PROJECT ABSTRACT

Missed Student Loan Payments

Reminders help student loan borrowers get back on track with payments

Agency Objective. Help student loan borrowers who miss payments get on track with their payments using email reminders sent directly from Federal Student Aid.

Background. Federal student loan borrowers who miss their initial loan payments are in danger of defaulting on their loan.[50] To assist these borrowers, the Department of Education's (ED) office of Federal Student Aid (FSA), in collaboration with the Office of Evaluation Sciences (OES), ran an email campaign to determine whether having FSA send reminder emails to borrowers—in addition to the communications from loan servicers they already receive—could help borrowers get back on track after missing their initial payments. A reminder email of this kind could particularly help those borrowers who are unaware that payments are now due or lack clarity about how to make payments.

Methods. The email campaign took place in the last week of February 2015, targeting borrowers who had missed the first or first and second payment on their monthly loan (n = 149,115). The email made clear that the borrower had missed a payment, sought to clarify the borrower's relationship with their loan servicer, and included a prominent, direct link to their servicer's login page to help with making a payment. Evidence from other contexts suggests that low-cost reminders of this nature can help individuals to make payments.[51] A link to more information about income-driven repayment (IDR) plans was also included, to which borrowers were directed if they could not afford their payment.

The project proceeded in two phases: In the first, FSA identified an effective subject line by randomly sending different subject lines to four groups of 12,500 borrowers each and comparing open rates. (The line "You missed a payment on your Federal student loan" was most effective by this measure). In the second phase, emails using the winning subject line were sent to a randomly selected set of the remaining borrowers (n = 77,115). A control group (n = 22,000) did not receive any communications from FSA, but continued to receive any ongoing communications from their loan servicers. Payment rates for all groups were tracked through the end of June 2015.

Results. In the seven days after the emails were sent, 3.5 percent of borrowers who were sent an email made at least one payment compared to 2.7 percent of the control group—a difference of 0.8 percentage points ($p < 0.01$, 95% CI [0.6, 1.0]). This difference persisted: more than three months after the emails were sent, the fraction of those groups having made a payment had risen to 16.6 and 16.0 percent, respectively, a difference of 0.6 percentage point ($p < 0.05$, 95% CI [0.1, 1.1]). There were no significant differences in the number of IDR applications; however, borrowers who received emails were less likely to access FSA's repayment calculator ($p < 0.01$) or to switch to deferment or forbearance on their loans ($p < 0.01$).

Conclusions. Emails that reminded student loan borrowers about missed payments and clarified how to make a payment led to significantly, but modestly, higher payment rates for the treatment group, and these higher rates persisted throughout the follow-up period.

OES
Office of Evaluation Sciences

[50] See: studentaid.ed.gov/sa/repay-loans/default

[51] Dean Karlan, Margaret McConnell, Sendhil Mullainathan, and Jonathan Zinman, "Getting to the Top of Mind: How Reminders Increase Saving," ***Management Science*** (forthcoming). Ximena Cadena and Antoinette Schoar, "Remembering to Pay? Reminders vs. Financial Incentives for Loan Payments," (NBER Working Paper No. 17020, 2011). Peter Baird, Leigh Reardon, Dan Cullinan, Drew McDermott, and Patrick Landers, "Reminders to Pay: Using Behavioral Economics to Increase Child Support Payments," (OPRE Report 2015-20, 2015).