How Students at a U.S. University Borrowed $31 Million Less

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July 4, 2014, 9:01 PM PDT

A simple letter from Indiana University led its students to reduce borrowing by far more than the national average.

Amid the furor over the $1.2 trillion in U.S. student debt, the seven-campus system decided to tell students annually before they take out loans for the next year what their monthly payment would be after graduation.

Federal undergraduate Stafford loan disbursements at the public university dropped 11 percent, or $31 million, in the nine months that ended March 31 from a year earlier, according to Education Department data. That's more than fivefold the 2 percent decline in outlays to four-year public schools nationally.

"We are having more contact with the student where they can say 'I don't want this,' or 'I want less,'" said Jim Kennedy, associate vice president and director of financial aid at the Indiana system. "If they know at all times their debt, and the repayment, it helps with a lot of planning."

Studies have shown that many students, some as young at 17 when they first borrow, fail to understand loan terms and find themselves in financial straits when they are expected to begin repaying years later. A Federal Reserve Bank of New York report last month found that fewer than half of survey respondents with student debt had high "loan literacy." Federal law requires colleges to provide counseling to borrowers only at the beginning and end of their studies.

Natalie Cahill, 22, who is about to start her final year in nursing at Indiana's flagship Bloomington campus, said that after receiving her debt letter she decided to search for more scholarships.

Loan 'Perspective'

"When you take out loans for the year, you just see a smaller number than the grand total," Cahill said. "Seeing the letter definitely put things into perspective."

Cahill, who said she has taken out about $22,600, plans to borrow less for this year and will use earnings from a summer hospital job to help cover costs.

The level of outstanding education debt in the U.S. surpassed that of credit card debt four years ago. The most recent federal default rate, for the first three years that students are required to make payments, is 14.7 percent. That compares with 5.4 percent a decade ago, when the rate was measured over two years.

Rising default rates at Indiana also sounded the alarms among the university's leaders, Kennedy said. The most recent rate for Bloomington for students required to start repayment in 2010 was 6.4 percent, up from 3.4 percent a year earlier, according to Education Department data.

Debt Literacy

The letters, which Indiana began sending in the 2012-2013 academic year, are part of an effort to expand students' financial-aid literacy. The schools, which have a combined 95,000 undergraduates, also started a personal finance course, peer-to-peer advising and added more information to the website. The letters are sent out mostly by e-mail before students take loans for the next year, Kennedy said.

"I'm not surprised it drives down the borrowing once you know the consequences," Kennedy said.

Undergraduate borrowing at Indiana through the Stafford program, the most popular federal loan product, dropped to $249 million in the nine months through March from $279.6 million a year earlier, according to Education Department data.

'Eye Opening'

Seeing the cumulative amount of debt he's acquired made Rigo Hernandez hesitant to borrow more. The 21-year-old chemistry major at Bloomington said he's cutting expenses, avoiding purchases such as a new mobile phone, and contributing more to tuition from his summer job. He's taken out $5,535, and would pay $2,091 more in interest under a 10-year term, according to his letter.

"When I saw the grand total, it was eye opening as to how much I borrowed and eventually I'll have to pay that," Hernandez said.

By the 2012-2013 school year, all seven campuses also began requiring that returning students confirm they want to take out loans on their school's website, rather than just passively by filling out an online federal form for student financial aid. Indiana's undergraduate Stafford loan disbursements dropped 8 percent that year.

"We added more stopping points in the process," Kennedy said. Students "have to step back and really understand how much loan debt they're taking on."

Enrollment Constant

Indiana's loan volume dropped even as enrollment and financial-aid needs remained constant, Kennedy said. Tuition and fees in Bloomington increased 1.8 percent for in-state students and 2.8 percent for those from outside Indiana.

Declining enrollment is partly behind the 2 percent drop in borrowing nationally, according to Ben Miller, a senior policy analyst at the New America Foundation in Washington who analyzed Education Department loan data.

Undergraduate Stafford borrowing at Purdue University, a separate public school in Indiana, declined by 12 percent in the first three quarters on its main campus in West Lafayette, according to Education Department data. The campus also added financial-literacy programs, including small-group meetings and online scavenger hunts about loans where students can win $50 gift cards to Amazon.com.