

Why don't more borrowers who are struggling to repay their student loans take advantage of programs that are meant to help them? We worked with the Great Lakes Higher Education Guaranty Corporation to find out and create a package of improvements that could be scaled in the student loan repayment sector.

In the second half of 2015, almost three million student loan borrowers were at least a month behind on their payments. Federal programs exist to help these borrowers avoid the possibility of future credit score damage or wage garnishment by allowing them to postpone or reduce their monthly payments. But surprisingly, these options remain underused. For example, among the 60-day delinquent borrowers served by Great Lakes Higher Education Guaranty Corporation,¹ a non-profit student loan guarantor, less than half of eligible borrowers complete applications for these repayment plans.

In partnership with Great Lakes, ideas42 used insights from behavioral science to help more student loan borrowers complete an application for one of three federal relief programs: Deferment, Forbearance and Income-Based Repayment (IBR).

Reaching the unreachable

To assess why borrowers weren't returning their applications, we needed to understand their perspectives better. To do so, we visited Great Lakes to observe its interactions with borrowers, look at each application document and analyze past data to get a better sense of the experience throughout the full application process.

Even at a high level, the application procedure is complex. To start, borrowers must actually answer the phone when a Great Lakes representative calls (from an unknown phone number), and then stay on the line when the representative immediately states that he or she is a debt collector (a legal requirement). Then, the borrower must complete a multi-page application and send it back with various additional documents including pay stubs and tax returns. If all pieces are submitted and questions completed correctly, the application will be considered for enrollment.

In digging deeper into the process, we found there were several key behavioral factors at play.

- Of the millions of 'cold calls' made by Great Lakes to this population of delinquent borrowers in a year, less than 5% are answered. This isn't surprising, as many people don't know about the Great Lakes brand or the free loan counseling it has to offer.
- Thousands who do answer then hang up immediately, possibly in an attempt to avoid the bad news they know is coming (a phenomenon known in behavioral science as "ostriching" or avoiding bad news to try to make it is less real). This avoidance continues as borrowers leave subsequent emails and physical mail unopened, including a mailing that includes the actual application form.
- The application materials consist of multiple pages of small print, hidden questions and financial jargon; it is easy for borrowers to miss important steps and get frustrated or confused. On top of this, if the

Highlights

- ▶ Less than 5% of cold calls by Great Lakes to delinquent borrowers are answered
- ▶ Application materials are cumbersome, and bears many hassles to submit and get approved

submitted application is incorrect or incomplete, the process must start over again, creating additional hassle.

- Facing intimidating or complex steps can evoke procrastination. The more you procrastinate, the more likely it is that you'll forget about the task altogether. In the absence of any communication in between the immediate call follow-up and the deadline of one month, there is no message to prompt those who might have forgotten.
- Beyond the application form itself, there are multiple other hassles to contend such as printing the emailed application, getting together the additional paperwork and sending everything back in a stamped envelope. These may seem like small hassles, but even contending with one can derail the entire process.

Creating a helpful guide through the application process

With a better understanding of why borrowers don't complete an application, we set about designing a series of improvements to address existing bottlenecks.

Based on Great Lakes' email- and mail-based borrower outreach, we knew we had to:

- Prompt borrowers to recognize Great Lakes and its services when a representative called.
- Show borrowers that enrolling in a debt relief program is beneficial and doable.
- Make the process of completing the application simpler so that borrowers don't miss anything or have to spend unnecessary cognitive energy along the way.
- Give borrowers the tools and motivation to be proactive in seeking help, committing to a program and working through the application toward enrollment.

Highlights

- A personal touch to build familiarity can go a long way for engagement in communication process
- Creating salient checklists and action steps assists borrowers to proceed
- Consistent multi-channel follow-up enabled better follow-through rates

We started with the first email sent by Great Lakes to borrowers. Originally this was sent to borrowers a few days before the call to alert them to their delinquency status. We know that a personal touch and friendly tone can go a long way in building familiarity and assurance in a situation that may be interpreted as intimidating. Building on these principles, our updated email included an introduction by a real representative named Bo (along with his picture), and a prominent notice that one of his team members would be calling in the next few days.

Next, we redesigned the follow-up email sent after the initial call. We included a short checklist of additional documents that applicants would need in order to make this step more manageable. Borrowers who did not explicitly request a mailed application received the application form as an attachment in this email. We also added a supplementary attachment—a color-coded checklist that corresponded directly to the form sections and broke down each necessary step.

For those who asked to get the application in the mail, we sent the form in a 'document jacket'—a paper folder with cut-out windows that revealed only the places that needed to be filled in. The front of the folder surrounding

the windows also included simplified instructions on how to complete the form. This design allowed us to move ahead without completely overhauling the application form itself, which wasn't within our scope, while helping borrowers pull out the key decision points. The friendlier aesthetics and simpler language also made the process seem more inviting and achievable.

Finally, to combat the natural tendency to defer or forget a multi-step task, we added two email reminder messages – one five days after the borrower's call with a representative and another at 10 days. These reminders, also sent by our named representative Bo, highlighted the key instructions for sending back the application and included our checklist of the necessary additional documents.

Boosting commitments and follow-through

We tested our package with around 40,000 Great Lakes borrowers to see if it would help more borrowers apply for debt relief programs. Through a randomized controlled trial, a comparison group of another approximately 40,000 borrowers continued to go through Great Lakes' original process. Here's what we found in comparing the two groups after the 11-month period (From April 2015 to February 2016):

Among borrowers applying for the income-based repayment (IBR) program:

- The rate at which borrowers returned their IBR applications jumped 13% (from 22.8% to 25.8%) – and 48% for those receiving the IBR application by mail in the document jacket (from 14.5% to 21.4%).²

Highlights

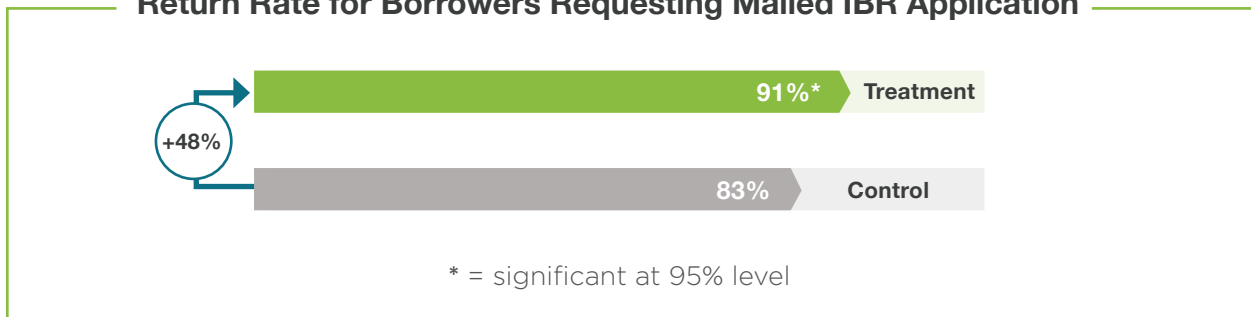
- IBR enrollees benefited most from intervention
- Emails reinforcing a forthcoming phone call increased outreach and commitments by borrowers

Across the entire sample, receiving the personalized introductory email before the call led to:

- A 5% increase (from 3,641 to 3,837) in borrower outreach to Great Lakes, and a 4% increase in commitments to enroll in any of the three debt relief programs (from 4,354 to 4,506).³

It seemed that those enrolling in the IBR program benefitted most from our communications package compared to those returning Forbearance or Deferment paperwork. Why? There are a couple of possible explanations for this: first, the complexity of the IBR forms, plus the extra documents required to apply, meant that the additional help we provided was particularly beneficial. Second, it may be because borrowers who applied for IBR were likely to be in more difficult circumstances – unemployed, low-income, or in financial trouble – than others, and as a result have more trouble finding time to fill out the forms without a helping hand.

Return Rate for Borrowers Requesting Mailed IBR Application



From thousands to millions of student loan borrowers

With the help of automation, our communications package ran with little extra effort or additional cost, making the improvements we designed highly scalable to other organizations. At a cost of around \$0.33 per document jacket and light support from the mailroom staff to include the jackets in the application envelopes, the number of IBR returns improved significantly.

We hope Great Lakes' peer organizations – and policymakers – will take note of the implications. The more complex an application process, the more crucial it is to simplify the language, highlight key action steps and reduce hassles around gathering and sending documents. Additionally, reminders about both what has already been completed and what is still left to do, can mean the difference between merely starting the task and actually finishing it.

Our work shows the necessity, impact, and cost-effectiveness of supporting delinquent loan borrowers by incorporating behavioral insights into the repayment process. Other groups – including the White House's [Social and Behavioral Science Team](#) and the Department of Education – are currently generating and incorporating additional evidence about the use of behavioral science to improve the federal student loan infrastructure. With the benefit of this knowledge, agencies in the financial aid and student loan space will have greater capability to engage with and support the tens of millions of new and existing borrowers working toward repayment.

Highlights

- ▶ The more complex a process is, the more need there is to simplify language, note steps, and reduce hassles
- ▶ Reminders can be helpful in completing processes

Notes

¹ The term Great Lakes as used hereafter refers solely to the guaranty agency (Great Lakes Higher Education Guaranty Corporation) and not to its affiliated servicer (Great Lakes Educational Loan Services, Inc.)

² The increase in overall IBR return and mailed IBR return are significant at $p=0.02$ and $p=0.03$, respectively

³ The increase in borrower outreach and overall commitments have p -values of $p=0.055$ and $p=0.06$, respectively

Annex

Start here

Here is the form we promised to send you when we spoke on the phone. It's for **Income Based Repayment**, a government program that means you can make more affordable payments on your student loan(s) for a while. This folder will help walk you through the application. If you have any questions don't hesitate to call us at (800) 236-2700.

1 Talk to us on the phone. ✓ complete!

Open this folder briefly to make sure the pre-filled contact information is correct. If not, check the box at the top and enter the correct information.

Please enter or correct the following information.

Check this box if any of your information has changed.

SSN - -

Name _____

Address _____

City, State, Zip Code _____

Telephone - Primary () _____

Telephone - Alternate () _____

E-mail Address (Optional) _____

Just so you know, no matter what you choose for any of these questions, you can always change it later. 😊

3 Check the box below to apply for lower student loan payments based on your income.

If no box in the chart is already checked, check the box at the bottom of the chart ("only IBR is available...") to ensure you receive the plan that will reduce your monthly payments the most. Feel free to read up on the different plans by turning this page.

	Direct Loan Program Loans*	FFEL Program Loans*
IBR	<input type="checkbox"/>	<input type="checkbox"/>
Pay As You Earn	<input type="checkbox"/>	Not Available
ICR	<input type="checkbox"/>	Not Available

4 If you checked the first box in step 3, leave these boxes blank! If not, check one of the options below: (A) Updating your **current** repayment plan based on the annual documentation you are submitting (B) Requesting a change in monthly payment because your circumstances have changed

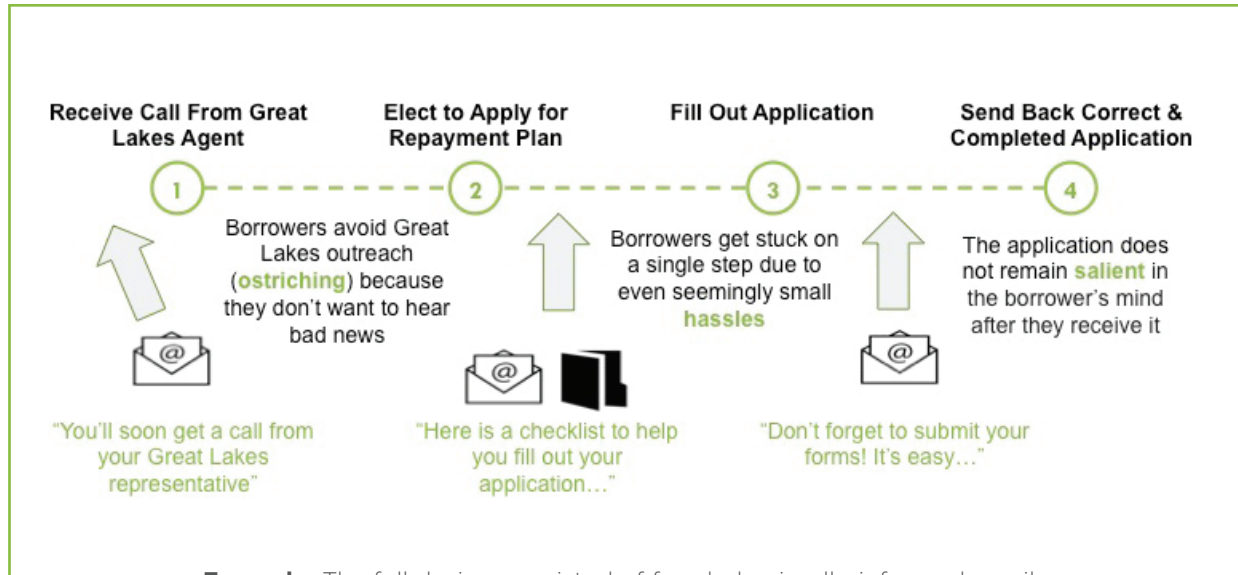
Do you have student loans with more than one company (Nelnet, Navient, etc.)? If so, check the box. If this isn't familiar, leave it blank.

◀

Now, flip the jacket over.

The front, back and signature pages need to be complete before you send in.

Example: The first few steps of the Income Based Repayment application as viewed through the document jacket.



Example: The full design consisted of four behaviorally-informed emails and two form-filling aids (application checklist or document jacket)