June 2019 Loan Counseling Forum Recommendations

Loan Counseling Recommendations

1. **Streamline entrance and exit counseling.**
2. **Provide the opportunity for students to complete loan counseling as an optional part of the FAFSA.**
3. **Outreach by FSA to borrowers who have not graduated and not enrolled at an institution within a certain period of time.**
4. **Require institutions to send exit loan counseling information (or something similar) to students in danger of dropping out.**
5. **Incentivize or require students and parents to receive information about the FAFSA.**
6. **Provide additional texting and social media efforts.**
7. **Address unnecessary and burdensome Title IV statutes and regulations.**

<u>Recommendation One</u>**: Streamline the topics presented during loan counseling forum.**

Entrance Counseling

The current entrance counseling modules provide too many details and cover topics that students will not need to know until they have exited their institution and entered repayment. For most students, that means they are given information they will not need to remember for at least two to four or six years, when they are trying to absorb other important information about their college career. This means that critical information they need *while* in school is commingled with information not immediately applicable. This approach limits the student's ability to comprehend and retain important knowledge they need at the start of their education careers.

Entrance counseling should focus on information that students use while in school, such as:

- The terms and conditions of their loan(s);
- The danger of over-borrowing and debt management;
- The impact of interest on total debt;
- Annual and lifetime loan limits for enrollment year; and
- How to track how much they have borrowed.

Exit Counseling

Since a student completing exit counseling is nearing or at the end of their college career, the topics should focus on debt management (forbearance and deferment) and payment plans. Other exit counseling topics should include:

- Consequences of default;
- Loan consolidation;

- Full or partial debt cancellation;
- Anticipated monthly payment;
- Loan servicer information and how to access them; and
- The Department of Education's Office of the Ombudsman.

<u>Recommendation Two</u>: Provide the opportunity for students to complete loan counseling as an optional part of the FAFSA.

The purpose of initial loan counseling is to assist students in making informed borrowing decisions. However, the current practice of providing loan counseling after a student has already selected an institution to attend is ill-timed, as it is typically too late to make significant cost saving decisions.

Loan counseling that occurs early enough to allow students to utilize the information as part of the college selection process, rather than at the time of enrollment, would be more effective. Optional loan counseling timed with the FAFSA completion could be short and targeted.

Integrating the Department of Education data and robust skip logic could reduce effort and time to complete the FAFSA application and produce a more meaningful and streamlined process.

Completing loan counseling timed with the FAFSA filing could:

- Aid in meaningful decision making such as school selection, borrowing amounts, and repayment options;
- Reduce the number of separate activities for each borrower by combining the application and counseling processes;
- Break down counseling into more timely and targeted sections to reinforce learning and keep borrower attention on important concepts; and
- Present institution specific information (for all institutions listed on the FAFSA) about projected borrowing, net costs, average loan debt, and other relevant data.

In addition to entrance counseling, additional annual *intermediary counseling* would be required. This counseling would supplement the information provided in entrance and exit counseling and would change as the student gets closer to graduation. Depending on how far in their academic program the student is, the following information would be provided to them:

- Current indebtedness by type of loan;
- Total monthly payment on a standard and extended repayment plan based on their current borrowing;
- An opportunity to project total monthly payments based on anticipated borrowing both for the upcoming year and anticipated total indebtedness, including interest on total debt; and
- Reminders regarding annual and lifetime limits for the enrollment year, the terms and conditions of their loan(s), and the danger of over-borrowing and debt management.

<u>Recommendation Three</u>: FSA should contact to borrowers who have not graduated and have not enrolled at an institution of higher education within a certain period of time.

Students who have attended a two or four-year program, who have borrowed, and who have not completed their degree, should be contacted and encouraged to return to school and obtain their degree. Institutions often do not have this information but the Department of Education can provide the list of these students by partnering with the National Student Clearinghouse (to determine if students are currently attending school but not borrowing) and National Student Loan Data System for Students (NSLDS). The Department can then share the following messages with students upon contact:

- Offer an incentive to reset the loan repayment grace period after graduation;
- Encourage students to contact their local universities, their former institution, or explore on-line universities, where they could complete their degree;
- Share that many institutions are now providing additional funding to students who are close to degree completion; and
- Stress the importance of paying loan obligations to prevent loan default and bad credit rating, which is difficult to rehabilitate.

The data indicates that loan defaulters are most often those students who have not completed a degree, and students with degrees earn higher salaries than those without. Encouraging completion of a degree can help borrowers maintain good repayment habits and attain higher salaries.

<u>Recommendation Four</u>: Require institutions to send exit loan counseling information (or something similar) to students in danger of dropping out of school.

Students who depart school prior to earning an academic credential are the most likely to default on their federal student loans and/or struggle during the repayment process. Because the separation is often abrupt, many students do not receive the best quality exit loan counseling and yet are among those who would most benefit from clear, concise and, most importantly, in-person exit counseling. However, by the time they have withdrawn, it is often too late for the institution to interact with the student.

Financial aid administrators have several ways to identify students who might withdraw from school before graduation:

- *Satisfactory Academic Progress measurement* – Institutions participating in Title IV programs already are required to measure a student's progress toward their degree, both from a quantitative (earned degree credits) and qualitative (GPA) perspective. By inserting a threshold, or "warning zone" internally at a point before loss of Title IV eligibility, an institution may require the student to visit with a loan counselor to discuss their outstanding debt, monthly payments, grace period, etc. It also would provide an opportunity for academic intervention that might prevent the withdrawal and put the student back on track to complete their academic credential. In many cases, the institutions' offices of Student or Academic Affairs are likely identifying at-risk students so this would be a natural collaboration.

- *Return to Title IV (R2T4) calculation* – Allow institutions, as part of the R2T4 calculation process, to provide the withdrawing student with in-person loan counseling. If that is not possible due to the timing of the calculation and the student's withdrawal, allow institutions to provide counseling materials to students.
- *For students who "unofficially" withdraw (leave without notifying the school)* – Require more robust written and online loan exit counseling for students who separate without notifying the institution. Use the same required timeframe for sending the exit information as for completing the return of Title IV funds to the Department.

Recommendation Five: Incentivize or require students and parents to receive information about the FAFSA.

Both Texas and Louisiana have enacted laws that require (with some exceptions) students to file the federal FAFSA as a high school graduation requirement. According to the National College Access Network, Louisiana now leads the nation in FAFSA completion for high school seniors at 78.7 percent. Such a requirement is far less onerous than just a few years ago as a result of recent changes in the FAFSA process (i.e., allowing students to use the IRS Data Retrieval Tool to automatically enter their tax data, the ability for students to use the prior-prior year tax information when they file, and the myriad of proposed legislation that has significantly simplified the filing process).

Requiring FAFSA filing might not be the right solution for an across-the-board policy change at the federal level, but other ideas like providing FAFSA and/or Pell Grant information to families who already are benefiting from other federal programs like SNAP and Medicaid, or even as a part of the tax filing process, would go a long way towards introducing low-income families to the buying power of the Pell Grant.

Recommendation Six: Provide additional texting and social media efforts.

The influence of social media today is an important piece to consider when it comes to increasing a student's understanding and involvement in their student loan life cycle.

Through the required Entrance Counseling or the Master Promissory Note, the Department could capture a student's cell phone number with an "opt in" so they and/or the student's assigned loan servicer can utilize text messages throughout the loan process at key points in the borrowing process.

In addition to texting, it is recommended the Department expand the use of videos and infographics available on social media platforms (e.g. Facebook, Instagram, Twitter) to promote specific elements of the federal student loan program such as consolidation, making extra payments, and income-based repayment plans.

Finally, the Department's myStudentAid app could increase the usage of push alerts functionality to prompt students at their due dates or at points of delinquency, or at other important milestones throughout the loan disbursement and repayment process.

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<u>Recommendation Seven</u>: Address unnecessary and burdensome Title IV statutes and regulations.

There are regulations that impose unnecessary burdens on students but do not provide significant cost savings to taxpayers or have a documented impact on student outcomes. Addressing the following regulations would simplify aid delivery and help students better understand their financial aid awards.

A. Eliminate the origination fee.
The elimination of the origination fee will provide students access to additional funding that would be directly applied to their education needs and not a percentage returned to the federal government. Additionally, the fee is confusing to students and adds unnecessary complexity to the loan process. Bipartisan legislation has been introduced over the last few years to eliminate such fees.

B. **Eliminate Subsidized Usage Limit Applies (SULA) and Pell Lifetime Eligibility Used (LEU).**
Both the SULA and the Pell LEU concepts are confusing to students (and institutions) and counter to students seeking additional educational credentials to benefit themselves and society. Existing federal loan maximums (annual and aggregate) and Pell term limits establish program caps without the punitive aspects of SULA or Pell LEU.

C. Eliminate loan proration.
Students can access the value of their full Direct Loan when enrolled half-time during any semester of enrollment. Prorating a loan in their final semester for a partial year is contradictory to accessing these funds at other points of enrollment.

D. Simplify R2T4.
Students who withdraw prior to program completion are more likely to default. The current process for determining a student's financial responsibility for the withdrawal term may create a barrier to students returning to school.

E. Allow institutions to require annual counseling.
Financial literacy and further personal finance education is critical to a student's lifelong budgeting skills. Institutions should have the ability to support these concepts if they choose by conducting annual loan counseling.

F. Simplify loan repayment plan choices.
Multiple repayment options are confusing. The needs of most borrowers could be met with two options -- the standard and income-contingent plans. Providing simplified choices makes the process of moving into repayment easier for borrowers.

G. Brand all servicers as the U.S. Department of Education.
Students understand the concept of the Department of Education as their school funding sources. They are more leary of other entities claiming to be loan servicers and may ignore their outreach efforts as spam. If all loan servicers were under the familiar concept of the Department, more students may respond to requests for loan repayment.

H. Allow academic advisors at colleges to see financial aid and debt information.
All institutions promote a student's academic success, as it benefits the student, the institution, and society. Academic success and access to financial aid eligibility to support the funding of this success is a holistic advising approach institutions should be allowed to employ to retain and graduate their students.