Effective Counseling Series

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Chapter 1: Why Improving Student Debt Counseling is Important

This article is the first in a series of three that will focus on ways your institution can improve student loan counseling.

Entrance and exit counseling sound good on paper. Give students loan information before they start college and right before they leave. Provide them information about the terms of their loans, how to manage them, remind them how much they owe and how to repay them. But how effective is it? The data is certainly troubling.

Recent studies show that 40% of borrowers don't remember receiving counseling at all and a third have no idea what the interest rate is on their student loans. Meanwhile the projected lifetime default rate for those that entered repayment in 2008 is almost 20%. Think about that next time you are in front of a group of students. One in five of those students is going to default on their student loans. For those of you with low cohort default rates, remember that the national cohort default rate for that same year was only 7%.

We can't just blame the current entrance and exit counseling framework for these troubling statistics. Lack of a strong background in financial literacy is a real issue on the national level. A 2017 survey indicates that almost 70% of parents are reluctant to discuss finances with their children. Only 24% of Millennials and 38% of Gen-Xer's could answer four out of five questions correctly on a standard financial literacy test. The U.S. currently ranks only 7th out of 15 countries when it comes to this same test.

Why Institutions Should Care About Effective Counseling

In short, the political and societal appetite for requiring institutions to have financial "skin in the game" is growing. This concept truly started to gain traction with a bipartisan proposal issued in 2015 that suggested several formulas that would result in schools being required to repay the Department of Education for some or all of their students defaulted loan dollars. These proposals were based both on a school's default rate and repayment rate. There is in fact already a law on the books that requires certain foreign nursing schools that participate in the Direct Loan program to repay the government for some of their defaulted loans. Some might look at this law as a pilot program for future proposals.

Last year, a Republican reauthorization proposal called the PROSPER Act replaced cohort default rates with repayment rates at the program level, eliminating aid eligibility for those programs were too many students were not reducing their loan debt from year to year. While the Democrats Aim Higher Act offered no similar proposals, both sides of the aisle have indicated that some sort of risk sharing is still on the table in the next reauthorization, which could come as early as next year.

More recently, the current administration has proposed that “A better system would require postsecondary institutions accepting taxpayer funds to share a portion of the financial responsibility associated with student loans” and has pledged to work with Congress on the issue.

The bottom line is that even schools that enjoy low cohort default rates may have financial reasons to start better preparing their students to successfully manage their student loan debt.

The Three Prongs of Effective Loan Counseling

The three major factors as to the ineffectiveness of entrance and exit counseling are timing, topic and delivery. It’s about providing the right information at the right time. Our next article will discuss the first two prongs while the third will focus on learning how to reach your different constituencies in effective ways.