December 15, 2016

First Evaluation Report of Student Loan Repayment Counseling Pilot Program

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About Lutheran Social Service of Minnesota and LSS Financial Counseling

As one of the largest nonprofit providers of social services in Minnesota, Lutheran Social Service of Minnesota (LSS) impacts the lives of 100,000 individuals annually through the dedication of 2,200 employees and 8,100 volunteers. For over 150 years, LSS has been providing service to people with disabilities, older adults, children, youth, and families. LSS is widely respected for the quality and administration of its services and has one or more services in all of Minnesota's 87 counties. The mission of LSS is to provide service that inspires hope, changes lives, and builds community.

LSS began offering budget and debt counseling and debt management plans (DMPs) in 1987 with the mission of achieving economic health and security for all Minnesotans. The LSS Financial Counseling service is now uniquely poised as the largest nonprofit provider of financial counseling and financial education in Minnesota, providing budget and debt counseling, credit report review, student loan counseling, foreclosure prevention, reverse mortgage counseling, and/or Debt Management Plans to more than 10,000 families annually. LSS Financial Counseling has 11 service sites throughout Minnesota (Duluth, Willmar, Brainerd, Virginia, Saint Paul, Minneapolis, Saint Louis Park, and Mankato), 1 in Superior, Wisconsin, and can serve anywhere in the US through phone counseling and internet-based services. LSS is a member of the Better Business Bureau and the National Foundation for Credit Counseling (NFCC) and accredited by the Council on Accreditation (COA).

Introduction

Student loan debt is a major challenge for individuals the moment they graduate or leave college. Difficulty in repayment can become a key obstacle that prevents student loan borrowers from successfully pursuing their careers and life ambitions. Student loan payments leave less capacity for borrowers to cover other expenses including renting apartments and paying household bills as well as making investments in their future. Additionally, it reduces capacity for greater contributions to Minnesota's economy in vital areas such as home purchases or the establishment of small businesses.

The Federal Reserve Bank of St. Louis has estimated the true default rate as 31% of all graduates.[1] In Minnesota, which has the 5th largest average student loan debt in the country, more than 14,000 students have defaulted on their federal student loans in 2013. Borrowers who become delinquent (not defaulted) on their payments can find their credit scores drop by 100 points or more, resulting in obstacles to finding housing, employment, receiving loans, and securing insurance. Defaulting on student loans triggers large penalties added to debt, wage garnishments, and further impacts economic growth through decreased purchasing power of borrowers.

Additionally, studies have shown that student loan debt disproportionately affects students of color, low income students, and first-generation college students. Not only are students of color more likely to depend on financial aid to attend college, they are also more likely to graduate with larger debt compared to their white peers.[2] Between 2000 and 2014, half of black college graduates reported graduating with a student loan debt of more than $25,000; this is a 16% higher rate of graduates with this size of debt in comparison to white graduates over the same time period.[3] Moreover, a study in Texas found that first-generation college students received the same amount of financial aid as their peers even though their need was higher, often resulting in the necessity of larger student loans to pay for their education.[4]

[1] http://blogs.wsj.com/economics/2015/04/14/the-student-loan-problem-is-even-worse-than-official-figures-indicate/

[2] https://www.americanprogress.org/issues/higher-education/news/2012/04/26/11375/how-student-debt-impacts-students-of-color/

[3] http://www.gallup.com/poll/176051/black-college-graduates-likely-graduate-debt.aspx

[4] https://www.tgslc.org/pdf/files-sfts_what_works.pdf

Student Loan Repayment Counseling Pilot Program Overview

In May of 2015, the Minnesota State Legislature created a two year pilot program to serve Minnesotans who are struggling with their student loan payments. The program gave them the tools and information necessary to prevent their debt from inhibiting Minnesota's economic growth and derailing the borrowers' life goals. This is not a loan forgiveness program. It instead equips borrowers with the information, tools, and support so they can gain control of their budget, pay off their debt, and develop a plan for a healthy financial future. The pilot also includes continued research on the outcomes and impact of individual student loan repayment counseling. LSS was selected through competitive Request for Proposals process and finalized the contract with the Minnesota Office of Higher Education on October 15, 2015.

<u>Eligibility of those served in pilot program:</u>

Originally, the eligibility guidelines for this program were student loan borrowers who are Minnesota residents, went to school in Minnesota, and were between 30-60 days delinquent on their student loans. During the first several months of the pilot, it became clear that the 30-60 delinquency window was too narrow to serve the majority of borrowers in need of counseling. More than 80% of those served were either beyond 60 days delinquent or had not yet missed a payment, but had questions or concerns about repaying student loans. Therefore, the current eligibility guidelines were altered to include all student loan borrowers who are Minnesota residents and went to school in Minnesota, regardless of their payment status. Current statute allows the borrower up to two appointments with a certified financial counselor.

<u>Services included in student loan repayment counseling session(s):</u>

- Explore available repayment options for all student loans. Many borrowers are simply unaware of available repayment options that may provide a more manageable monthly payment schedule than a borrower's current repayment plan.
- Determine an individual borrower's eligibility for federal repayment and/or forgiveness options.
- Establish a budget to cover monthly expenses, including student loan payments.
- Attempt to contact lenders to determine possible repayment solutions.
- Review credit report and help borrowers understand it.
- Help student loan borrowers come up with an individualized plan to avoid default and the related consequences.
- Follow-up appointment, as needed per individual action plan.
- Help clients get defaulted loans back into current status.
- Multiple locations across Minnesota for in-person appointments as well as phone or Skype options are available.

Student Loan Repayment Counseling Pilot Program Evaluation and Outcomes to Date

Evaluation is completed through the collection of data provided by clients through interviews, surveys, and credit reports. Data collected is reported within our client management system and includes number of clients, number of completed sessions, and repayment statistics. Additionally, we maintain a scorecard of key data and indicators, leading and lagging measures, and regularly track demographic information such as age, ethnicity, income, and debt level in order to measure program impact and effectiveness.

During the initial counseling session, the counselor works with the borrower to assess the current status of their student loans. After counseling is completed and an action plan is developed, the borrower is asked if they feel more confident regarding their repayment options. Outcomes to date show that 86% of borrowers served responded positively to this question. Three months after initial counseling is completed, an outcomes survey is sent to borrowers to check in on the progress towards their action plan. Annually we administer an outcomes survey to all clients served to evaluate longer-term measures such as the client's confidence in managing a household budget, confidence about their personal financial situation since having student loan repayment counseling, their change in credit score, achievement of their financial goals, and their overall financial stability. The data helps us evaluate the experience, the helpfulness of our resources, and the impact of our action plans.

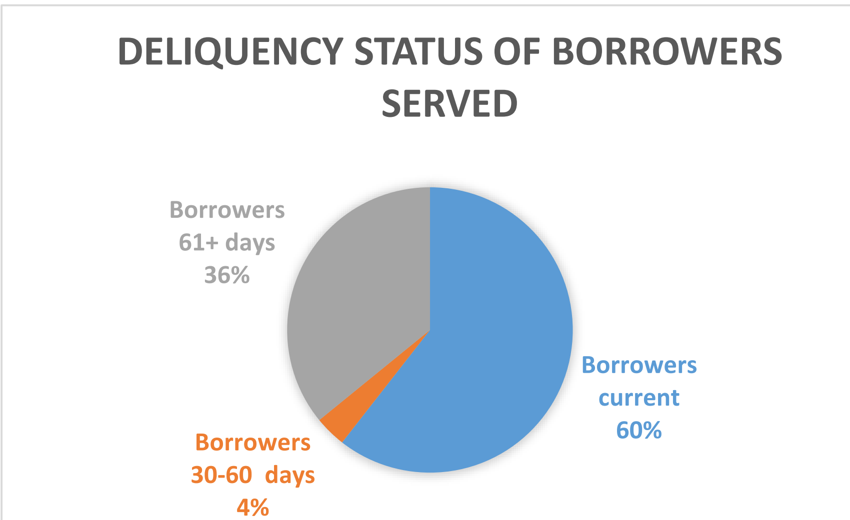
Additional Key Data, Outcomes, and Measures we are tracking include:

1) Since students of color are disproportionately impacted by student debt, we measure and have a goal to increase the percentage of our clients served who are people of color through targeted outreach.
2) Credit reports and scores are pulled for most clients receiving financial counseling (upon receiving their consent) to capture a baseline and measure improvements in credit scores. After finalizing the contract with The Office of Higher Education and launching the program in October 2015, we are now starting to evaluate long-term outcomes, such as credit reports for the borrowers counseled a year ago. Our counselors will pull annual credit reports and review them with the clients. During this session we compare their current and baseline credit score and debt levels and discuss progress and continued focus areas. Changes in credit score data for borrowers served will be reported on the next report of the pilot program after a measureable sample size is collected.

Key Findings

981 borrowers served

between October 15, 2015 and November 30, 2016

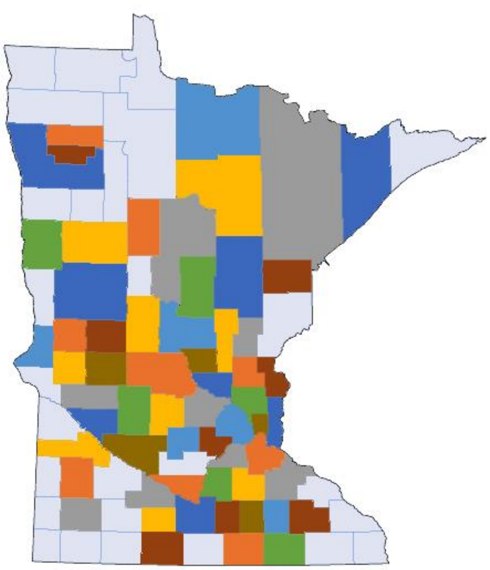


Delinquency Status of Borrowers Served

Borrowers current	594
30-60 days past due	35
61+ past due	352

60 counties in Minnesota

where residents utilized the program



Aitkin	Anoka	Becker
Benton	Blue Earth	Brown
Carlton	Carver	Cass
Chippewa	Chisago	Clay
Crow Wing	Dakota	Dodge
Douglas	Freeborn	Goodhue
Grant	Hennepin	Hubbard
Isanti	Itasca	Kanabec
Kandiyohi	Koochiching	Lake
Le Sueur	Lyon	Martin
McLeod	Meeker	Mille Lacs
Morrison	Mower	Murray
Nicollet	Olmsted	Otter Tail
Pennington	Polk	Pope
Ramsey	Red Lake	Renville
Rice	Scott	Sherburne
St. Louis	Stearns	Steele
Stevens	Swift	Todd
Traverse	Waseca	Washington
Watonwan	Wright	Yellow Medicine

99.4% remained current

590 of the 594 current borrowers remained current on loans with counseling.

50% back on track

193 of the 387 delinquent borrowers brought $9,860,215 of student loans into good standing with counseling. The remaining 198 delinquent borrowers remained delinquent or in default.

97% developed a monthly budget plan

86% feel more confident regarding repayment

80% say payments are more affordable

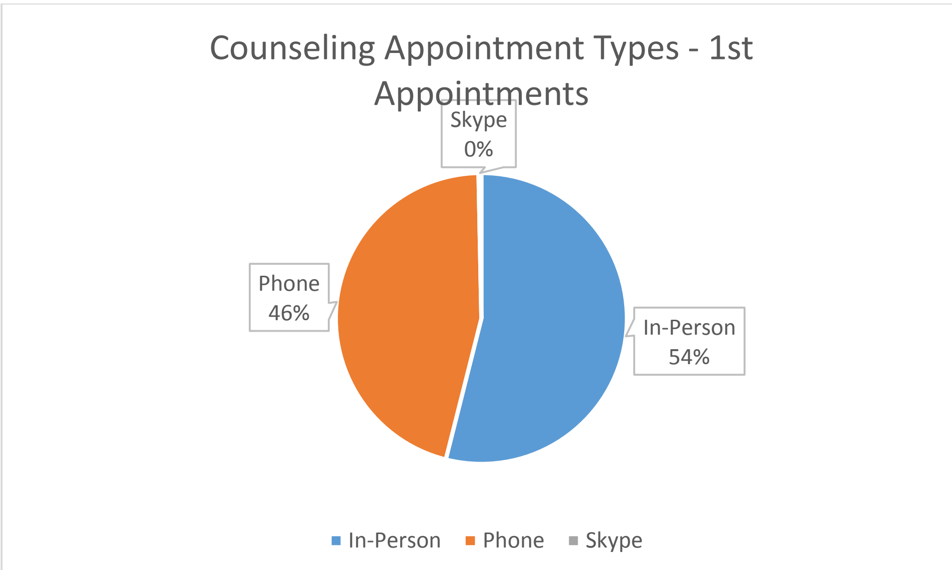
a year after implementing changes with counseling.

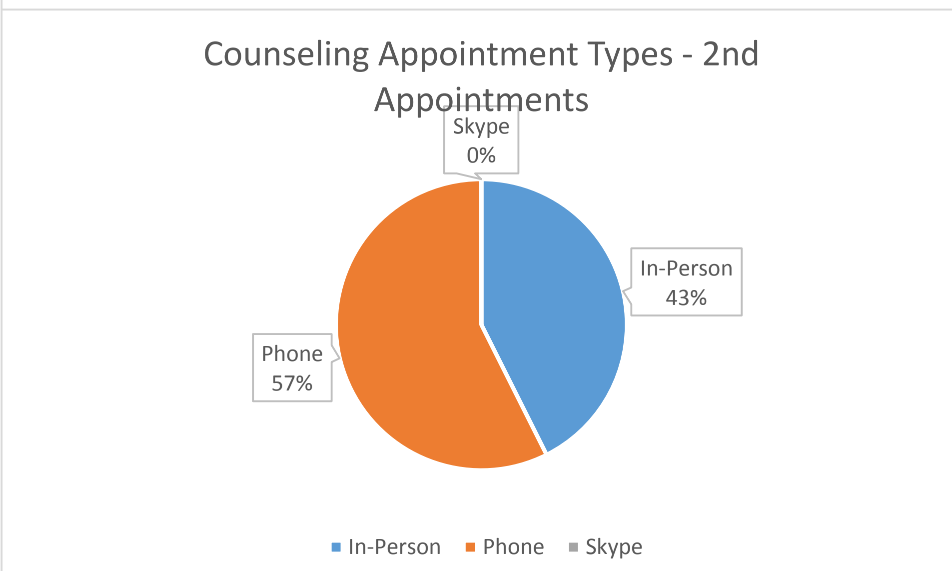
119 separate Minnesota schools represented

$50,504 average Federal student loan debt

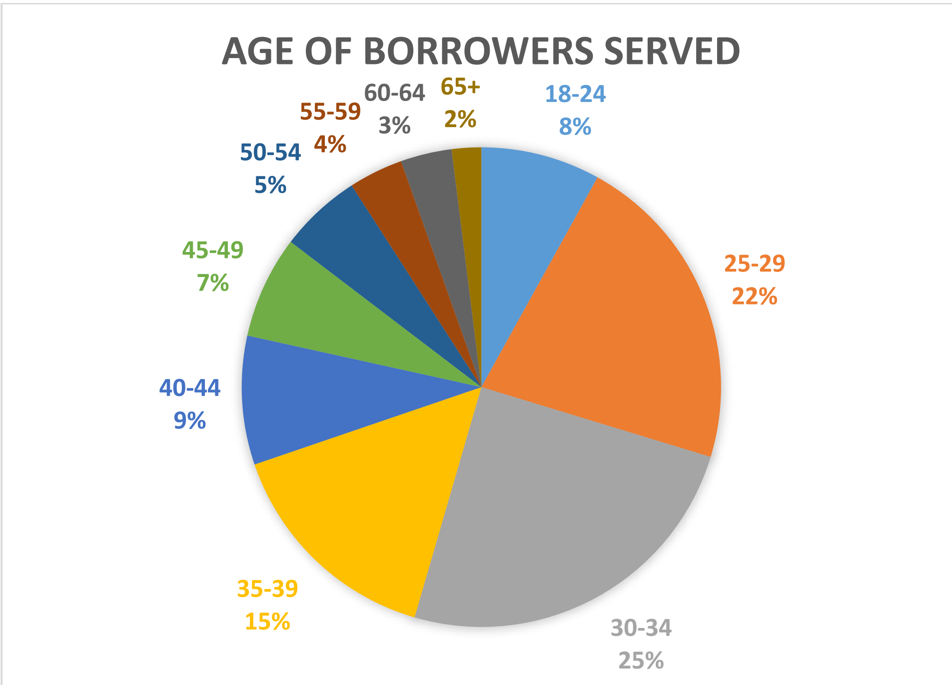
$12,849 average private student loan debt

Borrowers took advantage of flexible appointments to best meet their own needs, with the majority meeting with a counselor in person at one of our statewide offices for their first appointment.

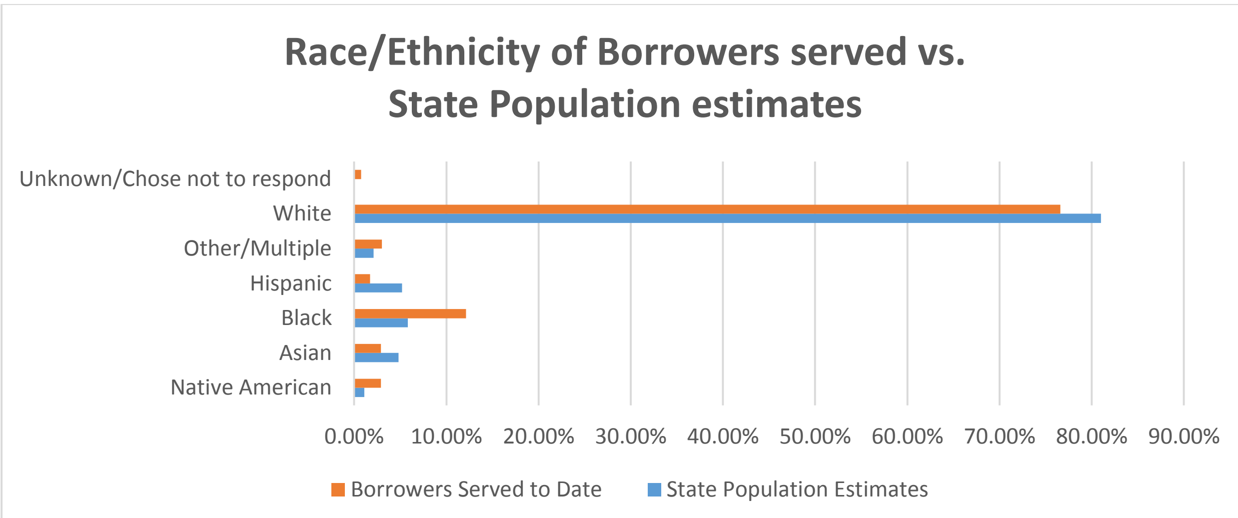




Over half of borrowers served were under 34. Getting debt under control now may help them pursue their life ambitions as well as increase purchasing power and have greater effect on the Minnesota economy for years to come.



When comparing race/ethnicity of borrowers served versus state demographics, people who identified as black, Native American, and multiple races were served at a higher percentage compared to the state population.



	Borrowers Served	State Population
Native American	2.90%	1.10%
Asian	2.90%	4.80%
Black	12.14%	5.80%
Hispanic	1.72%	5.20%
Other/Multiple	3.00%	2.10%
White	76.59%	81%
Unknown	0.75%	n/a

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Stories of impact on Minnesota borrowers served

Student Loan Repayment Counseling has had a positive impact on both financial and emotional well-being. Because the financial counseling is holistic, it addresses not only their student loans, but also how repayment fits into their overall financial situation. Below are some examples of people served and their complex realities. (All names below have been changed for client confidentiality.)

Heather from Crookston

Heather, a 36 year old from Crookston, is going through a divorce. The mortgage is in her husband's name only and he is not paying child support. Heather is working with an LSS Housing Counselor on this issue. She recently received notice that her wages will be garnished for her student loans. Heather is working with the Financial Counselor to request a hearing to prevent the garnishment, consolidate the loans and put them into an income driven payment plan which will keep them in good standing and allow her to avoid public assistance and provide stability for her 3 children.

Jason from Duluth

Jason, a 29 year old from Duluth, came into LSS 275 days delinquent but not yet in default on his student loans. He was married this past September and his family would like to buy a house. Jason and the Financial Counselor contacted his loan servicer together, requested forbearance to stop default and give a few months to determine the best repayment plan. The counselor laid out all his options and discussed different scenarios as far as tax filing status and income changes. Jason avoided default which would have occurred without the appointment as he did not know what to do and had no contact with servicer. Together they developed an action plan that included bringing student loans current and steps to achieve their goal of homeownership by reducing debt and improving credit score.

Bill and Joan from Brainerd

Bill and Joan are a married couple from Brainerd with about $11k in federal student loan debt and an additional $20k in credit card debt. Joan graduated in 2010 with her RN degree and was diagnosed with cancer in the same year. She is 69 years old and unable to work. Their budget is extremely tight with the debt they are carrying. They set up Debt Management Plan through LSS for the credit card debt and the counselor assisted them with applying for disability discharge for her student loans. The application was approved for discharge one month after the doctor's certification form was submitted and they are making progress on paying down their credit card debt.

Mary from Virginia

Mary, a single mother of one from Virginia, graduated in spring of 2015 with roughly $65,000 in Federal Student Loans. Her total monthly gross income is $850 per month. Her student loans came out of deferment in the fall and she was unaware that she needed to be paying on them. Mary came to LSS very stressed and overwhelmed. The student loans were 180 days past due and she had no way to make payments. Mary's counselor helped her to consolidate her Federal Loans and set up an Income Driven

Repayment Plan. In her follow-up appointment, together she and the counselor contacted the loan servicer to request forbearance, allowing her to catch up on past due payments and they applied for an Income Driven Repayment Plan. She was approved for a lower payment and her loans are back in good standing.

Repayment Counseling Key Pilot Program Learnings

The initial statute only allowed for serving borrowers who were 30-60 days delinquent. Most borrowers served were either current but had questions or were struggling to make payments, or over 60 days delinquent. The legislature removed the delinquency restriction in May of 2016.

Initially state auditors required signed copies of counseling certification forms and proof of residency. We learned that borrowers served over the phone did not have a high rate of return of these documents, therefore were not able to be billed or reported as being served under this program. We worked with The Minnesota Office of Higher Education to update the verification process to include cell phone pictures of ID and utility bills as proof of Minnesota residency. In June 2016, Docusign was accepted as another option for capturing signatures on counseling certification forms, which has increased the return rate.

The current law requires the borrower to be both a Minnesota resident and have attended a Minnesota school. 154 first and 22 second appointments were unbillable due to these restrictions. Most borrowers who are Minnesota residents, but went to school outside of Minnesota went to a Wisconsin school, followed by Iowa. The current agreement also only reimburses for borrowers who have had an initial appointment and one follow up appointment. If a borrower has a more complex case that requires a third appointment those are not eligible for reimbursement. An additional 49 cases were unbillable for this past year.

People seeking student loan repayment counseling are from all age groups. Many adults carry student loan debt longer, return to school later in life, and some are co-signers for family members.

Some Minnesota schools have partnered to provide outreach regarding the program and some have not. The schools who are partnering are seeing greater benefits of student borrowers seeking counseling and achieving desired outcomes. For example, Central Lakes College invited Financial Counselors from LSS to speak to students at graduation fairs, promoted the program on social media, and distributed brochures to delinquent borrowers, as part of their student loan default prevention task force.

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Recommendations

- Continue to fund individualized student loan repayment counseling after pilot ends.
- Expand eligibility to serve all Minnesota residents, even those who went to school in a different state.
- Increase outreach and marketing to bring broader awareness and increase borrowers served.
- Replicate model of school engagement, such as Central Lakes College, for greater success in reaching borrowers.