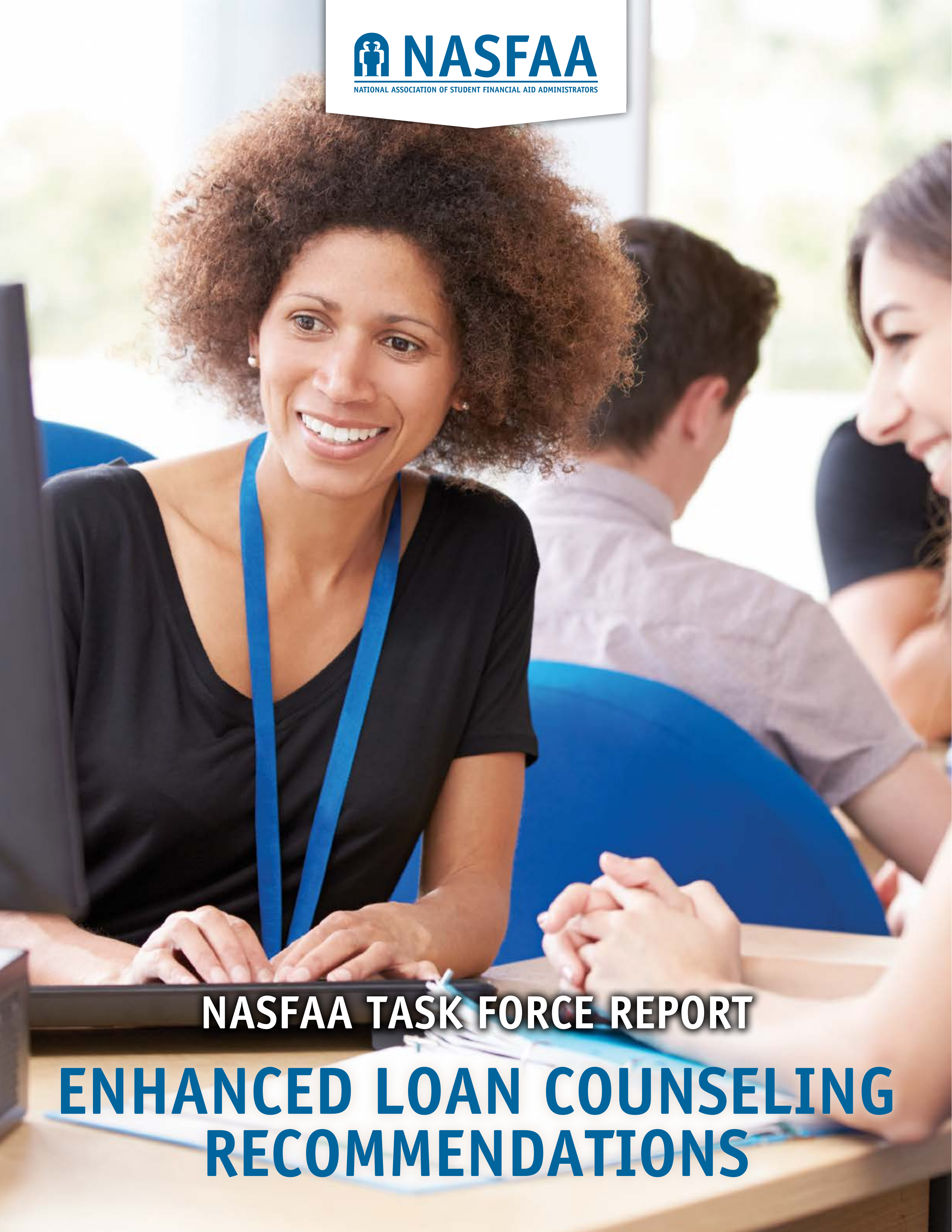

NASFAA

NATIONAL ASSOCIATION OF STUDENT FINANCIAL AID ADMINISTRATORS

NASFAA TASK FORCE REPORT

ENHANCED LOAN COUNSELING RECOMMENDATIONS

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Introduction

In recent years, there has been strong bipartisan interest at the congressional level to require annual federal student loan counseling. Given this interest, and our commitment to being an active, helpful partner in reauthorization discussions, NASFAA convened a task force charged with examining ways in which annual counseling could be implemented effectively that would not be unnecessarily burdensome or repetitive for students and institutions. The charge of the Enhanced Loan Counseling Task Force was not to determine if it would support additional counseling requirements, but instead to think about counseling in an innovative and creative way, with the assumption that Congress will act to impose additional counseling requirements through the next reauthorization of the Higher Education Act.

The task force approached its charge with this underlying assumption and was also mindful of the central role that the Department of Education (ED) would need to play if any additional requirements were to be imposed by Congress. While the task force focused primarily on the impact of additional counseling requirements on students and institutions, it also felt strongly that there would need to be an onus placed on ED from an implementation standpoint, given ED's access to data and its ability to provide consistency for students.

Overall, the financial aid community supports the idea of strategic, targeted, and more frequent loan counseling, when applicable. While doing so may increase administrative burden, the community acknowledges the effects of properly placed, strategic messaging and considers the additional work a valuable use of time. There is, however, an important difference between strategic, targeted, more frequent counseling and mandated, annual counseling. The former aims for an effective and meaningful experience for individual student borrowers whereas mandated annual counseling that seeks only to satisfy a compliance requirement will not necessarily achieve the same outcome. It is the difference between these two approaches that this report and its recommendations — to be taken as a menu of options — seek to clarify.

Summary of Recommendations

The Enhanced Loan Counseling Task Force supports a federal effort to develop strategic, targeted, and more frequent counseling. However, the task force does not necessarily think this has to come in the form of mandated annual counseling for all, as existing legislation has proposed. In order to make loan counseling more meaningful and effective, whether annual or less frequent, the task force offers the following recommendations:

Recommendation 1: Congress should consider implementing more strategic, targeted counseling through a modular-based system. Modular coverage of loan counseling topics over the course of a student's college career would provide more relevant, timely information, as opposed to covering all topics annually.

Recommendation 2: Congress should, under a modular-based system, allow for a competency test-out of certain loan counseling topics to avoid unnecessarily burdening borrowers with useless repetition of mastered topics.

Recommendation 3: Congress should consider mandating threshold-based counseling for students who have borrowed beyond defined thresholds that are tied to education level and degree objective.

Recommendation 4: Congress should require the Department of Education (ED) to update its online counseling tool, so that it is more relevant, interactive, and personalized. If annual counseling is ultimately mandated, schools should have access to a strong, regularly updated, consumer-tested tool from ED that can be easily utilized to meet this requirement.

Existing Legislation

In recent years Congress has shown bipartisan, bicameral interest in mandated annual loan counseling. In September 2018, the House passed the Empowering Students Through Enhanced Financial Counseling Act, a bill that would mandate annual counseling, by a bipartisan vote of 406 to 4.[1] Similarly, the Senate introduced a bipartisan bill in March 2019 that would mandate annual counseling, the Know Before You Owe Federal Student Loan Act[2]. The interest from both Republicans and Democrats, and the House and Senate, sends a strong signal that Congress will include some type of mandated counseling provision in a Higher Education Act (HEA) reauthorization bill.

While NASFAA's official public policy position has been to support the authority (versus a mandate) for schools to require annual counseling, the task force recognizes the political climate surrounding this issue, and the need to think more critically about loan counseling. The financial aid community has generally accepted that additional loan counseling is a good idea. In fact, many schools already practice enhanced loan counseling beyond the current compliance requirement. While enhanced counseling entails more work, additional resources, and time commitment, it is a valuable tool that ensures student borrowers leave with a better understanding of their debt and repayment options. To that end, the task force would like to acknowledge that there are excellent concepts in existing, proposed legislation.

The task force has identified both positive concepts and concepts that present challenges in existing legislation that mandates annual loan counseling. Broadly, they are outlined below:

Positive Concepts:

- Existing legislation places a strong emphasis on flexibility of delivery, consumer testing, and the distinction between different categories of students (e.g. new and continuing students).
- Required annual counseling has the potential to address the disconnect between what students think they know, and the knowledge they actually have.
- Required annual counseling has the potential to help transfer students understand that their debt follows them from school to school.
- More frequent counseling could give schools the opportunity to help students understand the manageability of their loans in comparison with a projected starting salary.

Concepts that Present Challenges:

- The House bill would require mandated annual counseling for Pell Grant recipients. Adding counseling for the Pell Grant is outside the scope of the conversation surrounding student debt. In addition, required annual counseling for Pell Grant recipients could add another barrier to an already-needy population, which could have a string of unintended consequences.
- Both the House and Senate legislation are overly prescriptive in what must be included in annual counseling, leaving little room for consumer-testing and/or changes from year-to-year.
- Mandating annual counseling may cause inefficiencies and resource issues at large institutions where borrower populations are high, or at small schools where the financial aid team is streamlined for maximum efficiency. In both cases, the quality and effectiveness of the counseling would potentially suffer in order to meet the compliance requirement.
- Both pieces of legislation state that schools may utilize ED's counseling tool to meet the mandated annual counseling requirement, however, the online ED counseling tool is not optimally designed, nor is it as effective as it could be. Most schools already default to the ED online program to meet the existing compliance requirement. Mandating annual counseling will increase the use of an ineffective tool.

In sum, the task force appreciates the congressional intent to arm students with more frequent information on their borrowing and indebtedness in order to create more knowledgeable borrowers. However, mandated annual counseling is not the only way to achieve more effective loan counseling, and the task force offers the following recommendations to that end.

[1] https://www.congress.gov/bill/115th-congress/house-bill/1635

[2] https://www.congress.gov/bill/116th-congress/senate-bill/887

Recommendation 1: Modular Counseling

Overwhelming borrowers with copious amounts of information that does not consider their personal circumstances can be ineffective. The task force recommends that loan counseling topics be modularized and required of individual students based upon personalized conditions. This could conceivably occur on an annual basis, or less frequently, for certain students. Conditions that would trigger certain modules for students could include:

- The point at which they accept their first loan.
- Their degree progression, or lack thereof.
- When they reach specified loan debt thresholds.
- Their enrollment status.

Below is one example of what modular loan counseling might look like.

Condition(s):	Required Module(s):			
First-Time Borrower	Promissory Note Module	Standard Repayment Module	Financial Literacy Module	
Exceeds Specified Loan Thresholds	Loan Aggregates Module	Additional Repayment Plans Module		
Enrolled Less than Half-Time	Standard Repayment Module			
Lacks Degree Progression	Standard Repayment Module	Additional Repayment Plans Module	Delinquency & Default Module	Financial Literacy Module

For example, students making slower-than-expected progress toward their degrees could be assigned online modules related to repayment, delinquency, default, and financial literacy. In this circumstance, those specific modules would be included for the following reasons:

- Lack of progress toward degree may indicate an increased likelihood of withdrawal or dismissal, causing repayment to begin sooner than anticipated. Understanding the basic elements of the standard repayment plan would be helpful for such students.
- Failing to attain a degree can limit professional income, increasing the risk of delinquency and default. Therefore, providing students with information related to other available repayment plans, the consequences of failing to repay, as well as money management tools and techniques may help to minimize delinquency and default.

The task force recommends that under a modular-based system students would be identified and assigned modules by ED. A student's school would then be notified and would help to relay the requirements via their own communication methods (emails, letters, student portal, etc.).

Recommendation 2: Knowledge Assessment

Forcing borrowers to repeatedly endure loan counseling, as would be the case under mandated annual counseling, without first assessing their loan knowledge will unnecessarily burden and frustrate students. In the above example, there are different scenarios that would trigger the standard repayment plan module. If, through previous completion of this module or through their own research, students already comprehend the essential elements of the standard repayment plan, forcing them to relearn the same information may be unnecessary and upsetting. With this in mind, the task force recommends student competency be tested before beginning each module to determine if the module may be waived.

Recommendation 3: Create Thresholds for Required Additional Loan Counseling

If the goal of more frequent counseling is to address the concern of overborrowing, loan counseling would be clearly appropriate for students who are borrowing more than is normal for their grade level and degree progression. Of particular concern are students who may be borrowing so much that they will run out of funding before completing their degree objective. Therefore, rather than mandate annual counseling for all students at all institutions, the task force recommends Congress consider determining a minimum borrowing threshold at each educational level, and students above the threshold will be mandated to receive additional counseling.

Under such a system, schools would retain the flexibility to offer or require counseling for all students or just students they identify as being at-risk. While the task force wishes to recommend the concept rather than particular amounts, below is a sample of how threshold-based counseling might be implemented. This sample defines pace relative to aggregate borrowing limits for each group. For example, undergraduate, dependent students are limited to $23,000 total borrowing, so the chart assumes each year the student should borrow no more than 25% of this total.

Example: *Sarah is a dependent undergraduate enrolled in a four-year engineering program at ABC university. Sarah has finally found a field in which she excels, but at the beginning of her college career she struggled to find her path. She first attended a different four-year institution, College One, for a year and borrowed $5,500. She left that university and then attended two years and a summer term at XYZ Community College, borrowing another $7,000. She has now successfully completed her first year at ABC university where she borrowed $5,500 and has junior status, including the credits she was able to transfer from her prior studies. Since her borrowing totals $18,000 — significantly more than 50% of the $23,000 aggregate undergraduate limit — she is subject to additional loan counseling under the threshold-based model to help ensure she understands her debt level.*

In summary:

Borrowed at College One	*$5,500*
Borrowed at XYZ Community College	*$7,000*
First Year at ABC U	*$5,500*
Total Borrowed to Date	*$18,000*

Under threshold-based counseling: Sarah is a junior (50% through the program), with two more years to go. Per the chart 50% of the aggregate is $15,500. Since $18,000 > $15,500, Sarah should receive extra counseling.

To tie this recommendation to the earlier modular-based counseling recommendation, different modules could be offered at different thresholds.

Program	Year	Notes	Dependent Pace to Aggregate Threshold	Independent Pace to Aggregate Threshold
One Year Programs		Annual Counseling not an issue due to length		
Two Year Degrees				
	First Year New	Initial Counseling for All		
	First Year Returning		$5,500	$9,500
	Second Year	>25% of UG Limit	$7,751	$14,376
	Third Year and Beyond		any amount	any amount
Four Year Degree Programs				
	First Year New	Initial Counseling for All		
	First Year Returning		$5,500	$9,500
	Second Year	>25% of UG Limit	$7,751	$14,376
	Third Year	>50% of UG Limit	$15,501	$28,751
	Fourth Year	>75% of UG Limit	$23,251	$43,126
	Fifth Year and Beyond	Counseling for All		
Master's Degree Two Year Programs		Cumulative including Undergraduate Borrowing		
	Second Year	>50% of Graduate Limit		$27,701
Academic PhD Students		Cumulative including Undergraduate Borrowing		
	Second Year	>20% of Graduate Limit		$27,701
	Third Year	>33% of Graduate Limit		$46,168
	Fourth Year	>50% of Graduate Limit		$69,251
	Fifth Year and Beyond	>66% of Graduate Limit		$91,410
Professional Medical Fields		Cumulative including Undergraduate Borrowing		
	Second Year	>25% Health Professions Limit		$56,000
	Third Year	>50% Health Professions Limit		$112,000
	Fourth Year and Beyond	>75% Health Professions Limit		$168,000

Thresholds might also be applied at the institutional level, for instance, to exempt institutions with a Cohort Default Rate (CDR) below a set threshold from certain annual counseling requirements. To be clear, this would not exempt those institutions from the counseling requirements altogether but rather acknowledge that those institutions already have systems in place that are effective at achieving desired loan repayment outcomes. An exemption would allow institutions with a proven track record of providing interventions that prevent loan default to continue doing what works for their student population, instead of adopting a standard that might be less effective.

Recommendation 4: Improve the Department of Education's Online Counseling Tool

ED's online counseling tool presents a fantastic opportunity to provide a comprehensive, personalized picture for students by combining data points from multiple systems. In addition, an improved counseling experience has the potential to provide schools with a tool students will find engaging, useful, and pertinent, and would alleviate the need for schools to supplement or devise their own online counseling. The result would improve the efficiency of counseling delivery for all. If Congress goes down the path of mandating annual counseling, the task force recommends that Congress require ED to update its online counseling tool, so that it is more relevant, interactive, and personalized.

To give a sense of current student feedback on ED's tool, the task force reached out to its feedback group of NASFAA members across the country, asking them to report back on their students' experiences. Below are a sampling of the comments received:

- *"Entrance counseling is painfully long; the only thing on your mind is finally finishing it — concentration and retention dropped off significantly mid-way through. While the creators made a recognizable effort to make the information concise, easy-to-read, and interactive, the majority of the content is much too dry and insufficiently concentrated to be absorbed effectively in one sitting. I would recommend making an even greater effort to include more videos, interactive features, or simply breaking up the entrance counseling into multiple sections to provide the mind a break and therefore improve concentration and retention."*
- *"I wasn't a big fan of the layout of the entire page. I think at times I felt overwhelmed with information so maybe finding a way to organize the page better could add more clarity."*
- *"At times it felt a little lengthy, so possibly condensing some portions of the counseling, giving an option to save and return later."*

The task force recommends that improvements to ED's counseling tool focus on three areas: design, content, and delivery:

Design

- Students should be connected to their loan servicers early on, but also at additional points during their journey to provide awareness of servicers. This will inform and empower the borrower.
- Include more interactive videos to hold the attention of students with varying learning styles in order to foster a more engaging loan counseling experience. Embed the videos with questions and answers so that the student can learn, understand, and retain the material. Individual videos should be no more than two minutes in length and all videos should not exceed a total of 15 minutes in viewing time.
- Allow for continuous consumer testing of the loan counseling tool to provide effective and relevant information to the targeted audience.

Content

- Customize the loan counseling experience to the student borrower according to aggregate loan levels. As an example, a student that is at 75% of their aggregate limit should receive a different loan counseling message than a new borrower. This divergence can occur after log-in when the borrower's loans are loaded and they have selected whether they are an undergraduate or graduate student. Students should be made aware of how close they are to their aggregate limits and how they compare to typical borrowers. They should also be given an estimate of how many more years of eligibility they have remaining and their options once they have exhausted their aggregate borrowing eligibility.
- Ensure that https://studentloans.gov provides counseling, but contains technology to present appropriate modules and relevant test-out options.
- Provide information to the student about their current loan status. For example, if a student loan borrower is currently in repayment on previous loans and returning to school, have the counseling tool add information about in-school deferment and how the institution will report enrollment information after classes begin.
- Customize loan counseling according to the student's academic program (CIP code data), which schools are already providing with loan origination. Personalized counseling according to field of study would link with Department of Labor data to provide information on potential earnings in the field. This information could then feed into potential repayment and monthly calculations to provide a better estimate to students on their long-term ability to repay student loans based on a projection of their actual, personalized potential income.

Delivery

- Require all borrowers to log into ED's loan counseling tool with their Federal Student Aid (FSA) ID in order to connect their National Student Loan Data System (NSLDS) record to the counseling tool. Currently, this is an option, and switching it to a requirement will offer an actual snapshot of the borrower's status on aggregate loan amounts, status of loans, and servicer information. When this is used, counseling immediately becomes more effective and meaningful.
- Allow students to complete the counseling in multiple sessions, as completion in a single session can be challenging for retention. Allowing the student to break the experience up into bite sized pieces will help the student to better retain the material.
- Incorporate and/or adjust advanced technical features within the web interface to increase effectiveness. For example:
    - o Ad-hoc pop-up graphics, particularly when they are optional, may not add comprehension but rather create an overload of information. Scroll-over windows are simpler but may not be optimized for all devices.
    - o Maintaining accordion/expandable sections with their clearly defined links invites the borrower to continue down the page in a logical manner.

Special Considerations for Graduate and Professional Borrowers

As stated above, the task force believes that effective loan counseling is personalized counseling. For graduate and professional student borrowers, emphasis should be placed on responsible borrowing and repayment planning given the amounts they borrow compared to undergraduate student borrowers. Graduate students often borrow up to their cost of attendance — especially if their program requires full-time enrollment. They are also likely to pay more in interest because of higher interest rates on graduate unsubsidized and PLUS loans.

The financial aid community supports strategic, targeted, and more frequent counseling for graduate and professional students while enrolled in their academic programs. According to research from the Washington-based think tank New America, the median debt for graduate students is $57,600, with one in four borrowers owing about $100,000 or more[3]. For many graduate and professional students, borrowing federal student loans to pay for school is almost inescapable. More targeted and frequent loan counseling, at the very least, will help students to stay in tune to their borrowing decisions and how these decisions will impact their repayment options.

Of the required information institutions must provide in the initial loan counseling[4], the financial aid community believes that strategic, targeted, and more frequent counseling for graduate and professional students should also include understanding of:

- The impact of capitalization of interest.
- The benefits of paying on accrued interest while enrolled.
- Loan repayment.
- The overall cost of borrowing.

Graduate students who rely on federal student loans for living expenses while in their programs are at a greater risk of overborrowing. Frequent counseling that provides graduate borrowers with to-date interest amounts, aggregate loan amounts, and sample repayment plans will help students assess their borrowing practices on a more frequent basis — other than the one time they are required to do it before beginning their graduate or professional program.

Conclusion

The Enhanced Loan Counseling Task Force supports more meaningful, targeted counseling and believes there are workable ways to achieve this goal that do not necessarily involve annual counseling. For example, modular and/or threshold-based counseling that is triggered at crucial points in the borrower lifecycle could be far more meaningful than a rote recycling of the same information every year. Many institutions have already implemented such interventions with successful results. A one-size-fits-all approach won't benefit all students or all institutions equally. Counseling that is customized to the student's unique circumstances is key to ensuring that students will understand and retain the important information being conveyed. Crucial to these efforts, though, is the improvement and modernization of ED's counseling tool, which will both enhance the experience for students and make the counseling process manageable for institutions.

[3] Delisle, Philips, & van der Linde, 2014: *The Graduate Student Debt Review; The State of Graduate Student Borrowing.*

[4] Sec. 485 of the HEA and 34 CFR §685.304

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