Board of Governors of the Federal Reserve System

Student Loan Counseling Challenges and Opportunities

Findings from Focus Groups with Financial Aid Counselors

Board of Governors of the Federal Reserve System

Student Loan Counseling Challenges and Opportunities

Findings from Focus Groups with Financial Aid Counselors

November 2016

Preface

This report was prepared by the Policy Analysis Section of the Federal Reserve Board's Division of Consumer and Community Affairs (DCCA). DCCA directs consumer- and community-related functions performed by the Board, including conducting research on financial services policies and practices and their implications for consumer financial stability, community development, and neighborhood stabilization. See the Community Development section of the Board's website (www.federalreserve.gov/communitydev/default.htm) for more information.

DCCA staff members Dan Gorin and PJ Tabit prepared this report. Jeff Webster from the Texas Guaranteed Student Loan Corporation (TG) and Charlotte Etier from the National Association of Student Financial Aid Administrators (NASFAA) provided valuable assistance with the design of this study. Andrea Brachtesende, Angelyque Campbell, Joseph Firschein, and Sara Tucker from the Federal Reserve, Jeff Webster from TG, and Joan Berkes and Charlotte Etier from NASFAA provided valuable comments and feedback on the drafting of this report. The authors would also like to thank Michael Long and Sharika Bhattacharya from ICF International for their help with developing the moderator's guide, conducting the focus groups, and summarizing key findings.

Contents

Executive Summary

The college financial aid process is complicated, confusing, and financially risky for many individuals and families. Effective financial counseling can help students make the financial and educational choices that are best for them, but schools face financial and legal constraints on their ability to provide highly effective counseling.

As part of its community development function, the Federal Reserve "promotes fair and informed access to financial markets for communities and individuals."[1] The Federal Reserve also advances supervision, community reinvestment, and research to increase understanding of the impacts of financial services policies and practices on consumers, communities, and the broader economy.

To better understand how students make decisions about paying for their education, especially with student loans—which for many students represent the first large financial investment they make—the Board, in conjunction with the National Association of Student Financial Aid Administrators (NASFAA), held two focus groups with financial aid administrators from around the country that explored the counseling techniques they use and the challenges they encounter in helping students navigate their financial decisions. This report presents the finding from those focus groups, and explores

- the tools and strategies that financial aid administrators use to provide counseling to students, beyond the Department of Education's online program;

[1] Learn more about the Federal Reserve's community development function and efforts at www.federalreserve.gov/communitydev/default.htm.

- the resource, administrative, regulatory, and legal challenges that counselors believe inhibit their ability to provide effective counseling;
- counselors' recommendations for improving systems if resource, legal, and student participation constraints were removed; and
- how school administrators measure the efficacy of their counseling programs.

Key Findings

Qualitative analysis of responses from the focus group participants revealed several key points. These are summarized below and discussed more fully in the "Findings by Topic" section of this report.

Counseling Tools and Strategies

- Many institutions offer counseling in addition to required entrance and exit counseling.
- As a method of reducing loan default rates, special counseling programs have been set up at a number of colleges and universities.
- Some counseling programs partner with on-campus student organizations to work with students who may be at higher risk of default.

Challenges to Effective Counseling

- Counselors have attempted various communication methods to reach students, such as e-mails, text messages, and social media, often with limited success.
- Several counselors have included financial aid counseling in student orientations but noted some conflicts with university administrators.
- Optional counseling programs oftentimes have poor attendance because of disinterest from students or competing demands for their time.

- Because universities cannot require more than entrance and exit counseling, many counselors feel inhibited and find it to be a significant barrier to helping students with their financial decisions.

Administrator Recommendations

- Counselors desire the ability to require additional financial aid counseling.
- Counselors suggest providing earlier general financial education to students in primary and secondary school.
- Counselors advise simplifying and modernizing the online counseling modules provided by the Department of Education.

Policy Matters

- It is difficult to define success regarding financial aid counseling since optimal financial choices are highly dependent on the student's particular financial situation.
- Counselors noted that their institutions did not have extensive tools for measuring program impacts.
- The counseling that most students receive is not optimally designed for learning and decisionmaking.
- Students supporting families may feel financial pressures to enter the workforce before completing their degrees, which could leave them in a more adverse financial situation than when they started school.

Introduction

In the 2015–16 academic year, more than 8.5 million undergraduate and graduate students borrowed Federal Direct Loans and another 1.2 million individuals borrowed Federal PLUS Loans. Among Direct Loan borrowers, the average annual amount borrowed in 2015 was $6,610 for undergraduates and $20,170 for graduate students. The average PLUS Loan was $15,250 for undergraduates and $23,490 for graduate students.[2] Among individuals with undergraduate loans as of June 2015, 42 percent owed less than $10,000 and only 10 percent owed more than $40,000. Conversely, among individuals with graduate loans, 43 percent owe more than $40,000.[3]

Student loans are unique compared to most other debt products for several reasons. With most other debt products, lenders underwrite loans based on a calculation of the borrower's likelihood of repayment. However, to ensure access to higher education, most federal student loans are originated without regard to the borrower's creditworthiness.[4] Indeed, the default and delinquency rates for student loans are much greater than those of other consumer products. The 90-plus-day delinquency rate for student loans in 2016:Q2 was just over 11 percent.[5] This compares unfavorably to rates of under 2 percent for mortgages and home equity

2 The College Board, *Trends in Student Aid 2016* (New York: The College Board, October 2016), https://trends.collegeboard.org/sites/default/files/2016-trends-student-aid.pdf.

3 Executive Office of the President of the United States, *Investing in Higher Education: Benefits, Challenges, and the State of Student Debt* (Washington, DC: Executive Office of the President of the United States, July 2016), www.whitehouse.gov/sites/default/files/page/files/20160718_cea_student_debt.pdf.

4 One of the eligibility requirements for Federal PLUS Loans to graduate students and parents of dependent undergraduate students is that the applicant not have an adverse credit history. For more information, see https://studentaid.ed.gov/sa/sites/default/files/plus-adverse-credit.pdf.

5 This delinquency rate includes both federal and private student loans. Though private student loans are underwritten, they account for only a small percentage of total student loan originations.

lines of credit, 3.5 percent for auto loans, and 7.2 percent for credit cards.[6] For certain groups, including students at for-profit institutions and those who do not complete their degrees, non-payment rates are often higher.

In addition, with most credit products, the loan terms establish the borrower's monthly payments and length of repayment. Repayment of student loans, however, is determined by a complex list of repayment options from which borrowers must choose, the advantages of which are dependent on future outcomes, such as expected income, that the student may not predict accurately. Students with multiple loans may also need to interact with several different lenders and servicers.

For many students, their investment in higher education will be the largest they will have made to this point in their lives. The consequences of their financial decisions will follow them well after graduation as they attempt to borrow to buy a car or home.[7] Financial aid administrators and counselors play an important part in helping students and their families make the financial choices that are best for them. However, an extensive body of research indicates that existing counseling programs often do not lead borrowers to make financial decisions that are in their best interest.[8]

Background on Student Loan Counseling

All students borrowing Federal Direct Loans must complete entrance counseling before the loan's first disbursement, as well as exit counseling when they graduate, leave school, or drop below half-time enrollment.[9] Counseling requirements have

---

6 Federal Reserve Bank of New York, *Quarterly Report on Household Debt and Credit*, August 2016.

7 Because student loans generally cannot be discharged in bankruptcy, the effects of nonpayment can be particularly persistent compared to other forms of debt.

8 This research is cited in this report's literature review.

9 The Department of Education also offers optional "Financial Awareness Counseling" and additional counseling for certain borrowers with adverse credit histories.

been in place for the Federal Direct Loan program since its creation in 1992. Schools have some discretion in determining the mechanism for delivering the required counseling, but Department of Education regulations establish minimum elements that must be addressed by the school's counseling program, including

- emphasizing the importance of loan repayment;
- describing the consequences of default;
- explaining the use of the Master Promissory Note; and
- stressing that repayment is required regardless of educational outcome or subsequent employability.[10]

Schools may deliver the required counseling in person, by audiovisual presentation, or by interactive electronic means, but in all cases an individual with expertise in the federal student aid programs must be made available to students if they have questions. Similarly, exit counseling involves required elements and may be delivered in person, online, or, in some cases, via mail.

Though schools are permitted to develop their own counseling programs that meet the statutory and regulatory requirements, most schools opt to use the free online counseling program provided by the Department of Education (see https://studentloans.gov/myDirectLoan/entranceCounseling.action?execution=e1s1). Despite satisfying the regulatory requirements, the department's counseling tool has been criticized for its poor design, overwhelming number of statutory topics covered, and lack of personalization.[11] Many colleges have developed supplemental counseling programs, but federal law prevents schools from requiring, as a condition

[10] Department of Education, *Federal Student Aid Handbook 2015–2016* (Washington, DC: The Department of Education, May 2016), https://ifap.ed.gov/fsahandbook/attachments/1516FSAHbkVol2Ch6.pdf.

[11] Chris Fernandez, Carla Fletcher, Kasey Klepfer, and Jeff Webster, "A Time to Every Purpose: Understanding and Improving the Borrower Experience with Online Student Loan Entrance Counseling" (Round Rock, TX: TG Research and Analytical Services, April 2015), www.tgslc.org/pdf/Time-to-Every-Purpose.pdf.

of loan disbursement, any other counseling programs aside from entrance and exit counseling.[12] As a result, even highly effective programs tend to be underutilized.[13]

Importantly, in August of 2016, the Department of Education announced a pilot program to test the effectiveness of more flexible loan counseling policies for federal student loan programs. The experiment will allow colleges to require, as a condition of receiving Direct Loan funds, loan counseling beyond the required one-time entrance and exit counseling. Schools will randomly assign students into either the mandatory entrance and exit counseling usually handled through the online tool or additional third-party or institutionally developed counseling that meets minimum content requirements. The experiment will test whether requiring additional loan counseling is effective in boosting academic outcomes and helping students manage their debt.

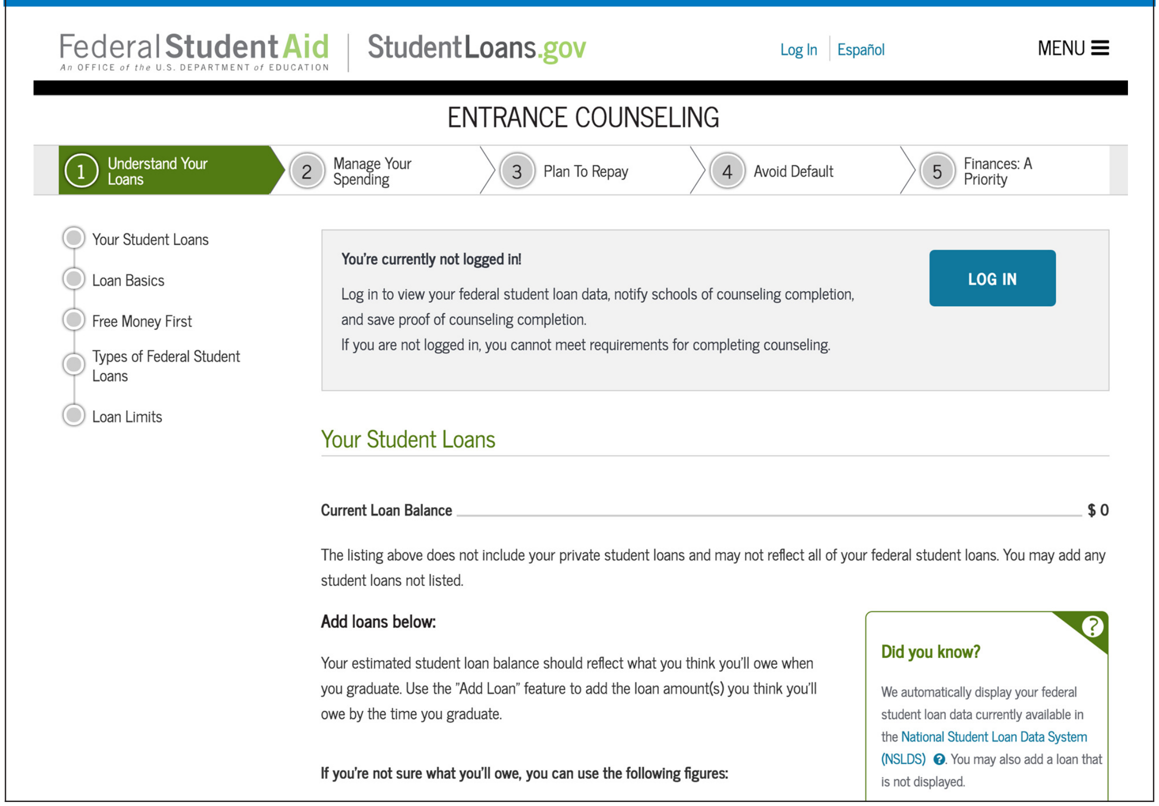
Federal Student Aid Entrance Counseling Tool

The Department of Education's online entrance counseling tool has five sections covering more than 20 topics. The opening section, called "Understanding Your Loans," covers basic terms associated with loans, as well as loan types, characteristics, and limits (figure 1). Subsequent sections of the entrance counseling tool each cover a host of topics, such as budgeting, managing loan disbursements, estimating future earnings and obligations, understanding repayment plans, working with servicers, avoiding default, paying taxes, and using credit—including credit cards—responsibly. Further, nearly all topics covered include links with more details and more-robust explanations.

[12] Title IV of the Higher Education Act of 1965 (Pub. Law No. 89-329), as amended, establishes requirements for financial aid entrance and exit counseling for federal student loan borrowers. In August 2016, the department launched a pilot program to test whether allowing colleges to require, as a condition of receiving Direct Loan funds, loan counseling beyond the standard entrance and exit counseling boosts academic outcomes and helps students manage debt.

[13] Chris Fernandez, Carla Fletcher, Kasey Klepfer, and Jeff Webster, "Effective Counseling, Empowered Borrowers: An Evidence-Based Policy Agenda for Informed Student Loan Borrowing and Repayment" (Round Rock, TX: TG Research and Analytical Services, January 2016), www.tgslc.org/pdf/Effective-Counseling-Empowered-Borrowers.pdf.

Figure 1. Federal student loan entrance counseling tool, "Understand Your Loan" section



The instructions from the Department of Education note that most people will complete their entrance counseling session in 20 to 30 minutes. However, students are told that they must complete the counseling in a single session and cannot save partial progress and return at a later time. As a result, though the tool contains a wealth of information, students budgeting no more than 30 minutes for this exercise will not have enough time to take advantage of everything the tool offers. Furthermore, retention of the material can be a significant challenge.

The entrance counseling tool is linked to the National Student Loan Data System, and the opening section requires students to log in to display their specific loan information (including federal student loan balance) from that system. However, in most cases the student will be completing entrance counseling before actually receiving federal loans so will not benefit from having access to personalized information.

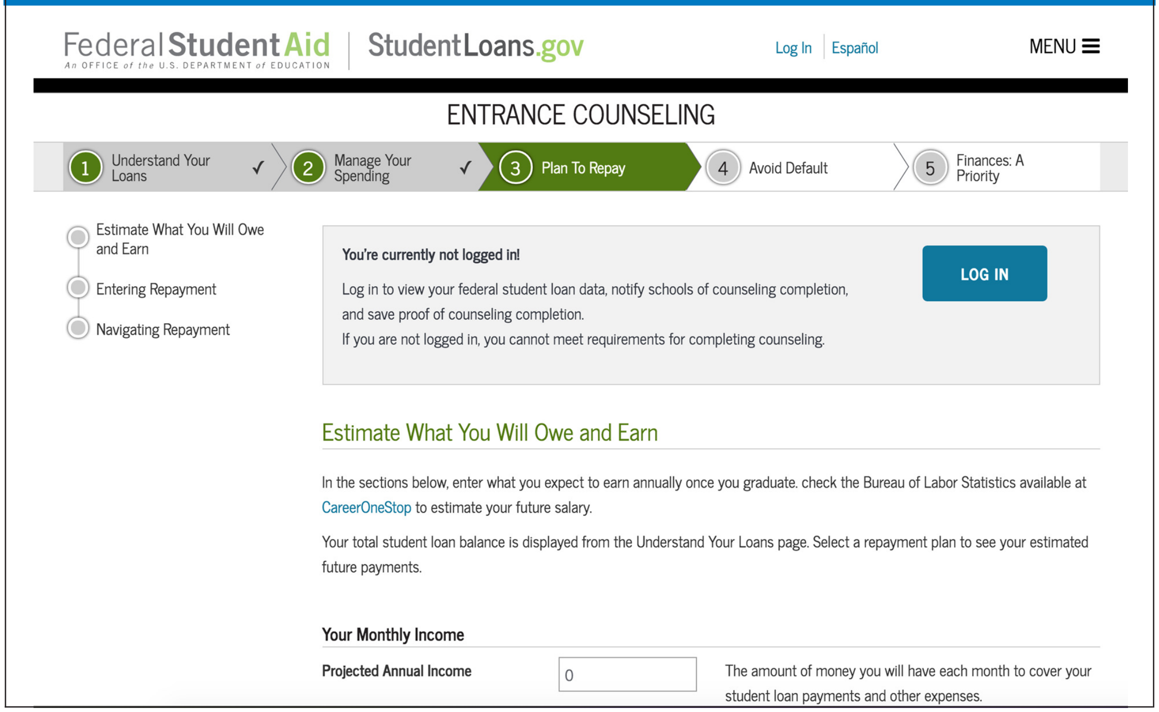
The budgeting tool prompts students to enter additional loan balances (e.g., from other federal or private loans) for what they expect to owe at the time of graduation as well as their anticipated income post-graduation. However, students may struggle to make such estimates with much accuracy, reducing the utility of the tool.

In the first section of the entrance counseling—“Understand Your Loans”—there are multiple highlighted boxes with headings labeled “Did you know?”, “Important!”, and “Remember!”. Along with convenient scroll-over definitions, there are numerous links, such as to College Navigator (which provides cost estimates for schools) and to grants and scholarships information. However, with so much information presented, it may be difficult for users to prioritize what material they read and to focus on the information without getting distracted.

The second section of the entrance counseling tool—“Manage Your Spending”—is designed to enable a student to develop a personal budget and use credit prudently. However, a student with time constraints is unlikely to use the counseling tool for this. Near the bottom of this section are links to two informative two-minute videos discussing budgeting and borrowing. There is guidance in one of the videos informing students that there are online apps that can assist them with budgeting, yet there is no mention of the names of some of these apps.

Figure 2 displays part of the tool’s third section, “Plan To Repay.” To complete the calculations, students are advised to research career salaries on a Bureau of Labor Statistics website and income tax withholding allowances on an Internal Revenue Service website. The tool allows the student to compare nine different repayment

Figure 2. Federal student loan entrance counseling tool, “Plan To Repay” section



plan payouts. However, students may not be able to accurately estimate their career earnings projections or their college indebtedness. This screen also has several highlighted boxes (these are labeled “Remember!”) as well as an informative video on repayment, which is placed at the very bottom.

Literature Review

Previous research has found that even after completing loan counseling, many students do not understand basic information about their loans, such as interest rate and terms of repayment, and many underestimate the amount that they owe.[14] In

[14] Thomas Mueller, “Changes to the Student Loan Experience: Psychological Predictors and Outcomes,” *Journal of Student Financial Aid* (January 2014): 148–164, http://publications.nasfaa.org/cgi/viewcontent.cgi?article=1077&context=jsfa; Emily A. Andruska, Jeanne M. Hogarth, Cynthia Needles Fletcher, Gregory R. Forbes, and Darin R. Wohlgemuth, “Do You Know

another survey, a majority of students reported being surprised by aspects of their student loans and 40 percent of respondents did not recall ever receiving exit counseling.[15] Though students in another focus group indicated that they understood that they should only borrow what they needed, they also did not consider cost to be the primary factor in deciding what school to attend.[16]

Additional research has found that the efficacy of the Department of Education's online counseling is limited by many flaws involving design, content, and delivery.[17] Many of these problems cannot be fixed without statutory changes. Scholars have argued that reducing the complexity of the financial aid process—from completing the Free Application for Student Financial Aid (FAFSA) to repayment—would allow students to make better financial choices.[18] Researchers have experimented with a variety of interventions intended to improve the timeliness, accessibility, and relevance of financial aid information. These have included text messaging, individualized letters, and alternative online counseling programs.[19] Impacts have varied depending on the designs of the interventions; however, they have raised important questions about scalability as well as unintended consequences. For example, some interventions have been shown to reduce borrowing, but borrowing less is not always in the best interest of the student.

What You Owe? Students' Understanding of Their Student Loans," Abstract, *Journal of Student Financial Aid* 44 (2014), http://eric.ed.gov/?id=EJ1045523.

[15] Carol Jensen, *College Financial Aid: Highlighting the Small Print of Student Loans* (ACE Continuing Education: January 2014).

[16] Fernandez, Fletcher, Klepfer, and Webster, "A Time to Every Purpose."

[17] Fernandez, Fletcher, Klepfer, and Webster, "Effective Counseling, Empowered Borrowers."

[18] Sandy Baum and Saul Schwartz, *Student Aid, Student Behavior, and Educational Attainment* (Washington: George Washington University: Graduate School of Education and Human Development, September 2013), https://gsehd.gwu.edu/sites/default/files/documents/PUBLISHED_Baum_Schwartz.pdf.

[19] See Andrew Barr, Kelli Bird, and Benjamin L. Castleman, "Prompting Active Choice Among High-Risk Borrowers: Evidence from a Student Loan Counseling Experiment," EdPolicyWorks Working Paper (Charlottesville, VA: University of Virginia, January 2016), http://curry.virginia.edu/uploads/resourceLibrary/41_Prompting_Choice_Among_Student_Borrowers.pdf; Rajeev Darolia, "An Experiment on information Use in College Student Loan Decisions," Abstract, Federal Reserve Bank of Philadelphia Working Paper No. 16-18, June 1, 2016, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2805857; and Drew M. Anderson, "Competing Methods of Informing Student Borrowers: A Randomized Field Experiment at an Online Proprietary University" (paper presented at the 38th Annual Fall Research Conference, Washington, DC, November 3–5, 2016), https://appam.confex.com/appam/2016/webprogram/Paper18120.html.

Methodology

The Federal Reserve Board collaborated with NASFAA to identify participants for a pair of focus groups conducted on July 11 and July 12, 2016, in conjunction with NASFAA's annual conference in Washington, D.C. NASFAA is a membership organization composed of nearly 20,000 student financial assistance professionals at approximately 3,000 colleges, universities, and career schools across the country. NASFAA member institutions serve 9 out of every 10 undergraduates in the United States. NASFAA has a primary focus on student aid legislation, regulatory analysis, and training for financial aid administrators in all sectors of post secondary education.

NASFAA recruited the study participants from the pool of financial aid administrators attending the conference with the goal of obtaining a focus group that represented a diverse set of institutions across several characteristics (table 1). Of the 12 participants recruited for each focus group, 10 attended the first and 7 attended the second. Participants were offered a nominal $10 incentive. Sessions lasted about 75 minutes.

The Board collaborated with NASFAA and Texas Guaranteed Student Loan Corporation (TG) to develop the study's research questions. The Board engaged ICF International to develop the moderator's guide, facilitate the focus groups, and produce a summary of the findings. The moderator's guide is included as appendix A. Appendix B provides additional data about focus group participants and their institutions.

Table 1. Focus group participant characteristics

Characteristic	Focus group 1 (July 11) (n=10)		Focus group 2 (July 12) (n=7)		All participants combined (n=17)	
	Number	Percent	Number	Percent	Number	Percent
Type of institution						
Two-year	3	30%	1	14%	4	24%
Four-year	7	70%	6	86%	13	76%
Public/private						
Public	6	60%	3	43%	9	53%
Private, nonprofit	3	30%	4	57%	7	41%
For-profit	1	10%	0	0%	1	6%
Size of institution						
Large	5	50%	4	57%	9	53%
Medium	2	20%	2	28%	4	24%
Small/very small	3	30%	1	14%	4	24%
Selectivity (% of applicants accepted)						
0–50%	4	40%	3	43%	7	41%
51–99%	2	20%	3	43%	5	29%
Open admission	3	30%	1	14%	4	24%
Not available	1	10%	0	0%	1	6%
Participant experience						
Average years of experience as financial counselor	19 years	n/a	20 years	n/a	20 years	n/a

Note: Institution size was defined according to the Carnegie Classification system. Note that the definition of "large institution" (based on size of student population) differs depending on whether the institution is a two-year or four-year degree granting institution.
n/a Not applicable.

Using focus groups for this study allowed exploration of observations, insights, and opinions from individuals with deep expertise in the field of financial aid counseling. While it is not possible to reach quantitative conclusions based on the conversations, there are meaningful insights that can be gained from the interactions among group members, the exchange of ideas and anecdotes, and confirmation of opinions. While much of the communication in a focus group is verbal, there are also nonverbal cues that signal participants' feelings and positions. The findings in the next section are drawn from observation of the two focus groups, as well as a review of the transcripts. These findings will help inform additional research based on a quantitative survey of NASFAA members to be published in 2017.

Findings by Topic

Counseling Tools and Strategies

Institutions use a variety of approaches to provide information about financial aid to their students.[20] Some programs are aimed at the entire student body, such as the Department of Education's entrance and exit counseling for Direct Loans, and others target specific groups of students, such as individuals from low-income households.

Institution-Wide Approaches

Colleges whose students receive Federal Direct Loans rely heavily on the online counseling models provided by the Department of Education for entrance and exit counseling. The programs are free and allow institutions to easily comply with the statutes and regulations governing participation in the Direct Loan program. However, participants noted that the online counseling programs are not highly effective since there is an overwhelming amount of information presented, which is often irrelevant for a student at that time.

Most participants stated that their institutions do offer either required or optional counseling beyond the standard online entrance and exit counseling programs. Several institutions require first-year students to participate in general financial education sessions, while others offer optional programs to students throughout the year along with special programs on loan repayment at the end of the year. Financial aid offices also typically offer sessions as part of the new student orientation agenda.

[20] Financial aid could include scholarships, grants, and loans. Because of the Federal Reserve's interest in student debt, the focus group questions paid particular attention to counseling provided to students with loans.

> *"They go through the motions, may or may not retain a lot of what they heard and, under the current requirements, the next time they might hear something about their loans … may be in exit counseling."*
>
> – Counselor at a public, four-year institution

Participants indicated that in-person supplemental sessions are typically offered in group settings and, in some cases, are streamed online or recorded for later viewing. Individual counseling is also available upon request, but counselors noted that only smaller schools can feasibly provide individual counseling to all students.[21] Institutions also post information to students' online learning management systems, such as Blackboard or Canvas.

In some cases, special counseling programs were established as part of a plan to reduce an institution's high default rate. A participant from an open-admission, two-year school noted that they began conducting in-person counseling in an attempt to reduce defaults. Because the counseling was too resource intensive, however, it was later converted to an online program. Another open-admission two-year school noted that it requires a 20-minute financial literacy session during a student's first year.[22] The institution also requires students who are withdrawing from school to get "sign-off" from the financial aid office. This requirement ensures that

- the school has the student's latest contact information,
- the student completes exit counseling, and

[21] Some research has found peer-to-peer mentoring to be a promising practice that could be scaled to larger institutions. However, only one of the study's participants indicated that her institution was considering such a program.

[22] Institutions are legally prohibited from requiring any additional counseling beyond entrance and exit counseling as a condition of receiving the loans, but this institution has included the financial literacy session as part of its entrance counseling.

- counselors have a final opportunity to explain the benefits of finishing a degree, as well as the costs of withdrawing.

According to the counselor at the institution with this policy, about 30 percent of students who initially attempt to withdraw from school decide to stay enrolled.

Several counselors noted that students often do not understand how much they have already borrowed and do not consider their total debt burden when pursuing new loans. Participants described several attempts to better inform students of their debt burdens:

- Some schools have built online systems to incorporate data from the Department of Education's National Student Loan Data System into their student information systems so that students can easily see how much they have already borrowed when accepting new loans.[23]
- A counselor for graduate students at a highly selective public institution noted that it removed the cost of attendance adjustment application form from its website and now requires students to contact their office to receive it.[24]

Targeted Programs

In addition to financial counseling programs aimed at all students with loans, many counselors described programs that target specific students whom they believe may struggle with financial management or who are at elevated risk of default. These students include those who

- are from low-income households;

[23] This system does not track whatever private loans the student may have.

[24] Financial assistance is determined, in part, on the school's calculated cost of attendance. This form allows students to appeal that calculation if they believe special circumstances (e.g., child care, medical costs) would result in their attendance costs being higher than the school's estimate. If approved, students become eligible for additional loans to cover the adjusted cost of attendance.

> *They are the support of the family, and they have been doing so with a part-time job. … They don't actually need it for themselves, but their family needs it. They get in two semesters ... and realize, 'I can't let my family down.' They stop [attending college]."*
>
> – Counselor at a public, four-year institution

- did not reenroll at the start of the semester;
- are in their first year of school;
- are supporting families while attending school;
- have very large debts;
- are in delinquency but not yet in default; or
- are taking out private loans without first maximizing federal loans.

The specific channels for these efforts vary, but participants noted that they partner with student organizations on campus or with outside organizations to reach particular groups of students. Though participants conduct outreach to these groups, they did not describe the programs as being customized to the unique needs of these students.

Challenges to Effective Counseling

Communication

Counselors must be able to effectively communicate with students to provide them with information and help them to make the financial decisions that are best for them. While counselors generally use e-mail to communicate with students, several participants noted that it was not an effective way to reach them. Other counselors described paper-based communications, including letters, postcards, and newsletters, that they believe are more often read than e-mail.

Counselors have experimented with communications channels that they thought would be more likely to reach students, including text messaging and social media. Regarding text messaging, the two counselors that had experience with this method noted that students found the messages to be intrusive and not appropriate for communications from the university. Counselors also noted that they often do not have the most current phone numbers for students, and federal law establishes significant financial penalties for improper contact made using automatic telephone dialing systems.[25]

Some counselors using social media reported having success reaching students; however, they have since moved away from social media because of the university's concerns about confidentiality, as students began sharing information about their personal financial situations. Notably, one participant from a rural institution observed that attempts to emphasize electronic forms of communication did not succeed at that school because the students had limited access to technology. Though not highlighted by participants in this focus group, similar concerns may be raised about communication with other groups, such as older adults, who have limited access to or comfort with electronic communication.

Support from Administrators

Several counselors noted that university administrators are often reluctant to include financial aid counselors in student activities such as orientation or campus fairs

[25] For more information about the Telephone Consumer Protection Act, see www.fcc.gov/general/telemarketing-and-robocalls.

because they believe financial aid discussions would detract from the tone of the events. As one financial aid counselor at a highly selective, public four-year university stated, “They don’t want to give us a spotlight, because it’s not as fun as all of the other activities and student clubs. It’s a fight to get time in front of students.” Notably, this sentiment was restated by schools of all types—highly selective and open admission, two-year and four-year, public and private.

In some cases, participants also described conflicts with staff from university admissions offices regarding the presentation of financial aid information to students. One participant who had previously worked for a for-profit institution said that, “financial aid, for all intents and purposes, was an extension of the admissions office.” Another counselor at a private nonprofit institution added that, “the admissions office would be all over us . . . if our award letters had to be upfront.” However, these experiences were not universal. Several participants said that they felt comfortable advising students not to attend the university if it was not in their financial best interest. A counselor from a four-year public university noted that their administration believes that, “it’s not worth bringing somebody in just to get the money up-front if you can’t follow through with [the academic program].”

Interest from Students

Though institutions often offer many opportunities for counseling throughout the academic year, counselors noted that optional programs are often poorly attended because of lack of interest from students. Counselors reported having trouble competing for students’ time when they have more pressing or more exciting demands on their time.[26] In some cases, such as at institutions with adult learners or

[26] Several counselors reported withholding services (e.g., copies of transcripts, the diploma, etc.) if a student did not complete exit counseling. However, the schools cannot compel students to complete anything not required by the federal government to access their loans.

> *"We build workshops surrounding the results [of student surveys about financial aid], but then when we have the workshop, nobody shows up."*
>
> – Counselor at a private, for-profit, four-year institution

many transfer students, the students may have received financial counseling before so will not seek it out again.

Resources

Participants generally agreed that in-person counseling tended to be more effective than online alternatives. However, most financial aid offices, particularly those at large universities, simply do not have the resources to meet individually with students or in small groups with students.[27] One counselor at a public, open-admission college noted that their institution attempted in-person counseling to address high default rates, but converted that program to an online module because it was less resource intensive.[28]

Statutes and Regulations

Universities are prohibited from requiring any steps beyond entrance counseling for students to access their federal loans. Counselors reported that this constraint is a significant barrier to assisting students with their financial decisions because participation in optional programs is limited. In addition, counselors generally cannot prevent students from taking out federal loans for which they are eligible, even if the counselor does not believe the loans are in the students' best interest.

---

[27] The volume of students and the administrative demands placed on financial aid offices are two factors challenging counselors' resources.

[28] In one example, the online module is built into the student's Blackboard account and presented as a "To-Do" item.

> *"We would love to do one-on-one [counseling] because our default rate is high, and we're trying to figure out what we can do to solve it now. We've analyzed it to death. We know who they are. We can just about tell you their names before they default."*
>
> – Counselor at a public, two-year institution

Despite this restriction, some participants noted that they have made several attempts to increase participation in counseling programs without violating regulations. In one case, the school presented students with an optional online information module with a quiz at the end. If the student scored below a certain score, the system prompted them to visit the financial aid office. However, the quiz component was removed after the school was instructed that it violated Department of Education regulations. This counselor's institution also presents additional optional information modules in an online checklist that includes some required tasks for students. The counselor noted that, "They aren't required to do it, but it kind of looks like it's a requirement because it's on the to-do list." She indicated that this approach had a substantial positive impact on participation.

Administrator Recommendations

The facilitators asked participants to describe their ideal counseling systems if resource, legal, and student participation constraints were removed.

- **Improve communication.** Institutions struggle to get students to read financial aid information delivered via e-mail, and various privacy and regulatory concerns have inhibited counselors from using more student-friendly approaches such as social media and text messaging.

> *"When you're talking about a younger student, can they project what it means to have a $550 a month loan payment? No. No, they can't."*
>
> – Counselor at a public, two-year institution

- **Mandate additional counseling.** Institutions cannot require counseling beyond entrance and exit counseling as a condition of receiving federal loans, but counselors report that students are unlikely to complete optional counseling.
- **Provide earlier general financial education.** Counselors reported that many students lack sufficient understanding about basic personal finance and budgeting when entering college. Students often also have unrealistically high expectations about the incomes they will earn after completing their degrees. Notably, in some cases, risk-averse students are reluctant to borrow even to pursue degrees that are highly likely to yield positive returns on their investments.
- **Simplify repayment.** Counselors noted that students often have loans from one or more private lenders, the federal government, and, in some cases, the school itself. Each loan may have different servicers and different repayment terms, causing confusion for borrowers.
- **Provide financial aid counseling earlier in the college selection process.** Schools typically do not emphasize the cost of attendance in the student recruiting process. Even if financial aid counselors have the freedom to encourage students to attend lower-cost schools, students often already have emotional attachments to the school and are unlikely to change their minds.
- **Improve financial aid information.** Institutions present financial aid packages that cover the estimated cost of attendance, but students often do not realize that they could choose to borrow less if they do not need the full amount.

Policy Matters for Consideration

These focus group discussions and administrator recommendations highlight several questions and policy matters related to financial aid counseling that warrant further discussion as improvements to financial aid counseling programs are considered.

What are the desired outcomes for financial aid counseling programs?

Financial aid administrators are committed to providing students with information and advice that allow them to make decisions that are in their financial best interest. However, in the context of borrowing to pay for higher education, optimal financial decisions are highly dependent on the student's personal circumstances. While borrowing may be a poor choice for one student, it may be the right choice for another. Study participants described several programs designed to slow or discourage student borrowing, but these programs may discourage students with limited financial resources from pursuing educational opportunities that, on net, would benefit them.

Stakeholders may consider unintended consequences and the difficulty of defining counseling success when measuring the efficacy of financial aid counseling programs.

How might more-robust program evaluation mechanisms help improve financial aid counseling?

Study participants indicated that their institutions did not have robust mechanisms for measuring the impacts of their counseling programs. Counselors cited several reasons for the limited evaluation efforts:

- Financial aid offices do not have the financial or staff resources or to evaluate programs.

- There are structural issues that make studying these programs difficult. For example, outcomes for student loan borrowers are often not observed until years after the students graduate, at which point schools have often lost touch with the students.
- Officials at some universities only become interested in the efficacy of financial aid counseling if the school's student loan default rate increases to a threshold that could threaten the school's access to federal student loan programs.
- Many administrators are acutely focused on compliance with federal regulations rather than the design of their particular counseling programs.

Policymakers may consider how adjusting incentives might lead schools to more critically evaluate their counseling programs and lead to the sharing of promising practices among institutions.

How could counseling programs be redesigned to incorporate lessons from behavioral economics and psychology research?

Counselors provided several insights into how understanding human behavior influenced their approaches to financial aid counseling. These included making students more aware of what they had already borrowed to attend school, requiring more active student participation in accepting student loans, and disbursing loans in small installments over the course of an academic year rather than in two lump sums. Existing and ongoing research have also provided a greater understanding of how humans learn new information and make financial decisions.

School administrators and policymakers revising financial aid counseling programs may consider these lessons and make design changes that complement learning and decisionmaking.

How can financial aid counseling be responsive to the family circumstances that many students face?

Participants noted that many of the students they consider to be at the highest risk of default face difficult choices regarding financial support for their families when they attend school. Students who had been working may choose to use student loans to replace the lost income they need to support children, parents, or other family members. Several participants also observed that students supporting families frequently feel pressure to return to the workforce rather than complete their degrees, often leaving them in a worse financial situation than before enrolling.

School administrators and policymakers may consider what additional support could help these students balance their educational goals with the financial needs of their families.

How could statute and regulation be adjusted to create a culture of responsible innovation related to financial aid counseling?

Because federal regulations prohibit institutions from requiring any financial aid counseling in addition to entrance and exit counseling, counselors believe their ability to reach students is severely limited. In addition, institutions have little incentive to develop innovative counseling programs since compliance risk is easily mitigated using the Department of Education's online counseling tool.

Policymakers may consider what statutory and regulatory changes would foster a culture of responsible innovation related to student financial aid counseling. The Department of Education's pilot to test the effectiveness of more flexible loan counseling policies on federal student loan borrowers may meaningfully inform these considerations.

Conclusion

Financial aid counseling is an important tool that can be used to assist students and their families with making decisions about higher education. Emerging research is expanding the understanding of how counseling programs can be designed to maximize their impact on decisionmaking. However, study participants across many different types of institutions indicated that their efforts are limited by a variety of factors, including limited resources and regulatory compliance issues. Focus group participants' comments suggest that policymakers and school administrators should consider how existing programs may be revised to maximize the positive impact that counseling can have on student loan borrowers.

Appendix A: Moderator's Guide

Introduction (5 minutes)

Welcome and thank you all very much for agreeing to participate in this focus group. I'll start out by introducing myself: my name is Michael Long and I work for a research company called ICF International. With me are Sharika Bhattacharya, also from ICF, and _________ from the Federal Reserve Board.

We are conducting this focus group for the Federal Reserve Board. One of the Federal Reserve Board's priorities is to find ways to help Americans make better and well-informed financial decisions. One of the topics they are particularly interested in learning more about are the decisions students make about financial aid. In this discussion we'd like to learn more about the strategies and tools you use when providing counseling to different types of students, and your perspectives about which approaches are most effective.

Before we get started, I will cover some logistics and guidelines.

- Everything you say here today is confidential, so please be honest and speak your mind. We will be writing a report on what you say today, but our report will not include any of your names.
- We are recording this session to ensure that we don't miss anything that you say. However, these recordings will be completely confidential, and will not be shared with anyone outside of ICF and a small group at the Federal Reserve Board.

- This discussion will end at 8:15 a.m. At times, I may ask that we switch to a different discussion topic to ensure that we are able to cover important points for discussion during the time we have.

To repeat, our purpose here is to learn more about the strategies and tools you use when providing counseling to different types of students, and your perspectives about which approaches are most effective. Does anyone have any questions about what we are going to talk about today?

Great. I'd like to start by going around the room and have everyone introduce themselves. Please state your first name, whether you work for a private or public institution, whether you would consider your institution to be large or small, and how long you have been a financial aid counselor.

Approaches to Counseling (35 minutes)

1. What tools or methods do you use to provide counseling to students? *In particular, probe for tools other than the Department of Ed online counseling module.*
   A. At what point in the student's experience do each of these interactions take place (e.g., before their freshman year begins? Just before graduation from college)?
   B. Do you use different approaches for different types of students? If so, how do you decide which tool/method to use with which students?
2. Which of these counseling methods do you think are most effective in terms of student impact?
   A. The Federal Reserve Board is particularly interested in students who may be "at risk" for negative financial consequences, such as low-income students or

those who are the first in their families to attend college. Are there any methods that you think are most effective for these specific populations?

3. Are there any resource constraints that you face, in terms of budget, staff, or technology, that impact the way you provide counseling? If so, what are the constraints and how do they impact your work?
    A. What would you do differently if you did not face those constraints?

4. Are there any approaches that you have seen used at other institutions that you have considered implementing at your own institution, or would implement if you had no constraints? If so, what? *Specifically probe approaches that (a) targeted specific types of students; (b) use multiple points of contact to get students' attention; or (c) use a peer-to-peer model.*
    A. What challenges would you face in trying to implement these approaches at your institution?
    B. If they have been considered, why haven't they been implemented?

Counseling Outcomes (20 minutes)

5. Does your institution try to measure the efficacy of financial aid counseling in any way? If so, how?
    A. Does your institution try to measure students' satisfaction with financial aid counseling in any way? If so, how?

6. What are some of the challenges that prevent your interactions with students from being more effective?
    A. Are there any challenges that are particularly important for students that might be "at risk" for negative financial consequences, such as low-income students or those that are the first in their families to attend college?

B. How can you tell whether your interactions with these students are less effective?

7. For the students whom you counsel, what information about their loans do they have the most difficulty understanding?

    A. What approaches do you use to try to communicate those concepts?

    B. Are there any approaches that you think are most effective for students who may be most "at risk" for negative financial consequences?

8. Has your institution made any changes recently to improve the effectiveness of counseling?

    A. If yes, what were those changes, why were they made, and how successful have they been?

Impact of Federal Policies (10 minutes)

9. What impact have federal requirements and policies had on the ways financial counseling is provided at your institution?

    A. Have those impacts been positive or negative? Why?

    B. Do federal requirements or policies in any way prevent you from doing anything that you think would make your counseling more effective? If so, how?

Conclusion (5 minutes)

10. I wanted to make sure that the representative(s) from the Federal Reserve Board had an opportunity to ask any questions they had. Do you have any questions for the group?

11. Does anyone have anything else they'd like to share with the Federal Reserve Board about their work with students, challenges they face, or approaches they have found to be effective?

Thank you again for your willingness to come here so early in the morning and share your input with us! If you think of anything else you would like to add later, or have further questions, you can reach us at [provide ICF contact info].

Appendix B: Participant Database

Notes for appendix B data:

- Data is derived from institution websites, US News, and NCES IES.
- The “Diversity” measure (% non-white) includes all students who identified with a racial or ethnic background other than white. Students identifying with multiple races are counted as “non-white.”
- Size descriptions are based on Carnegie Classification system.
- Percent receiving financial aid refers to all aid, not just federal loans.
- The default rates shown refer to federal loans only, and describe the default rate for the institution overall, not the specific school within the institution at which the participant works.

Tables begin on next page.

Table B.1. Group #1: Monday, July 11, 2016							
Participant #	**Code in transcripts**	**Institution type**	**Selectivity (% accepted)**	**Diversity (% non-white)**	**Size**	**Age of students (% 18–24 yrs. old)**	**Financial need (% receiving fin. aid for 2014–15)[1]**
1	S8	public, 2-year	open admission	34%	small	67%	83%
2	S2	private, 4-year, graduate	66%	19%	medium	97%	83%
3	S5	public, 4-year, graduate	74% (fall 2014)	21%	small	88%	76%
4	S9	public, 2-year	open admission	19%	medium	57%	71%
5	S10	public, 4-year, graduate	48% (fall 2014)	84%	large	73%	69%
6	S1	public, 2-year	open admission	47%	large	70%	62%
7	S12	public, 4-year, graduate	16%	56%	large	94%	61%
8	S11	private, for-profit, 4-year	Not available	58%	large	25%	57%
9	S3	private, 4-year women's college	27%	36%	very small	99%	57%
10	S7	private, 4-year, graduate	10%	39%	large	94%	54%

[1] Reflects aid to undergraduates only.

Table B.1. Group #1: Monday, July 11, 2016—*continued*

Participant #	FTE	Number of defaults (2010)	% default rate (2010)	Number of defaults (2011)	% default rate (2011)	Number of defaults (2012)	% default rate (2012)
1	1,260	88	32.3%	87	28.0%	67	19.4%
2	8,769	37	2.4%	26	1.4%	21	1.1%
3	2,731	70	11.4%	71	9.8%	83	10.3%
4	1,954	138	30.7%	149	23.8%	250	26.0%
5	38,863	618	10.5%	614	8.9%	563	6.8%
6	8,460	700	24.0%	79	23.8%	924	23.3%
7	39,614	159	3.3%	184	3.8%	157	2.9%
8	12,508	132	6.7%	193	5.8%*	180	3.8%
9	982	3	2.5%	1	1.0%	3	2.8%
10	22,739	58	1.6%	49	1.3%	46	1.1%

FTE Full-time equivalent.
* Note that default rates for S11 apply to all locations of this institution and not just the campus S11 represents.

Table B.2. Group #2: Tuesday, July 12, 2016

Participant #	Code in transcripts	Institution type	Selectivity (% accepted)	Diversity (% non-white)	Size	Age of students (% 18–24 yrs. old)	Financial need (% receiving fin. aid for 2014–15)[1]
1	S6	private, 4-year, graduate	51%	32%	medium	85%	89%
2	S5	public, 4-year, graduate	47%	39%	large	94%	88%
3	S8	private, 4-year, graduate	64%	33%	small	83%	75%
4	S9	public, 4-year, graduate	65%	20%	large	93%	71%
5	S4	private, 4-year, graduate	44%	27%	large	92%	64%
6	S3	private, 4-year, graduate	49%	21%	medium	94%	50%
7	S7	public, 2-year	open admission	25%	very large	60%	32%

Note: FTE for S6 represents enrollment for the overall institution, not just the campus S6 represents.

[1] Reflects aid to undergraduates only.

Table B.2. Group #2: Tuesday, July 12, 2016—*continued*

Participant #	FTE	Number of defaults (2010)	% default rate (2010)	Number of defaults (2011)	% default rate (2011)	Number of defaults (2012)	% default rate (2012)
1	8,000	32	3.4%	34	3.1%	34	2.6%
2	44,765	251	3.8%	238	3.6%	206	3.0%
3	1,261	186	7.8%	153	6.9%	101	4.8%
4	30,445	186	3.8%	254	4.7%	241	4.1%
5	20,465	63	1.5%	62	1.4%	59	1.2%
6	8,960	27	1.7%	34	2.0%	22	1.1%
7	15,399	388	14.0%	568	14.8%	612	13.0%

FTE Full-time equivalent.