OES 2016 Project Abstract

Defaulted Student Loan Borrowers

Prompting borrowers who recently entered default to take action on their loans, avoiding additional penalties

Agency Objective. Help student loan borrowers in default begin a loan rehabilitation plan.

Background. Each month, roughly 125,000 Federal student loan borrowers who have not made a payment in 360 days enter into default. These loans are transferred from the original loan servicer to the U.S. Department of Education's (ED) Default Resolution Group. If a borrowers fail to act in the next 60 days, their loans are transferred to a private collections agency, and they face serious penalties including a collections fee equal to 25 percent of the principal and interest on their loan(s), damage to their credit, wage garnishment, ineligibility for future federal student aid, and forfeiture of IRS tax refunds. To avoid these penalties, ED offers a loan rehabilitation agreement that allows them to exit default if they make 9 out of 10 payments based on their income (the payment can be as low as $5).

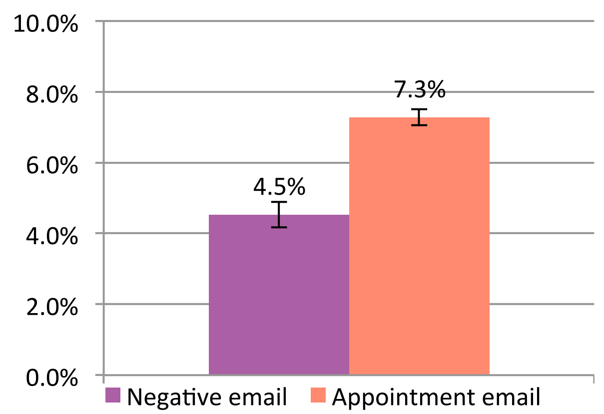
Methods. From April through July 2015, ED conducted an iterative randomized control trial, sending emails to three separate cohorts of borrowers in default, prompting them to contact the ED call center to enter a rehabilitation agreement. In Cohort 1, ED randomly assigned approximately 24,000 borrowers to be sent an email with one of 4 subject lines. The subject line with the highest open rate was used to randomly send an additional 44,000 an email that either emphasized positive collaboration with ED or the negative consequences of default.

An additional 22,000 borrowers were selected for a control group. In Cohort 2, roughly 76,000 borrowers were randomly assigned to be sent either the "winning" email from Cohort 1 or one of three emails that outlined the steps for getting out of default. The emails varied the number of steps to be taken and emphasized either positive collaboration or negative consequences.

In Cohort 3, ED randomly assigned roughly 80,000 borrowers to be sent either the "winning" email from Cohort 2 or an email that contained a suggested "appointment" slot for a specific low-volume time at the ED call center.

Results. In Cohort 1, the subject line simply stating "Your Student Loan is in Default" resulted in the highest open rate (19.4 percent) and the email negatively-framed email generated a higher call-in rate within three weeks (4.86 percent) than the positively-framed email (difference=1.41 p.p., p < 0.01, 95% CI [1.04%, 1.79%]) and the control group (difference=2.86 p.p., p < 0.01, 95% CI [2.52% , 3.20%]). In Cohort 2, call rates for the emails emphasizing negative consequences were statistically indistinguishable from one another, but all such emails were more effective than the email emphasizing collaboration. In Cohort 3 the subject line "We've Scheduled Your Appointment" resulted in a highest open rate (24.9 percent) than the previous subject line, and including the appointment led to a higher call-in rate within three weeks (7.28 percent) than the email without the appointment (difference=2.75 p.p., p < 0.01, 95% CI [2.27%, 3.23%]).

Defaulted Borrower Call-In Rates in July 2015



Notes: Percentage of defaulted borrowers calling in regarding their loan in July 2015. Error bars display 95 percent confidence intervals. n = 65,403.

Conclusions. Prompting delinquent borrowers with a specific moment of action in the form of an appointment, increases the rate at which they take an initial step to rehabilitate their student loans. Emphasizing negative consequences of default is more effective than describing default more generally.