80 Broad Street, 30th Floor
New York, NY 10004
www.ideas42.org

Policy Recommendations for Engagement with Delinquent Student Loan Borrowers

The Problem

Millions of Americans are struggling to pay their student loans, with the overall outstanding balance on these loan payments totaling over $1.3 trillion.[1,2] The most recent national 3-year cohort default rate is 13.7%, representing over 650,000 borrowers whose students loan became due in FY 2011 and did not make a payment for over 270 days.[3] As of the second quarter of FY 2015, 2.8 million borrowers were at least 31 days behind on their payments, with consequences such as late fees and credit score damage.[4]

In order to help these borrowers get back on track, the federal government has prioritized the use of repayment programs, which allow students to postpone or reduce their monthly payments. In Q3 of 2015, almost 2.7 billion direct loan borrowers (out of 28.7 million recipients) were in an income based repayment, forbearance or deferment program.[3,5] Yet there is still a substantial gap between those eligible for these programs and those reaping the benefits of enrollment. For example, among the 60-day delinquent borrowers served by Great Lakes Higher Education Guaranty Corporation, a nonprofit student loan guarantor, less than half of eligible and successfully contacted delinquent borrowers complete applications for these repayment plans.

In partnership with Great Lakes, ideas42 is using insights from behavioral science to encourage student borrowers to use federal relief options. The recommendations outlined in this document follow from this work, building on a suite of twelve projects ideas42 is running in parallel, all helping current students to benefit from and make the best use of available federal aid dollars.

Recommendations Overview

ideas42 is currently running a randomized controlled trial to determine the effectiveness of behavioral interventions for people with late student loan payments. Although final results are expected in Spring 2016, several insights grounded in behavioral science have already emerged that extend to three categories of policy recommendation:

I. **Application improvements:** Borrower comprehension of and engagement with current application forms can be substantially improved by drawing on studies of how people engage with written information.

II. **Contextual improvements, given current forms:** Changes to the support structure of the application process—from accompanying guidelines to other borrower-facing communications— can be impactful even without changing the forms themselves.

III. **Strategies for more effective borrower engagement overall:** Outside of walking borrowers through the application process, broader systemic fixes can improve borrower engagement. Our examples include the mechanism through which applications are received, how eligibility is determined, and the metrics used to judge the quality of servicer and guarantor organizations.

A number of newly proposed and enacted regulations in the last few months represent a step in the right direction, including the simplified language and format of the IDR application as well as the addition of a new repayment option (REPAYE), but more comprehensive attention is required to meaningfully improve the borrower experience. The remainder of this memo provides further detail on each of these policy recommendations.

I. Application Improvements

Borrower comprehension of and engagement with current application forms can be substantially improved by drawing on studies of how people engage with written information.

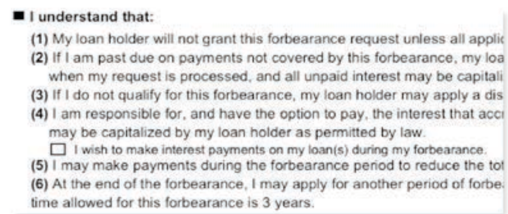
Make principal information salient.

- Highlight questions where borrowers are required to provide an answer
- Use formatting to emphasize return directions and question support services on first page

People have innate constraints on how much information they can focus on and process at the same time, a psychological phenomenon known as limited attention.[6,7] It is easy for borrowers to miss important steps or be sidetracked by the hassle of identifying them, leading to incorrect payment plan details, a rejected application, or the failure to return the application at all.

Box 1: *A buried "checkbox" on the application for Mandatory Forbearance (A), and the ideas42-designed version (B)*

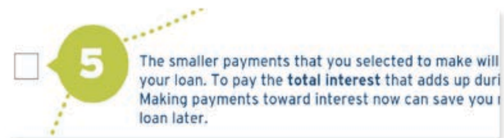
A



I understand that:

(1) My loan holder will not grant this forbearance request unless all applic
(2) If I am past due on payments not covered by this forbearance, my loa
when my request is processed, and all unpaid interest may be capitali
(3) If I do not qualify for this forbearance, my loan holder may apply a dis
(4) I am responsible for, and have the option to pay, the interest that acc
may be capitalized by my loan holder as permitted by law.
☐ I wish to make interest payments on my loan(s) during my forbearance.
(5) I may make payments during the forbearance period to reduce the tot
(6) At the end of the forbearance, I may apply for another period of forbe
time allowed for this forbearance is 3 years.

B



Make form language simpler.

- Replace or eliminate complicated terminology such as 'capitalized interest' to reduce the need to flip back and forth to the glossary. Some approaches are to replace such terms with stand-in simplifications (e.g. "this option may cost more") or include small boxes with definitions of unavoidable terminology.
- Define critical terms, such as 'forbearance' or 'deferment', upfront. On current forms, these terms are not defined until page 2 or later
- Clearly state the consequences of decisions. For example, instead of 'Any unpaid accrued interest which I do not pay may be capitalized by my loan holder,' say 'Not paying interest during my forbearance/deferment will increase the loan amount owed after this period'.

Box 2: *Definition of "Forbearance" on the application for Mandatory Forbearance (A), and the ideas42-designed version (B)*

A

"A period during which you are allowed to temporarily postpone making payments, allowed an extension of time for making payments or temporarily allowed to make smaller payments than scheduled…(etc.)"

B

"Mandatory Forbearance, a government program that means your won't have to make payments on your student loan(s) for a while"

Confusion created by complicated jargon can intimidate or frustrate borrowers. This can become an impenetrable obstacle to application completion.[8,9] Difficult terminology can increase the perceived difference between the borrower and those trying to help, threaten borrowers' perceptions of their own competence, promote procrastination, and/or encourage avoidance.[10,11]

II. Contextual Improvements Given Current Forms

Changes to the support structure of the application process—from accompanying guidelines to other borrower-facing communications—can be impactful even without changing the forms themselves.

Provide easy-to-use checklists and guidelines.

- Provide a list of key decisions and action steps for borrowers to use
- Use creative and/or technological resources to reduce the need to flip back and forth between the form and its accompanying instructions
- Rephrase questions and directions in simplified language in supplemental material

Finishing smaller steps and ticking off the check boxes give people a sense of accomplishment that can help motivate ultimate completion of a task.[12] Further, checking the first box of a checklist with something they have already completed shows borrowers that they are on the way to taking decisive action.[13] Many loan guarantors' step-by-step instructions can be vastly improved to take advantage of such insights.

Box 3: *A step taken from the Great Lakes guidance accompanying the application for Mandatory Forbearance (A), and the ideas42-designed version (B)*

A

STEP 6. Return page 1 of the form. If you receive income, attach a month's worth of your most recent pay stubs. Fax the form and attachments to us to speed up processing time. You can fax it from your public library or a copy center, like FedEx Office or the UPS Store.

B

End here

Three options to send:

- **SCAN & E-MAIL** repaymentsolutions@glh
- **MAIL** Great Lakes Higher Education Guarai PO Box 7860, Madison, WI, 53707-7860
- **FAX** 888-715-2725 (toll-free)

Please only send back the paper application itself plus documents if needed. No need to send us back this jack

In accompanying guidelines, clearly tell borrowers how frequently certain options are selected.

- Where one option is dominant, highlight the most commonly selected alternative (e.g. "Most people choose option A")

The number and complexity of choices can dishearten or confuse borrowers.[6] For some of these decisions, one or more alternatives are very rarely applicable or chosen. Mentioning the most commonly selected choice can help reduce choice complexity and motivate the borrower to finish without eliminating any of the possible options.[14] Borrowers are free to change their choice later.

Box 4: *Wording currently used in Great Lakes materials accompanying the Mandatory Forbearance form (A), and an ideas42-designed example (B) – note: this was not implemented in the Great Lakes project.*

A

"I request that my loan holder grant a forbearance on my loan(s) beginning [date] for a period of up to 12 months, unless an earlier ending date is indicated here [date]..."

B

"During forbearance you won't have to make payment for up to 12 months. If you want to begin paying sooner, enter an earlier date in the second space. **If not, just leave it blank (most people do this).**"

Provide proactive support after the borrower receives an application.

- Send timely email and/or phone reminders to return the application if it has not yet been sent back
- Have call representatives proactively reach out to borrowers to talk through the application on the phone

Box 5: *Excerpt from one in a series of email reminders sent to delinquent borrowers by Great Lakes immediately following an initial call with a representative.*

Hi John,

It's Bo again from Great Lakes. Thanks for speaking with one of my teammates today. I'm glad we agreed to help you address your loan payments with **Mandatory Forbearance**, a government program that means you won't have to make payments on your student loan(s) for a while.

You should be getting the application in the mail in the next few days. **You can get started even before it arrives** by gathering the additional forms you'll need to send.

Here's what you'll need:

Most borrowers who successfully turn in an application do so within the first week of receiving the form. The more time passes after the borrower gets the application, the less likely he or she is to complete it—other parts of their lives take priority. Reminders and other outreach can bridge the gap between getting and returning the application by prompting recall and supporting borrowers through the hassles of the process.[15]

III. Strategies for More Effective Borrower Engagement Overall

Beyond the application process itself, broader systemic fixes can improve borrower engagement. Our examples include the mechanism through which applications are received, determination of eligibility, and the metrics used to judge the quality of servicer and guarantor organizations.

Eliminate borrower responsibility to calculate eligibility.

- Create procedures that help servicers or guarantors send applications to only borrowers that are eligible for the particular program

***Box 6:** Helpful pre-filled eligibility requirements from the Economic Hardship Deferment application form.*

(4) ☒ I work full time (as defined in Section 5) and my monthly income does not exceed the **larger of:**
(A) Federal Minimum Wage Rate (monthly amount, based on $7.25 an hour): **$1,256.67; or**
(B) 150% of the poverty guideline for my family size and state: **This amount is listed in Section 6.**
My monthly income (as defined in Section 5) is $ 1,500.00 . **I have attached documentation of this income.**
My family size (as defined in Section 5) is 3 .

Knowing that a borrower is eligible upfront would eliminate the necessity for complex questions to prove the borrower's qualification (and possibly reduce some of the paperwork required). On one current form, borrowers are instructed to calculate and confirm that they have a monthly income below 150% of the poverty line.[16] All efforts should be made to retrieve necessary information from outside sources to determine eligibility such that borrowers are only asked to provide what truly cannot be found elsewhere (for data not currently available to the Department of Education, the current process by which Internal Revenue Service information is transferred to FAFSA applications could serve as a model for a new data transfer protocol). The simpler the process, the less likely that borrowers will get stuck at any point.

Take advantage of widespread (and increasing) computer literacy.

- Allow e-signatures on applications in place of burdensome wet signature
- Create easily accessible electronic versions of applications
- Pre-populate as much of the electronic document as possible

Even the smallest of hassles can easily mean the differences between successfully completing or failing to complete an action.[12] Many borrowers currently receive application forms through email (or mail) with instructions to print and send back because a wet signature is required. Finding a working printer and then scanning or mailing it back (with a stamp, envelope and trip to the post office) can derail the entire application process. Phasing out seemingly inconsequential hassles may make a disproportionately large difference to application rates.

Further incentivize servicers and guarantors to focus on the borrower experience.

- Include application completion metrics and borrower hang-up rates in the Department of Education's evaluation of servicer and guarantor performance

Adding behaviorally informed metrics to the determination of servicer and guarantor performance will incentivize a greater focus on the user experience in improving overall borrower outcomes, and perhaps spur further innovation in approaches to connecting with and supporting borrowers.[17]

Contact Information

Alissa Fishbane
Managing Director, ideas42
alissa@ideas42.org

Piyush Tantia
Executive Director, ideas42
piyush@ideas42.org

Who We Are

ideas42 is a unique social enterprise bringing together highly creative practitioners, industry leaders, and policy experts with world-renowned economists and psychologists from top-tier universities. Our mission is to apply our expertise in behavioral science to invent fresh solutions to the world's toughest social problems with the goal of improving tens of millions of lives. Our work draws upon decades of experimental scientific research in decision-making and the most rigorous methods in program and policy evaluation.

[1] Treasury Borrowing Advisory Committee. United States Department of the Treasury. *Charge to the Committee: Update on the Trends in the Student Loan Market.* http://www.treasury.gov/resource-center/data-chart-center/quarterly-refunding/Documents/November%202014%20Quarterly%20Refunding%20Charge%201%20FINAL.pdf

[2] Haughwout, A., Donghoon, L., Scally, J., van der Klaauw, W. Federal Reserve Bank of New York. *Student Loan Borrowing and Repayment Trends, 2015*. April 16, 2015. https://www.newyorkfed.org/medialibrary/media/newsevents/mediaadvisory/2015/Student-Loan-Press-Briefing-Presentation.pdf

[3] National Center for Education Statistics. "The Condition of Education Indicators: Student Loan Volume and Default Rates," Last Updated: May 2015. http://nces.ed.gov/programs/coe/indicator_cug.asp

[4] Federal Student Aid Office, "Federal Student Loan Portfolio: Direct Loan Portfolio by Repayment Plan," https://studentaid.ed.gov/sa/about/data-center/student/portfolio.

[5] Includes unemployment, economic hardship and military deferments as well as mandatory forbearances (the repayment plans of focus in our study).

[6] Mullainathan, S & Shafir, E. (2013) *Scarcity: Why Having Too Little Means So Much*. Hold, Henry & Company, Inc.

[7] Kling, J.R, Congdon, W.J, Mullainathan, S. (2011) *Policy and Choice: Public Finance Through the Lens of Behavioral Economics.* Brookings Institute Press.

[8] Sunstein, C.R. Office of Information and Regulatory Affairs. (2012) Memorandum for the Heads of Executive Departments and Agencies, and of the Independent Regulatory Commissions.

[9] Sunstein, C.R, (2013) *Simpler: The Future of Government.* Simon & Schuster.

[10] Bhargava, S., Manoli, D. (2012) "Why Are Benefits Left on the Table? Assessing the Role of Information, Complexity, and Stigma on Take-Up With an IRS Field Experiment". *Advances in Consumer Research*, 40: 298-302.

[11] Beshears, J., Choi, J., Laibson, D., Madrian, B.C. "Simplification and Saving". *Journal of Economic Behavior and Organization* 2013; 95:130-145.

[12] Dhar, R., Fishbach, A. "Subgoals as Substitutes or Complements: The Role of Goal Accessibility". *Journal of Personality and Social Psychology* 2006; 91:232-242

[13] Nunes, J.C., Dreze, X. (2006) The Endowed Progress Effect: How Artificial Advancement Increases Effort: How Artificial Advancement Increases Effort. *Journal of Consumer Research*, 32.

[14] Cialdini, R.B., Goldstein, N.J. (2004) Social Influence: Compliance and Conformity. *Annual Review of Psychology;* 55:591-621.

[15] Bettinger, Long, Oreopoulos, Sanbonmatsu. 2009. "The Role of Simplification and Information in College Decisions: Results from the H&R Block FAFSA Experiment". NBER Working Paper NO. 15361.

[16] See Section 2 of Economic Hardship Deferment application

[17] Hauser, J., Katz, G. (1998). Metrics: you are what you measure! *European Management Journal,* 16(5), 517-528.