RESEARCH BRIEF

Loan Summaries
Nudging Students Toward Smart Borrowing

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Executive Summary

As students increasingly rely on loans to finance part or all of their college education, there is a growing concern that relevant, timely information is not being provided to help students make informed borrowing choices. Supporting evidence confirms this, as a survey of 13,000 financial aid recipients shows that 41 percent of respondents reported having received no form of loan counseling at all, despite such counseling being legally mandated.[1] The ramifications for these misinformed choices can negatively affect students, schools and society at large, as issues of over borrowing, degree attainment, and loan default have a ripple effect on the health of the national economy.

A number of schools and states, however, have used a simple yet innovative approach to help students actively manage loan debt as they progress toward degree completion. These institutions use loan summaries, sometimes called "debt letters," to keep students apprised of their borrowing levels and allow them to make informed choices about future repayment scenarios. These summaries are strategically scheduled to be delivered at times when students are making financial aid and/or course registration decisions, thus providing a highly-effective, just-in-time intervention for borrowers.

As states like Indiana, Nebraska and Wisconsin have already passed legislation to require loan summaries for students, a growing amount of research has emerged to support the effectiveness of this strategy. In reviewing this data and examining institutional case studies, we see that debt letters have the ability to not only alter student borrowing trends but can also have positive implications for academic outcomes:

- At Indiana University, the amount of federal student loans has decreased by almost $114 million during the first four years of the debt letter initiative, representing a 23 percent decrease in federal loan borrowing.[2]
- The University of Missouri at Columbia found that students who receive the debt letter are 2 percent more likely to reach out to the financial aid office for assistance, while those nearing borrowing limits are 3.4 percent more likely to seek help.[3]
- Montana State University saw positive gains in GPAs and credit hour enrollment for students receiving debt letters, in comparison to students who did not.[4]

Students Struggling to Understand Loans

Student surveys provide us with resounding proof that a crisis of misinformation is plaguing loan borrowers. Consider the following recent findings.

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.**[5]

94% **of student borrowers do not understand their loan repayment terms.**

92% **are unaware of their current loan interest rates.**[6]

54% **of student borrowers did not even try to estimate their monthly repayment amount as part of their most recent loan procurement.**[7]

In addition, a NERA report on behalf of Young Invincibles found that 65 percent of student borrowers reported that some aspect of the loan process was either misunderstood or had taken them by surprise.[8] These respondents indicated feelings of betrayal toward their schools and lenders, and a clear desire for more information during the borrowing process.

> *"I was never offered information on what my monthly payments would look like. They gave me all sorts of Internet surveys about student loans, but the most they ever really said was I would need to pay them back. They never told me they would completely cripple my ability to make any kind of life for myself."*
>
> –R12708, Dual Borrower, $150,000[8]

> *"Looking back, I wish I asked a million more questions than what I did, but at the same time, I don't think I knew what to ask. Nothing was really that clear, and the 'adults' helping me out may not have been as knowledgeable as I initially thought they were on the subject.* ***I certainly would have done it all differently if I knew then what I know now."***
>
> –R2538, Dual Borrower, $150,000[8]

> *"I really had no idea what I was getting into. I never had an 'exit interview' when I graduated.* ***So I had no clue.*** *All of my loan documents were filed out online, I never spoke with a person. I just clicked buttons, got approved, and money showed up in my account. The monthly payment amount they expected from me was a surprise and completely unrealistic."*
>
> –R11543, Dual Borrower, $96,000[8]

This student feedback points to a clear disconnect between the information provided to students via federal student loan counseling, and what students are actually retaining. But what is causing this disconnect? How are the aims of the counseling program so off-base with the actual student experience? An exploration of the research points to deficiencies on both sides as well as evidence that loan summaries may help bridge the gap in this information divide.

Federal Counseling Deficiencies

> **41%** *of financial aid recipients reported they received* ***no*** *loan counseling*

We live in an age of information overload, with attention spans that last no longer than eight seconds–one second less than that of a goldfish.[9] Imagine, then, what we are asking of students as we provide well-intentioned but overwhelming amounts of information to help them succeed: registration, orientation, financial aid, buying books, campus maps, and of course, entrance counseling. Tacked on to long enrollment checklists, many students perform loan entrance counseling as a perfunctory means to an end to move forward in matriculation. Yet research shows that much of the information imparted during loan counseling, and even the counseling experience itself, is less than memorable for a majority of students; of 13,000 financial aid recipients, 41 percent reported having received no form of loan counseling at all, despite such counseling being legally mandated.[1]

Findings from TG and NASFAA[10] show that loan counseling, both entrance and exit, is leaving so little an impression on students due to its sheer complexity (20 specific topics must be covered in a 30 minute session) and its generic, jargon-filled approach. Students get lost in information that does not make sense to them as any aid has yet to materialize, and the generic delivery does not seem relevant. The research team concludes that "…long, complex counseling can result in a 'cognitive overload' that is highly detrimental to the retention of important information… when students receive clear, concise, customized information on a regular basis…they retain the information better and are more likely to change behaviors, particularly when information is provided at a key 'just-in-time' moment."[10]

> *"A generation born texting and living online 24/7 has evolved and can complete the entire online student loan counseling session, answering every question correctly, and an hour later have no memory of the process."*
>
> –Dart Humeston, director of financial aid at Barry University[11]

The study did, however, point to positive aspects of utilizing an online system to educate students. The ability to use interactive tools was cited as a benefit, especially when personal information was integrated into the experience. Further recommendations to harness this positive experience included the use of simple calculators, more concise delivery of concepts that moves in logical sequence, and sample budgets to help users calculate future cash flows.[10]

In an effort to supplement current ineffective loan counseling practices, and as an expansion of financial education outreach, some institutions have added loan summaries/debt letters to their financial literacy toolbox. These letters attempt to address the counseling deficiency by providing exactly what is prescribed by the TG/NASFAA recommendations: personalized student loan borrowing information at a time that is salient to loan acceptance or enrollment decisions.

While letters can vary among institutions, commonalities include a summary of current aggregate borrowing, estimated monthly repayment amounts, and resources for learning more or obtaining help. As we will see in our school case studies, this final element is critical in calling students to action. It is through supplemental resources and support, whether by staff or online tools, that elevate the letters from informational to transformational.

Loan summaries/debt letters are a simple, low-touch effort to keep student borrowers engaged in the active management of their loans while in school. Although not revolutionary, these letters are gaining attention and even becoming required in some states because of the proactive nature of the letter that allows students to course-correct their borrowing habits before it is too late. Case studies from the University of Missouri, Montana State University, and Indiana University allow us to see how loan summaries can be used as stand-alone interventions or as part of broader financial education efforts to reshape student borrowing.

CASE STUDY

University of Missouri

The university conducted research[3] in which half of student loan borrowers received a debt letter containing aggregate borrowing amounts, expected repayment amounts, average borrowing of peers, and how to contact the financial aid office for more information. The letters were emailed from the financial aid office and also posted to the students' online portal. The first letter was sent in January, after financial and academic decisions for the term had already been made. The second letter, however, was sent in March, to coincide with registration and borrowing choices for the following academic year. Researchers then monitored how much these students borrowed in that following year as well as their credit hours and persistence rates. This data was compared to peers that did not receive the loan letters.

STUDENTS RECEIVING DEBT LETTER	2.0%	MORE LIKELY TO SEEK HELP
STUDENTS NEARING BORROWING LIMITS	3.4%	

The study had surprising yet relevant findings. Reduced borrowing was not a significant outcome of the debt letters, though those with the highest aggregate loan amounts and lowest GPAs were observed to borrow less. What did change as a result of the debt letters was increased contact with the financial aid office: students who received the debt letter were 2 percent more likely to reach out to the financial aid office for assistance, while those nearing borrowing limits were 3.4 percent more likely to seek help.[3]

The researcher acknowledged that although reduced borrowing was not achieved, the study points to several key takeaways.

1. Letters alone, without the support of additional financial education resources, may not be able to influence significant changes in borrowing trends.
2. Reduced borrowing may not always be the desired outcome of debt letter initiatives. Some students may actually hinder their academic progress by limiting their borrowing as they need the full amount of loans offered in order to support their school-related expenses. Thus the objective for the debt letters should not be so narrow in scope as to have an overwhelming focus on lowering levels of student debt for all.
3. Increased contact with the financial aid office, though an unintended outcome, is a desirable one with its own merit.

> *"…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."*[3]

CASE STUDY

Montana State University

MSU targeted students with slow academic progress and higher-than-average borrowing amounts to receive their "Know Your Debt" letters.[4] The letters went a step beyond those of the University of Missouri by:

1. Containing a warning about student loan default ("If you continue to accept student loans at this rate, you will accrue a debt level that may become difficult to repay, which may place you at risk for defaulting on your loans."[4])
2. Encouraging students to take more than 12 credit hours to maximize block tuition pricing
3. Offering $10-$20 gift cards to students who scheduled financial counseling appointments

Among students who received the letters, researchers monitored loan borrowing, GPA, credit hour enrollment, and persistence over subsequent semesters. These factors were compared to peers not receiving the letters.

In this case study, we can see how a more detailed debt letter, combined with incentivizing students to utilize financial counseling, can have a more desired effect on borrowing. More dramatic, however, are the effects on academic factors. The researchers summarize their findings:

> *Adding encouragements, warnings, and incentives* ***positively impact borrowing and academic performance.***

"We find that students who receive the warning letters slightly reduce their borrowing in the semester following the counseling than those who do not receive the letters. The intervention has the greatest impact on academic outcomes.

First, the letter ***increases current semester grade point average (GPA) and credits completed.*** *These effects are attributed to a higher rate of completing classes (instead of withdrawing).*

Second, the letter ***increases retention rates*** *for the subsequent semester and the subsequent year.*

Third, receiving a letter ***increases GPAs and credits completed in the subsequent semester.*** *We attribute this to a portion of the letter explaining the flat spot in payment for additional credits and the need to pass 67 percent of credits attempted.*

The findings suggest that early interventions that draw borrowers' attention to their relatively high student loan debt balances and that offer information and financial counseling on managing their debt, can improve student academic outcomes and change financial decisions."[4]

CASE STUDY

Indiana University

Indiana University first implemented their debt letters during the 2012-13 academic year.[2] The letters are similar to those used at Missouri in that they include aggregate borrowing amounts, estimated monthly payments, and information about additional resources. The outcomes achieved at IU, however, indicate significant success in reducing borrowing: the amount of federal student loans has decreased by almost $114 million during the first four years of the debt letter initiative, representing a 23 percent decrease in federal loan borrowing.[2]

INFLUENCE OF FINANCIAL LITERACY PROGRAM

$114M	23%
DECREASE IN FEDERAL STUDENT LOANS	DECREASE IN FEDERAL LOAN BORROWING

How was IU able to achieve this outcome, when Missouri's similar messaging could not? The answer appears to lie in the robust financial literacy program sponsored by the college, IU MoneySmarts. The program includes peer counseling, a podcast, and online calculators and educational resources on the MoneySmarts site.

Additionally, students have been encouraged to enroll in 15 credits each semester, allowing them to graduate sooner and borrow less. Anecdotally, students indicated that the loan letters motivated them to take debt-reducing actions like working more, living within their means, and pursuing scholarships.[12]

Case Study Considerations

By examining how three different universities administered and supplemented their loan summary initiatives, we can see that outcomes can vary greatly. While Missouri and Montana did not achieve the reduced borrowing outcomes observed at Indiana, they were able to achieve gains in academic outcomes as a result of their outreach.

What we can learn from these case studies are considerations for how to create and implement effective loan summary/debt letter initiatives at other schools.

1. **Determine desired outcomes** – Whether the purpose of the letter is to reduce borrowing, improve GPA, or increase credit hours, be clear about what you hope to accomplish and align your message accordingly.
2. **Measure** – How will you measure your outcomes? Will you have control groups of current students or measure against previous years? Can you account for any and all factors that may contribute to reaching your outcomes?
3. **Support** – Debt letters, as demonstrated with the Indiana University case study, are significantly more impactful when supported by additional resources to help students develop their overall financial wellness. Do you have a financial education program or sufficient staff members to help students address questions that arise from debt letters? Can you offer students an online experience that will help them budget, calculate, and explore debt, repayment, and earnings options? The ability to offer these resources was a critical thread at all three campuses, indicating each program's belief that loan summaries/debt letters are most effective when bolstered with additional tools.

Conclusion

As student debt continues to be a pressing topic among students, educators, parents, and politicians, colleges and universities must do more to help shape a positive narrative regarding student borrowing. Loan summaries can do just that by nudging students toward active loan management, providing them with just the right amount of information they need at just the right time to make informed borrowing decisions.

LOAN SUMMARIES

- Reduce Borrowing
- Increase Credit Hours
- Improve GPAs

With proven results of reduced borrowing, increased credit hours, and improved GPA, it is no surprise that these letters have already become required in three states. Institutions that proactively choose to adopt loan summary/debt letter initiatives will find themselves ahead of the curve and in better positions to help inform policy, should more states begin to follow suit.

Finally, and most importantly, loan summaries are a simple, low-cost answer to the questions that students may not even realize they need to be asking. As federal loan counseling leaves many students confused or even unaware of their loan obligations, debt letters can serve as a helpful refresher of important terms and provide invaluable loan summary updates that students may not seek out on their own. The very act of providing this information has the ability to change the trajectory of a student's financial future, a true testament to how well their higher education has prepared them for life.

About the Author

Carissa Uhlman

As the vice president of student success, Carissa Uhlman is committed to helping school partners realize the link between student loan education, overall fiscal responsibility, and student success. With over 15 years of higher education experience, Carissa has held roles in academics, records, admissions, advising, student services, and financial aid. As a former financial literacy consultant at DeVry University, Carissa saw the benefits of incorporating financial wellness into the student success equation. Utilizing that knowledge, she created a financial literacy program for adult learners at Franklin University. Carissa's expertise in financial literacy helps administrators guide students toward a path of financial success.

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About Inceptia

Inceptia, a division of National Student Loan Program (NSLP), is a nonprofit organization committed to offering effective and uncomplicated solutions in financial aid management, default prevention, and financial education. Our mission is to support schools as they launch brilliant futures for students, armed with the knowledge to become financially responsible citizens. Since 1986, we have helped more than two million students at 5,500 schools reach their higher education dreams. Each year, we help more than 278,000 students learn how to pay for college, borrow wisely, resolve their delinquency issues, and repay their student loan obligations. Our solutions are designed to support student success by helping financial aid administrators maximize resources, so they can spend more time focusing on students. More information at Inceptia.org.

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