Bridging the Gap: Helping Students Avoid Loan Defaults

Outstanding student debt has reached $1.5 trillion.\(^1\) Despite news that default rates have improved slightly,\(^2\) many are rightly worried about this trend. How much debt is too much? Some institutions have taken to extreme and ethically questionable measures to curb default rates, including hiring private investigators. But while they may be in the best interest of the school, these tactics don’t necessarily serve the needs of the student population. Following is a look at programs that benefit institutions and their constituents.

A Data-Driven Approach

With data of all types in copious supply in higher education, institutions can use analytics to their advantage to curb the rate of defaults. Significant insight can be gleaned from combing institutional information. For example, sorting by student attributes of interest could result in data related to credit or program completion, chosen major,\(^3\) income, race,\(^4\) dependency status, and more.

What might this look like in practice? The financial aid staff at The University of Texas-Pan American used data-gathering flexibility and cross-departmental data analysis.\(^5\) They identified the following student characteristics as potential factors in loan repayment:

- Demographic data for prospective and current students
- Loan repayment patterns for freshmen
- Satisfactory academic progress
- Grade point average and default rates
- Cohort graduation rates

Data teams, partnering with financial aid departments, are poised to lead the charge in this project, as they know how to apply the principles of data science to craft a meaningful narrative that can benefit a range of departments and roles.

This micro-view of student demographics is a viable default management and prevention tool. The administration can target or focus their efforts on a certain student profile to bolster college completion figures. For example, Georgia State has harnessed the power of data analysis to identify points where students struggle.\(^6\) The university analyzed about two million historic grades and modeled how performance in one class might predict future performance. It was not a huge surprise when they found that students needed to do well in foundational courses in order to avoid struggling in more advanced coursework. Supplementation instruction was subsequently added to classes like *Introduction to Accounting* to help students navigate challenges early. Students, especially first-
generation ones, are more likely to drop out of college when they interpret a setback, such as failing a class, as a sign that they’re unfit for college in general.7

With that in mind, the data helped to produce a framework in which advisers were alerted every time a student made a choice that could jeopardize on-time graduation, such as failing to sign up for a required class. As each advisor juggles a caseload of about 300 students, the system made it much easier for advisers to proactively target their outreach.

Sharing the Load

Graduation is impacted by a multitude of touch points during the college experience. That's why bringing together staff, faculty, and administrators holds promise in planning and executing a plan to help at-risk borrowers.

Florida's Valencia College implemented its Default Prevention Advisory Committee in 2014 with that end in mind.8 Successful, in-target graduating students provide them with information and resources about their student loans. The committee’s outreach efforts have targeted at-risk groups with the intent of providing face-to-face counseling and in-classroom orientations as needed.

The structure of this cross-departmental activity is just as critical as the initiative itself, according to a report from the Texas Higher Education Coordinating Board.9 “Members of one community college’s cross-departmental default prevention taskforce rotate leadership of meetings. In this case, all participating departments have a turn leading and structuring meetings as well as ensuring meetings are productive and drive actionable results. Staffing reductions in financial aid made implementation difficult at one four-year private institution. In response, the institution’s retention area and the financial aid office teamed up, and implementation has been more successful for it.”

Because retention services managed the implementation strategies, the financial aid staff had more time to serve students directly and didn’t feel burdened by additional red tape.

Bridging the Gap

Loan counseling is intended to empower and inform students to know exactly what they are signing up for from the outset. But the education is only as good as the student’s efforts. Some breeze through the information when they first enroll, and the knowledge is no longer fresh or relevant when they leave. Others forgo the experience altogether, even if the information is essential to their situations pre- and post-college.

Whatever the case, they’re missing critical advice on how to avoid default. This is why colleges and the federal government would stand to benefit from working together to provide more consistent loan counseling that resonates with students. Beyond the standard online counseling tools, additional guidance must be available to students. For example, financial aid counselors can help students review their current circumstances and craft personal budgets to stay on top of their obligations. Some institutions, like the University of Houston Downtown,10 have invested resources in creating the position of a default prevention coordinator to handle all of these activities.

Valencia College has also found a model that seems to be working.11 Here, student success courses are a venue for introducing the topic of financial responsibility. Staff, known as ambassadors, partner with faculty members who teach developmental math courses to promote financial literacy. The school hosts information booths and distributes financial literacy material during campus events. Ambassadors challenge students to make educated financial choices to improve current and future financial security.
This support can mean a difference in the longer term. Students will be better prepared to meet the repayment terms after they graduate or leave the institution. In regard to the latter, some default prevention programs may overlook transfer students. These individuals may have been provided the information at a prior institution but need a refresher when they make the move. They can easily get lost in the shuffle.

Valencia College is aware of this oversight, and they have taken action. Transfer students receive personalized letters stating how much they have borrowed since the beginning of their educational careers.12

Conclusion

With colleges under more scrutiny about the value of their product, they simply cannot afford to overlook providing resources that address the student loan bubble. The American dream paints a picture of economic opportunity and mobility, which are closely tied to access to affordable higher education.

A college education is increasingly viewed as the primary path to stable employment, higher wages, retirement benefits, health insurance, etc. In other words, it’s about getting ahead. Institutions have a responsibility to ensure that students can afford the education in the first place.


REFERENCES