Can loan letters change students' decisions?

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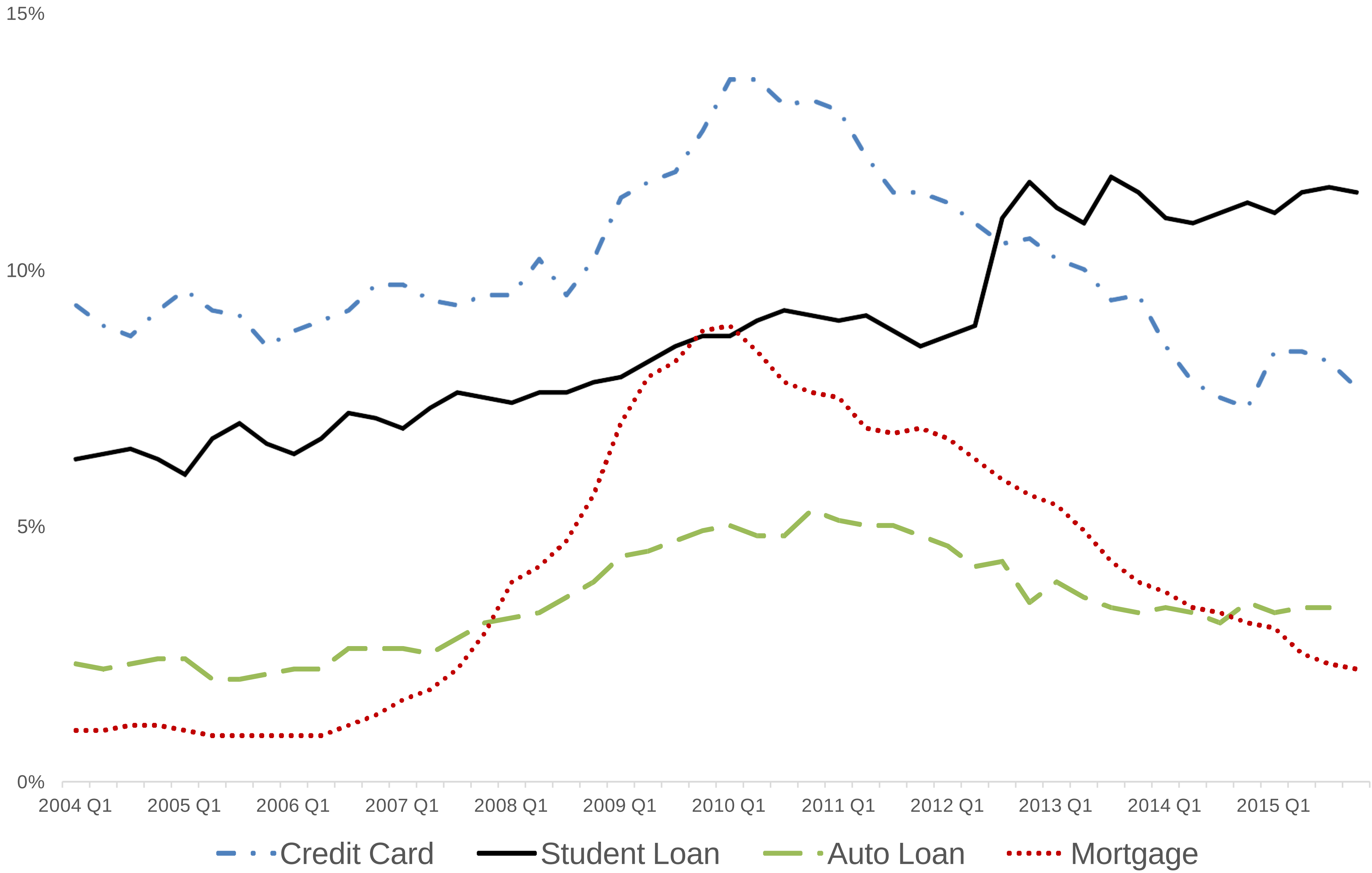
Overview

- Institutions and policymakers have the incentive for students to make informed borrowing decisions
- Loan letters are a low-cost way to provide information
- Evidence presented today: Experimental evaluations of informational letters at 2 universities
- General finding: No (or limited) effects on borrowing overall; Some evidence that some student subgroups changed behavior

% of balance 90+ days delinquent



Source: Federal Reserve Bank of New York Quarterly Report on Household Debt and Credit (February 2016). Lines are the percentage that are at least 90 days delinquent for different segments of consumer credit.

Are students making ill-informed student loan decisions?

- Students knowledge of borrowing
  - 1/8 to 1/3 of borrowers report no loan debt; 40%-50% underestimate amount owed (Andruska et al. 2014; Akers & Chingos 2015)

- Online counseling viewed as ineffective (Fernandez 2015)

- Evidence that information (and often other things) can change educational and financial decisions (e.g., Barr, Bird, & Castleman, 2016; Bettinger et al. 2012; Castleman & Page, 2015; Hoxby & Turner 2013; Marx & Turner, 2016)

Policy context & related evidence

- Students do not receive financial statements on federal loans
- Indiana U System: Large borrowing ↓
  - Debt letter + Office of Financial Literacy; Completion programs; 1:1 counseling
  - Indiana House Enrolled Act 1042
- Montana State U: Marginal borrowing ↓, Academic perf ↑ (Schmeiser, Stoddard, & Urban 2016)
  - Normative debt letter + $ incentive to participate in 1:1 counseling

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How Students at a U.S. University Borrowed $31 Million Less

Vox POLICY & POLITICS

Indiana University used this one weird trick to cut student debt

Updated by Libby Nelson on July 26, 2015, 11:00 a.m. ET @libbyanelson

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IU students get more information, borrow less

July 3, 2014 | Bloomberg News

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Appears in Moving America Forward · by Lorraine Chow on July 11, 2014

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Some Universities Scare Students Into Monitoring Debt

By CLAIRE MCINERNY • MAR 23, 2015

Indiana University senior Kathryn

No Board endorsement of any person or entity

Information-related issues

- Lack of access to information
  - Particularly among communities where not many go to college
- Information is not salient, or only partially salient
  - Students may know annual borrowing, but not cumulative debt
  - Future payments
- Computational errors processing information
  - Comparing current benefits to future costs (Frederick et al. 2002)
  - Risk aversion (Cadena & Keys 2013; Chatterjee & Ionescu 2010)

Our study

- Field experiments on the efficacy of informational loan letters
  - 4 universities
  - ~20,000 students
  - Variation in letters (formats, delivery, content, duration)
  - Follow-up surveys and interviews

- Today: preliminary findings from 2 universities

- Difference from other interventions
  - Randomized treatment and control groups
  - Few additional large scale systematic supports
  - Do not encourage less borrowing → goal is informed decision making

Loan letters

- Letter presents clear information about borrowing
  - Estimated future monthly payments (standard 10 year repay plan)
  - Peer borrowing: median total loan debt of graduates
    - When knowledge is limited → rely on peers
  - Clear summary about cumulative borrowing

- Encourage progress toward degree in some settings

- Other potential benefits
  - Reminder about debt
  - Highlights avenues for help
  - Signal of interest and care from the university

Settings

- University 1: University of Missouri-Columbia ("MU")
  - Predominantly residential, large flagship public land-grant university
  - Sample (N=9802) includes all UG students who borrowed in a prior academic year
  - Delivery: email and online

- University 2: Anonymous U ("AU")
  - Large public research university
  - Sample (N=5660) includes 1st & 2nd year students with valid FAFSA
  - Delivery: mail and email

- Randomly assigned to treatment (received letter) and control (did not receive letter) groups

Example loan letter: MU

Dear XXXX,

The purpose of this communication is to give you a quick report on what you have borrowed to date in student loans. Keeping track of your debt will help you be prepared for your responsibilities after graduation.

Total Federal Direct Loans borrowed to date while attending MyU: $XYZ

Subsidized Direct Loan(s) with interest that starts after you are no longer enrolled at least half-time

Subsidized	$XYZ	2013-2014
Subsidized	$XYZ	2014-2015

Unsubsidized Direct Loan(s) with accruing interest while you are in school:

Unsubsidized	$XYZ	2013-2014
Unsubsidized	$XYZ	2014-2015

The average MyU undergraduate borrows **$21,761** in Federal Direct Loans by the time they receive their bachelor's degree.

Estimated monthly payment on Federal Direct Loans borrowed to date: $XYZ

The estimate is based on debt borrowed to date and a standard repayment schedule. Additional borrowing may increase your estimated monthly payment.

You may be eligible for an alternative repayment plan. For additional information about your estimated payments under alternative payment plans or for more information on accrued interest go to https://studentloans.gov/myDirectLoan/mobile/repayment/repaymentEstimator.action. For further information on your federal loan servicer go to https://www.nslds.ed.gov/nslds_SA/.

Total Other Loans borrowed to date while attending MyU: $XYZ

Loans with accruing interest while you are in school:

Bank of X	$XYZ	2013-2014

Loans with interest that starts after you are no longer enrolled at least half-time:

Perkins	$XYZ	2014-2015

Repayment information for private loans is available from your lender. Repayment information on Perkins and/or institutional loans is available from MyU Student Loan Repayment Center at <LINK>>

We invite you to drop in and discuss your current and future loan debt with a financial aid advisor. Our current location is in Room 202, Ellis Library. A copy of this email will be retained in your myZou message center.

Estimation

- Base model estimates:

$$Y = \gamma Letter + X\beta + E$$

- γ is the treatment effect: $E[Y|Letter = 1, X] - E[Y|Letter = 0, X]$

- Demographic, academic, and financial controls in X-vector (all measured pre-notice)

Effect of letter on borrowing

- No observable effect on amount or rate of borrowing in either setting

- Student subgroups (MU)
  - Low GPA students less likely to borrow and borrow less
    - Financial literacy? Student self-awareness?
  - Limited or no evidence of effect on the borrowing of first generation students, minority students, and those with low EFC

Effect of letter on other outcomes

- No improvement in ability to identify amount borrowed (AU)
- No improvement in rate of being “on track” to graduate (AU)
- Increased contact with FAO (MU)
  - Driven by ↑ visits by those with moderate PY borrowing

Still much to do

- Incorporate findings from other institutions
- Additional outcomes (Spending; Credits earned/Dropouts; Aid application)
- Dig into mechanisms with interviews/surveys

Discussion

- Overall, loan letters do not lead to large scale systematic changes in student borrowing behavior
  - Some evidence of lower borrowing among those with low GPAs
  - More contact with FAO → may lead to better repayment or other downstream decisions

- Suggests outcomes in other settings driven by other simultaneous changes in institutional policy

- Implementation/institutional constraints/scalability

- Timing of intervention?

An attempt at a poem

Do students know the cost of their loans?
We think they may not know what they've sown;
So we sent them a letter;
In hopes decisions would be better;
But alas, information is not sufficient alone.

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