Loan Repayments, June 9, 2014

Above: White House press office website, http://www.whitehouse.gov/the-press-office/2014/06/09/presidential-memorandum-federal-student-loan-repayments, retrieved September 26, 2014.

Student Debt Has Grown Rapidly

Outstanding student loan balances reported on credit reports increased to $1.12 trillion as of June 30, 2014,[1] according to the New York Fed Consumer Credit Panel. This represents an increase of $124 billion from one year previous.

The implications of such staggering figures extend across all segments of the economy. According to a mid-2014 analysis from Experian, student loans increased by 84 percent between 2008 and 2014, becoming the second largest debt class behind mortgages. Forty million American consumers have at least one open student loan. Among these borrowers, the average balance of these loans per consumer was $29,000.

"What is a really compelling statistic is that the average person has nearly four student loans," said Michele Raneri, vice president of analytics, Experian. "Student loans are the only credit vehicle where a lender continues to extend credit year after year without knowing the person's ability, or even willingness, to pay."[2]

Growing Delinquency and Default

In a 2014 speech given at the University of Maryland-Baltimore County, Deputy Treasury Secretary Sarah Bloom Raskin[3] questioned whether student loan borrowers were getting the information they needed to avoid falling behind in their payments, and why borrowers were unable to enroll in loan modification programs to avoid default. Further illustrating the fact that income-based repayment programs – which are designed to help borrowers avoid default – are underutilized, The Chronicle of Higher Education in June 2014 [4] noted that of the 17.5 million borrowers in repayment, only 2.2 million are enrolled in income-based repayment plans.

According to a 2013 report on student loan repayment released by the Consumer Financial Protection Bureau:

- Twenty-two percent of federal student loans were in default or delayed default (forbearance).[5] (Source: The Heartland Institute analysis of CFPB Report.)
- The CFPB suggested that many of the defaulted loans were avoidable. "If borrowers were aware of and able to easily enroll in income-based plans through their servicer, many federal student loan defaults could have been avoided," said Rohit Chopra, CFPB student loan ombudsman (qtd. in Business Insider.) [6]

More recent studies by the U.S. Department of Education [7] have provided additional insights:

- As of June 30, 2014, 51 percent of student loan borrowers (excluding loans in grace or in-school status) were not repaying loans on time, as expected.
- More than half of Direct Loans, the most common type of federal student loan, were not being repaid on time or as expected. (Source: U.S. Department of Education statistics analyzed by The Huffington Post[8].)

The Potential Solution

The Center for Excellence in Financial Counseling at the University of Missouri- St. Louis was founded and funded to develop ways of improving the quality and effectiveness of education and counseling that is available to consumers in financial distress. For its first program, the organization has implemented a pilot program to help consumers who are behind on the repayment of their federal and private student loans, and who, as a result, are unable to access additional financial services and products. This is the first such program in the country to help low- to moderate-income borrowers make informed choices about managing student loan debt.

Results

The impact of the program has been significant and points to the need for program expansion. Major findings regarding the impact of CEFC's program include:

- The vast majority (93%) of borrowers responded that their federal loan payments were too high for their income, prompting their decision to get counseling.
- Prior to the counseling sessions, 37 percent of borrowers knew about repayment options available to federal borrowers.

"… the Secretary of Education, in consultation with the Secretary of the Treasury, shall develop a pilot project to test the effectiveness of loan counseling resources….The Secretary of Education shall convene higher education experts and student-debt researchers to identify ways to evaluate and strengthen loan counseling for Federal student loan borrowers.

"Additionally, the Secretaries shall collaborate with organizations representing students, teachers, nurses, social workers, entrepreneurs, and business owners, among others, to help borrowers represented by these organizations learn more about the repayment options that are available to them in financing their investment in higher education and managing their debt, and to provide more comparative, customized resources to those borrowers when possible."

—President Barak Obama, Presidential Memorandum—Federal Student Loan Repayments, June 9, 2014

Source: White House press office website, http://www.whitehouse.gov/the-press-office/2014/06/09/presidential-memorandum-federal-student-loan-repayments, retrieved September 26, 2014

- Following the counseling sessions:
  - Most borrowers (93%) knew that they may qualify for federal student loan repayment options. Nearly 54 percent of borrowers responded that they had qualified for a lower monthly repayment amount and changed their federal student loan repayment plan.
  - Two-thirds (67%) of borrowers responded they were making progress in lowering their monthly student loan payments, with more than half (54%) responding they were able to find a less costly plan to repay their student loans than their current plan as a result of the counseling.
  - More than four-fifths (81%) of borrowers reported that the counseling session and their interaction with the counselor gave them increased confidence and enhanced their sense of control of their student loan debt.

**Source: third-party survey of borrowers counseled March 1 – September 30, 2013*

Program History and Overview

During the *first* stage of this program, CEFC worked with a national consumer law advocacy organization with expertise in student loan law to train nearly 400 counselors nationwide to help them diagnose and implement solutions for consumers with defaulted student loans.

Once it became clear that this effort required more follow-up support and oversight as well as quality control with the trainees and their employers, CEFC implemented the *second* stage of the program to combine the training with program reporting procedures and quality control measures.

When it became evident that an even more comprehensive approach would lead to better results, CEFC implemented a *third* stage, beginning in 2013, the current national pilot. It provided intensive training for counselors in both the technical aspects and implications of distressed student loans as well as behavior-change counseling interventions. This included an intensive program of post-counseling borrower follow-up, monitoring implementation of program protocol, and third-party evaluation. Program training and counseling materials were developed and provided under contract by a national consumer law advocacy organization with student loan expertise and the nationally ranked and CACREP-accredited Department of Counseling and Family Therapy at the University of Missouri-St. Louis. In addition, each financial counseling provider was paired with a legal services provider so that the borrowers who needed legal help could be referred to a lawyer with student loan knowledge, expertise, and a commitment to help.

In the third stage of the program, CEFC contracted with three first-rate general financial and credit counseling and education services located in both large and small metropolitan areas. Each of these providers worked with a legal services partner through CEFC to fully implement the program. A total of 626 student loan borrowers were helped in a ten-month period.

Program Innovations

The program has several innovations that set it apart from existing financial and credit counseling services, including:

- An emphasis on the need for scheduled follow-up counseling sessions;
- A combined emphasis on diagnosis, education, and behavior-change elements;
- A contractual relationship with a legal service provider that has expertise, in this case, in the student loan area;
- Close monitoring for implementing program protocol for quality control;
- Professional third-party evaluation.

CEFC provided monthly base and closely monitored performance-based stipends to the three partnered service providers during the third stage of the enterprise. CEFC and two of these direct providers and their respective legal services partners contracted to continue the program for an additional 12-month period, which began on January 1, 2014.

Program Expansion from Lessons Learned

CEFC will incorporate lessons learned from the pilot program into the next stage of implementation, which is targeted to begin in early 2015. CEFC is currently searching for funding for this next stage. CEFC will expand the program to add six to eight additional high-quality direct financial counseling providers partnered with local legal services providers and continue monitoring and evaluating program protocol and outcomes. Geographic areas with high student loan debt and/or loan default rates will be targeted.

Expanding the program's reach will allow CEFC to assess the program's effectiveness on a larger scale, revise and improve program training materials and delivery, and address technology barriers in data collection, reporting, analysis, and evaluation. The data collection and analysis enabled by an expansion of the CEFC program may inform policy by providing an understanding of the trends and patterns that lead to delinquency and default on student loans.

Summary:

Assisting Financially Distressed Borrowers in Making Informed Choices

CEFC's Student Loan Debt Repayment Counseling program assists financially distressed low- to moderate-income borrowers in making informed choices regarding the management and repayment of student loan debt. The program aims to help distressed borrowers improve their overall financial well-being and credit scores in order to increase their ability to access financial services and products and actively participate in today's economy.

On the following pages are major findings from a third-party survey of borrowers who participated in CEFC's Student Loan Debt Repayment Counseling pilot program from March 1 to September 30, 2013.

For more information on bringing CEFC's Student Loan Debt Repayment Counseling to your community, please email the Center for Excellence in Financial Counseling at cefc@umsl.edu.

Highlights from Preliminary Third-Party Program Evaluation of Survey Responses from CEFC Student Loan Debt Survey Results, March 1-September 30, 2013

Key Participant Responses Post-Counseling

- 65% agreed with the statement: "I wish I had found a counseling program like this sooner."
- 76% reported adhering to a monthly budget.
- 71% indicated they had more willpower to keep from further increasing their debt load.
- 54% found a less costly repayment plan.
- 54% qualified for a lower federal repayment plan.

Contact: cefc@umsl.edu

Survey Results: Outcome-Related

Table 1.

As the result of counseling, Borrowers reported increased awareness that they may qualify for federal student loan repayment options. They also gained knowledge of resources previously unknown to them.

PRIOR TO COUNSELING		RESULTS FOR KNOWLEDGE, ATTITUDE OR BEHAVIOR CHANGES FOLLOWING COUNSELING			
		INCREASED KNOWLEDGE		CHANGED BEHAVIOR/ATTITUDES	
Respondent knew of resources that would help get his/her student loan debt under control.	*36.8% (2)*	Respondent learned that there are online resources for student loan borrowers that can give further help.	*86.0% (1)*	Borrower is in contact with resources that can help manage student loan debt.	*56.7% (2)*
				Borrower planned to use the online resources that the counselor told him / her about.	*57.8% (3)*
Respondent knew about repayment options that were available to federal borrowers.	*36.8% (2)*	Respondent learned that he/she may qualify for federal student loan repayment options.	*92.6% (1)*	Borrower qualified for a lower monthly repayment amount and changed his/her federal student loan repayment plan.	*53.8% (3)*

Response categories shown in parentheses below percentages:

(1) Very or somewhat important
(2) Very or somewhat true
(3) Strongly or somewhat agree

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Survey Results: Outcome-Related

Table 2.

Borrowers reported that the counseling addressed their fears of defaulting and provided budgeting strategies that would help with repayment.

PRIOR TO COUNSELING		RESULTS FOR KNOWLEDGE, ATTITUDE OR BEHAVIOR CHANGES FOLLOWING COUNSELING			
		INCREASED KNOWLEDGE		CHANGED BEHAVIOR/ATTITUDES	
Fear of defaulting [prompted the decision to get counseling]	*79.4% (1)*	Respondent knew more about how to avoid defaulting on his/her student loans.	*80.7% (1)*		
Questions about what will happen if I default [prompted the decision to get counseling]	*66.7% (1)*				
Payments too high for Respondent's income [prompted the decision to get counseling]	*93.2% (1)*	Respondent learned that he/she could use a monthly budget to calculate how much to pay on student loans.	*82.5% (1)*	Borrower is making progress in lowering his/her monthly student loan payments.	*66.7% (2)*
				Borrower was able to find a less costly plan to repay his/her student loans.	*53.6% (3)*

Response categories shown in parentheses below percentages:

(1) Very or somewhat important
(2) Very or somewhat true
(3) Strongly or somewhat agree

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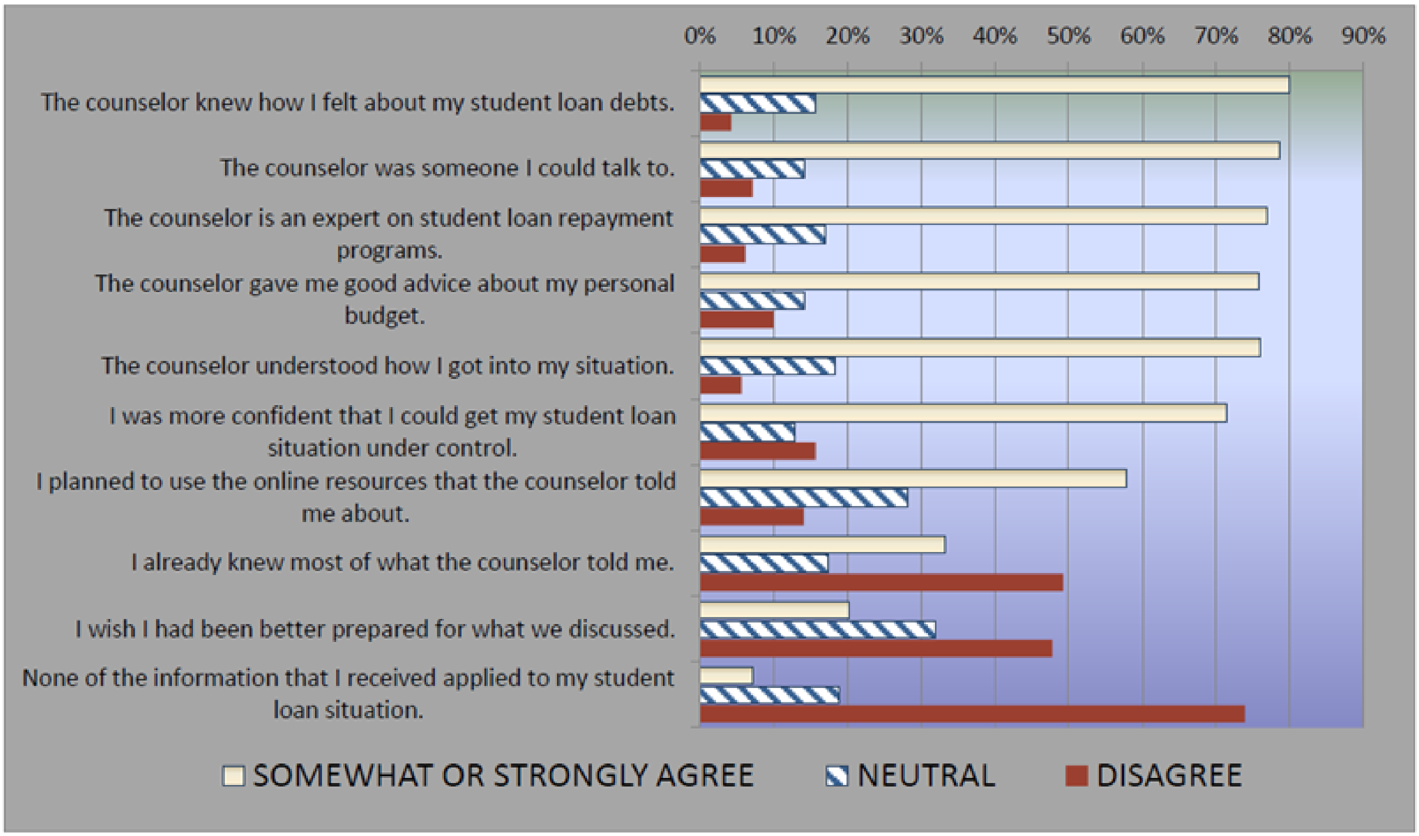
Survey Results: Process-Related

Chart 2. Borrowers' responses pertaining to processes were also positive, with favorable statistics for interaction with counselors.



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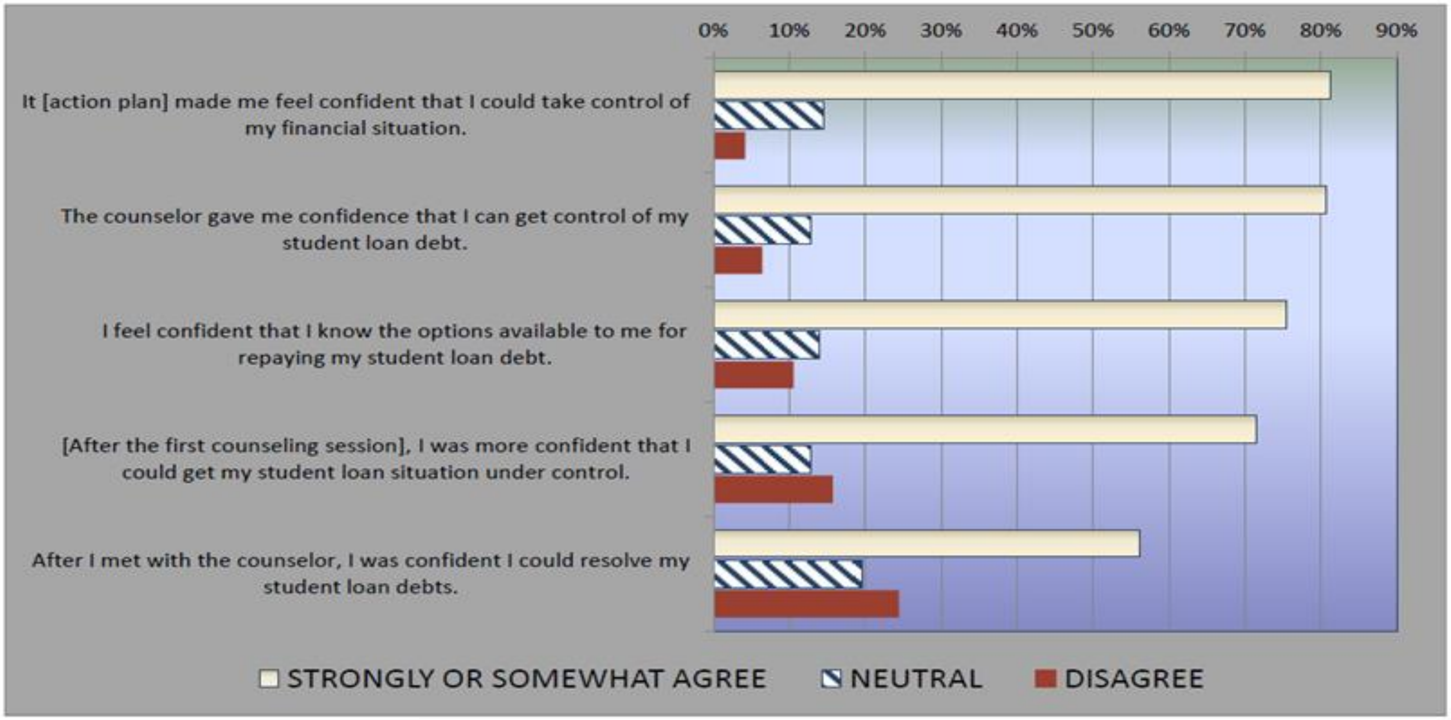
Survey Results: Outcome-Related

Chart 1. Borrowers reported that the counseling session and their interaction with the counselor gave them increased confidence and enhanced their sense of control.



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4. Kelly Field, “Obama’s Loan-Debt Relief Might Not Reach the Neediest Borrowers,” *The Chronicle of Higher Education,* June 10, 2014. http://chronicle.com/article/Obamas-Loan-Debt-Relief-Might/147001/ , accessed September 26, 2014.

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