



Prompting active choice among high-risk borrowers: Evidence from a student loan counseling experiment

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Increasing role for behavioral science in public policy



“A growing body of evidence demonstrates that behavioral science insights...can be used to design government policies to better serve the American people.”

-President Obama
Executive Order, directing federal agencies to incorporate behavioral science



Interventions to promote active and informed decision-making

Expand college choices

(Hoxby & Turner, 2013)



Increase financial aid eligibility

(Bettinger et al., 2012)



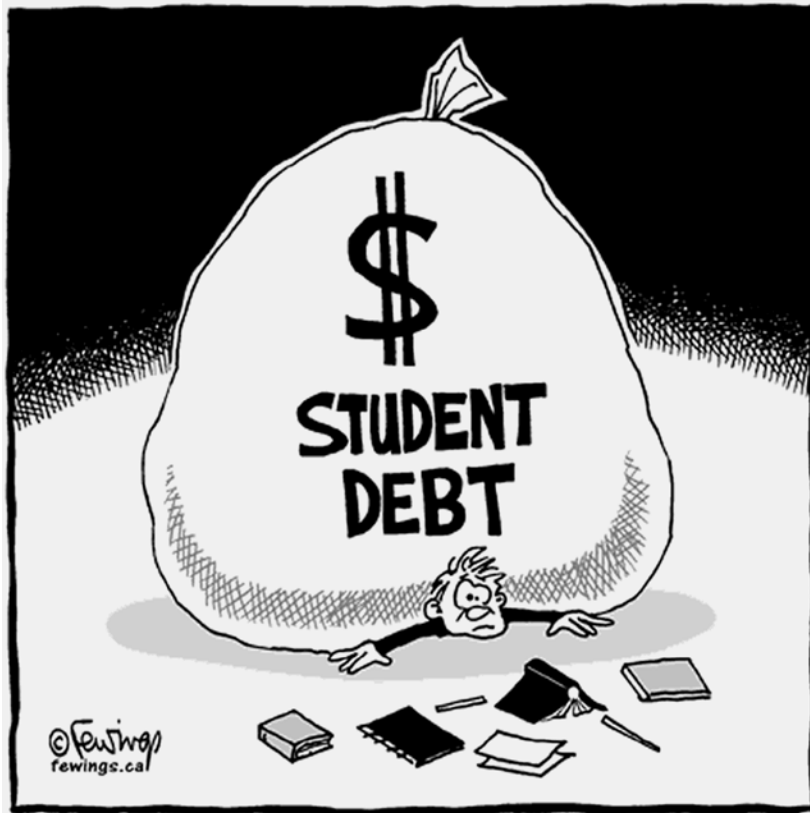
Complete required pre-matriculation tasks

(Bettinger et al., 2012)

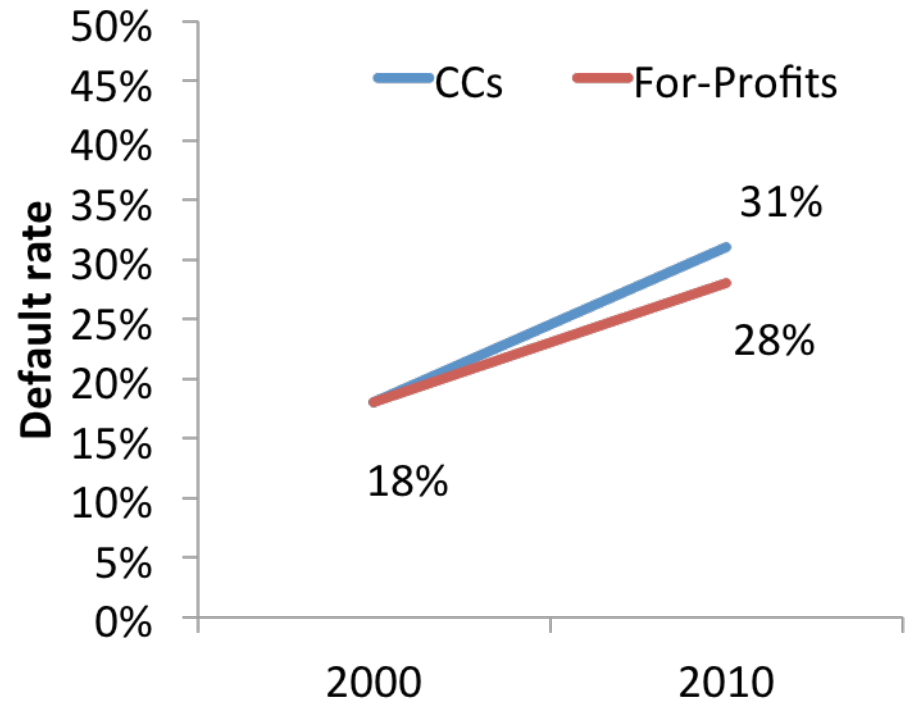
Hi Alex! Have you signed up for the ANU orientation? Last one is 7/15. Need to register? <http://bit.ly/anuorient>. Need help? Reply to talk w/ an advisor.



Behavioral science and student loans



Cohort default rates among borrowers





FACT SHEET: Department of Education Announces Efforts to Strengthen Loan Counseling (Aug. 2016)

- Accurate and timely loan information can help students make informed decisions about borrowing
- Limited rigorous research on how to make loan counseling more effective:
 - Types of content and delivery methods
 - When—and how often—counseling should occur
- **Test whether requiring additional loan [information and] counseling is effective in boosting academic outcomes**



Mixed evidence from concurrent loan interventions

- Including loan offers in all financial aid packages:
↓ course drops, ↑ credits earned (Marx and Turner, 2016)
- Sending flagship university students a letter with tailored info about cumulative borrowing and future repayments: ⊖ borrowing/academics (Darolia, 2016)
- Sending flagship students a letter with cumulative borrowing info **and** academic advice: ↓ borrowing, ↑ performance (Stoddard et al., 2016)



Community College of Baltimore County student loan texting project

CCBC would like to send you personalized text messages with important financial aid information and reminders. These messages will help you connect to the Financial Aid Office. **By providing your cell phone number, you agree to receive these texts from CCBC.** Your information will be used only by CCBC for financial aid messaging. Standard text-messaging rates apply and you are responsible for any costs incurred in receiving texts. You may also opt-out at any time by replying 'STOP' to any text sent.

Cell phone number:

- 1 week from application to intervention
- 1 month of texts
- 8 texts over the course of the intervention
- 33 waves of applicants to date



Reduce barriers to one-on-one loan counseling

Hi Kelli, this is Colin from CCBC. We know loans can be confusing so we're here to help you decide the loan amount that is right for you! You can text me back at this number and I'll write back as soon as I can.



Prompt choice and simplify information

Did you know how much to borrow is **YOUR** choice? Accepting the maximum loan may not be right for everyone. Want to chat about the loan amount best for you?



Connect present borrowing to future expense

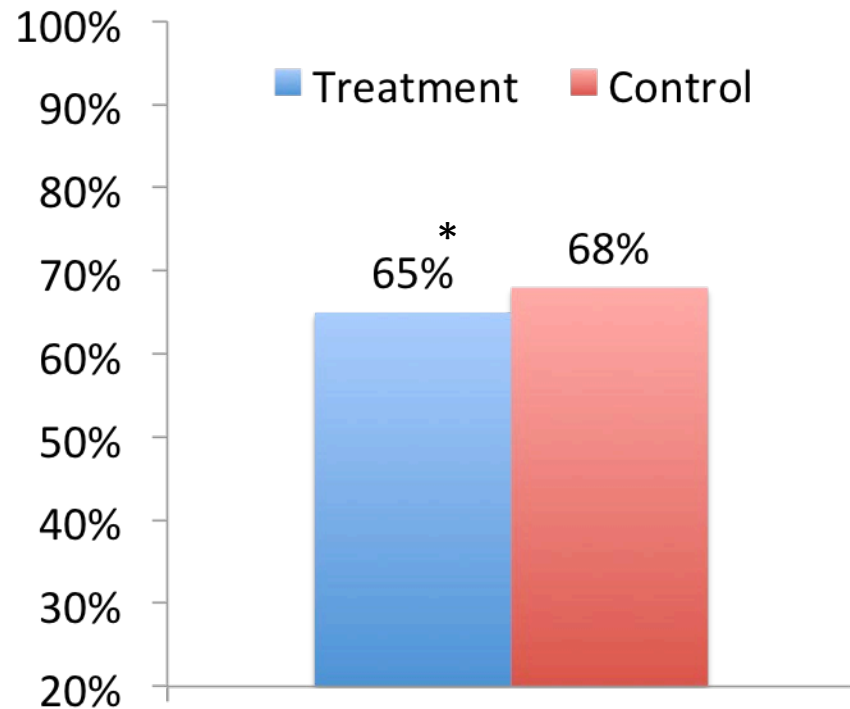
Kelli, your loan payments can be \$100s higher or lower each month depending on how much you borrow and which repayment plan you choose. Text me back to discuss how your borrowing choices will affect the payments you owe.

No Board endorsement of any person or entity

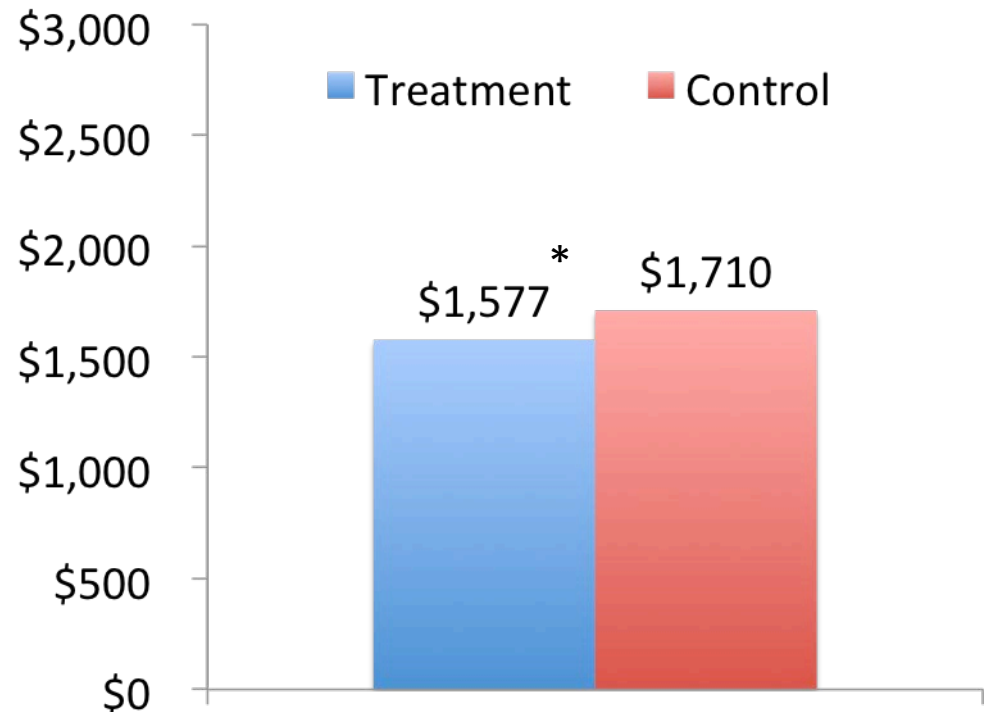


Declines in unsubsidized Stafford borrowing

Share of students borrowing



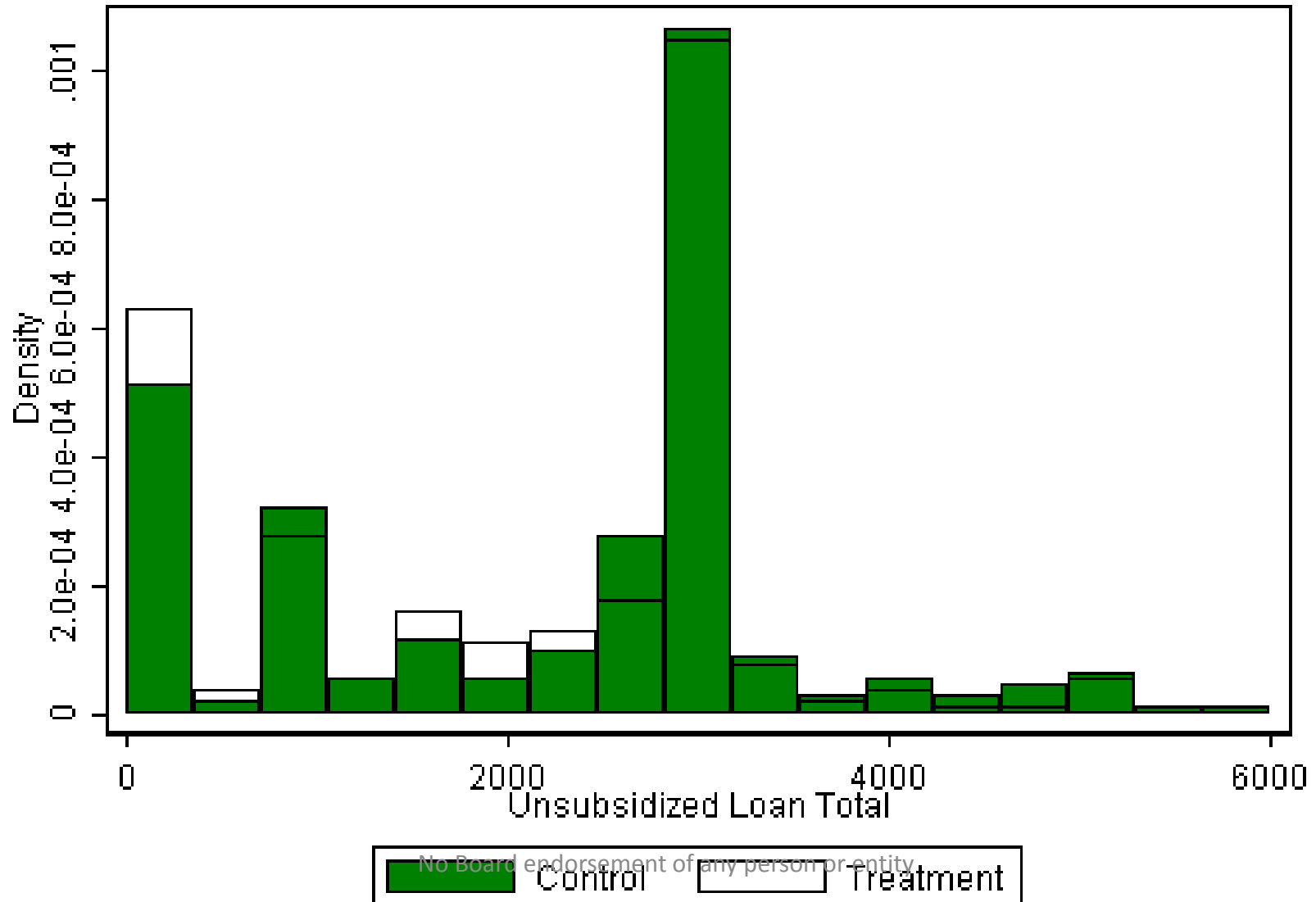
Amount students borrowed



Impacts concentrated among: (1) Fall '15 students, (2) Females, (3) students with low GPAs, and (4) Black students

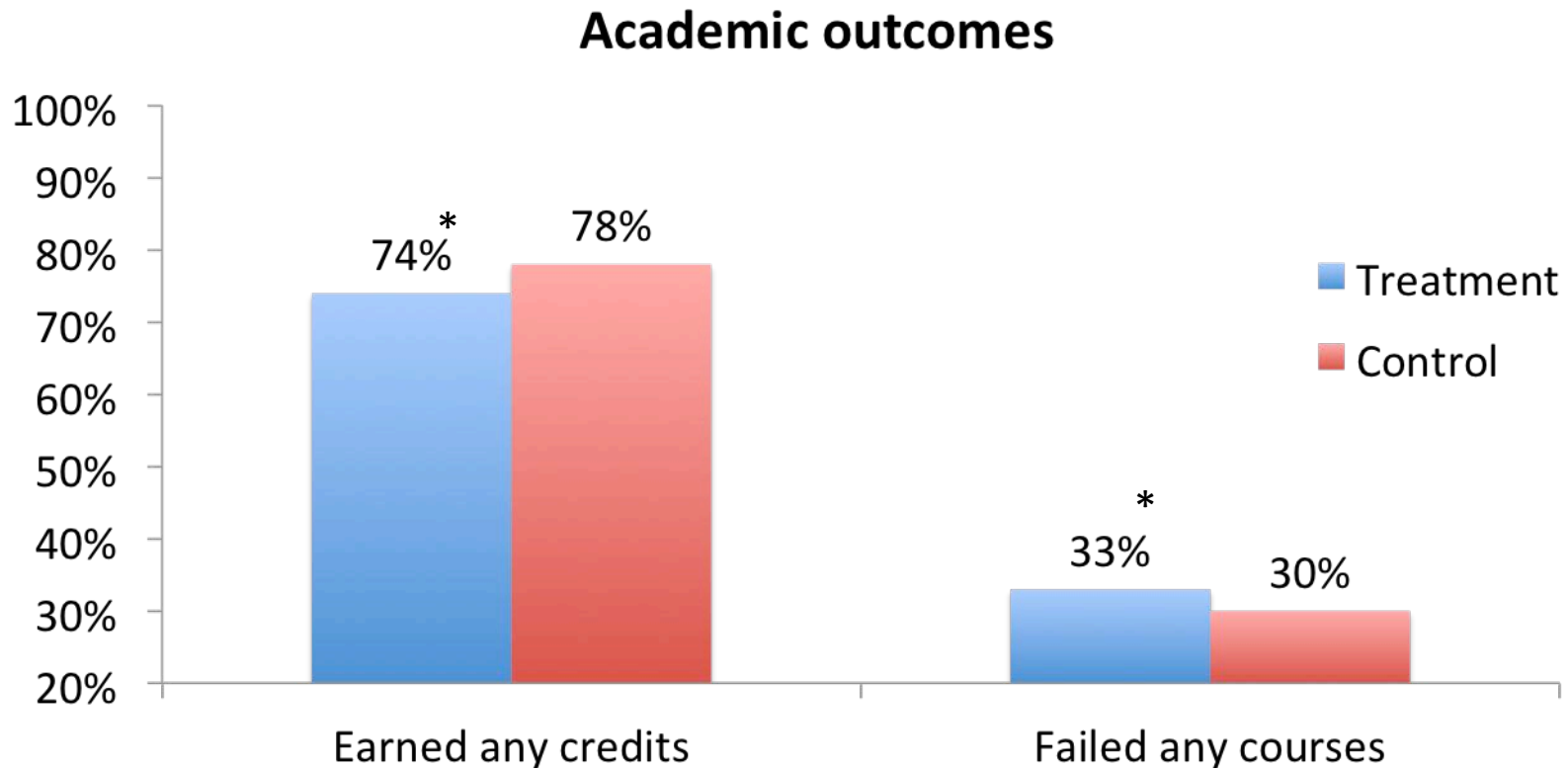


Shifts across distribution of borrowing





Negative effects on academic outcomes



Effects driven by: (1) Academically marginal students and (2) Students who received intervention prior to priority aid deadlines



Mechanisms driving impacts

- **Borrowing impacts**

- Surveys indicate texts provided new info and helped connect students to counselors. Particularly salient for students w/ lower levels of fin lit?
- Impacts larger when loans were auto-packaged vs. when students had to actively seek out loans

- **Academic impacts**

- No evidence from surveys of increased hours worked or financial stress
- Prompted early withdrawal for academically struggling students? Acad. Impacts appear to fade.



Policy implications

- Many questions remain about the relationship between borrowing and academic/subsequent outcomes
- Need to consider unintended consequences:
 - Student reactions to borrowing info
 - Financial stress affecting academic performance (Mullainathan and Shafir, 2013)
 - Institutional incentives around loan counseling