Qualitative Testing of Prototype Student Loan Disclosures

Prepared for the Consumer Financial Protection Bureau (CFPB)

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GROUP

Presentation Overview

Consumer Financial Protection Bureau

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Background and Methodology

Study Objectives

To explore how student loan borrowers (with federal loans) understand and react to disclosures about alternate repayment plans. Specific focus was given to content comprehension and identifying borrower preferences for customization, branding, and number of plans shown.

→ Sixty-four individual in-depth interviews (IDI) were conducted with student loan borrowers, ages 20 and older. Four rounds of iterative testing were conducted, with 16 IDIs per round (n = 64).

- Sessions lasted approximately 30 minutes and were conducted in **Arlington, VA,** from September to October 2016.

→ Participants were recruited for a mix of gender, age, race/ethnicity, income, student loan type, and student loan status.

- Inclusion criteria: Participants who reported that they had federal student loans in repayment, were the primary person responsible for managing payments, and were outside of the initial repayment grace period.

Each round of testing was roughly split between participants who self-reported as either "in distress" or "not in distress."

- In distress = Yes, I am currently experiencing difficulty making my monthly loan payment.
- Not in distress = No, I am not currently experiencing difficulty making my monthly loan payment.

Background and Methodology

- → Participants were shown a customized disclosure featuring alternate repayment plans based on their current loan balance, income, and family size, which they provided to the research team upon arrival.
- → All participants were shown one disclosure and asked in-depth content comprehension and usability questions. Some participants were then shown a second disclosure and were asked for only initial reactions.
  - Disclosure 1 — Participants were asked to imagine that they were approximately eight months into repayment on a federal student loan in good standing, and had received a disclosure that showed three repayment plans side by side. Participants saw their current plan in the first column and two alternate repayment plans in the subsequent columns.
  - Disclosure 2 — Participants were asked to imagine that their federal student loans were 90 days past due and that they were now receiving this disclosure. This disclosure showed one alternate repayment plan that could lower their monthly payment, as compared to their current plan.
  - In each round, approximately half of the participants were shown Disclosure 1 first and half saw Disclosure 2 first. Generally, if a participant qualified for a lower payment under the Pay As You Earn (PAYE) Repayment Plan or the Revised Pay As You Earn (REPAYE) Repayment Plan, they were shown Disclosure 2 first.
- → At the completion of each round, revisions were made to the content and design of each disclosure.

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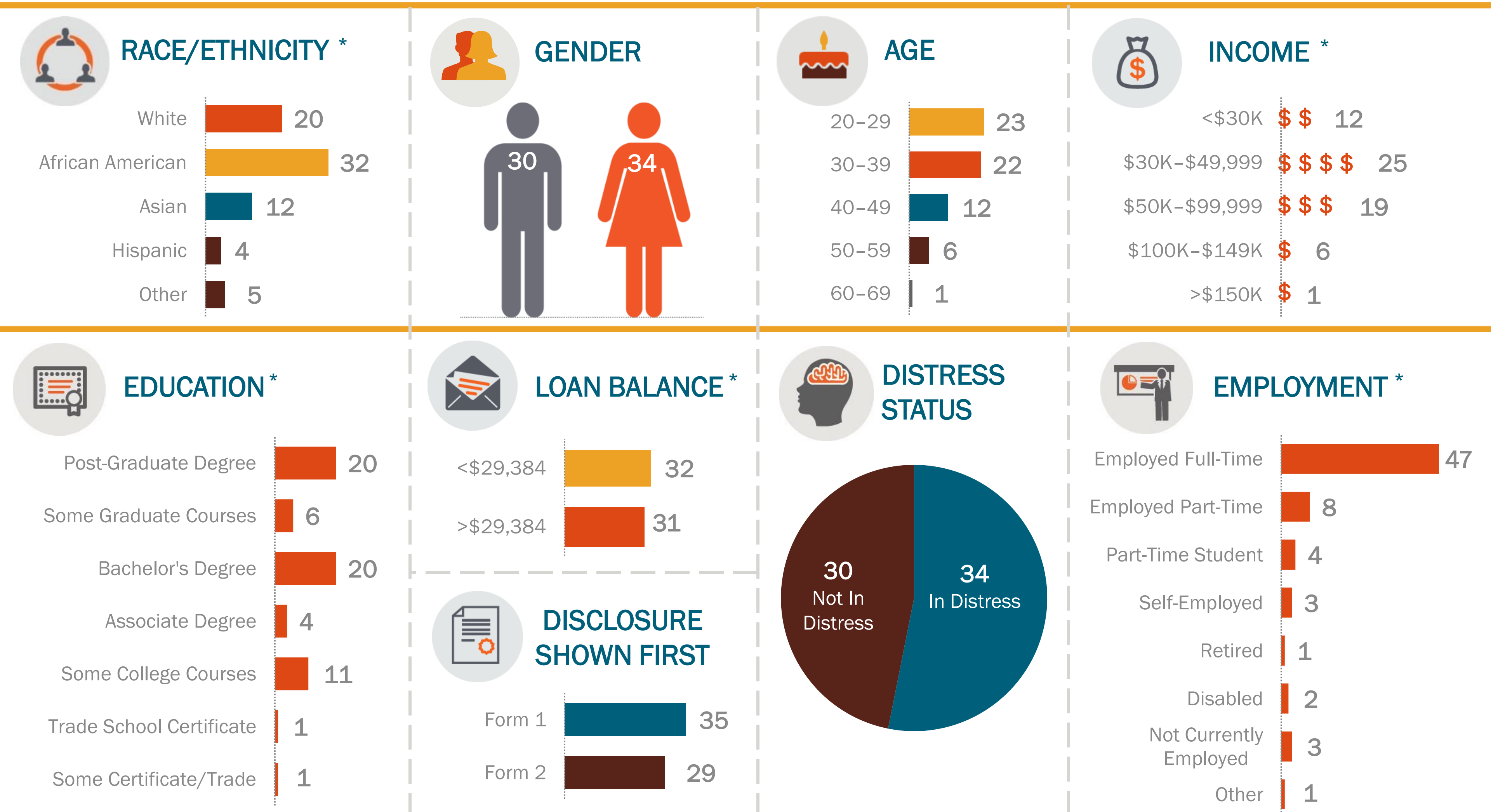
Participant Profile: Demographics



* Note: Counts may not add up to sample size (*n* = 64) due to rounding, missing data, and/or multiple responses. Participant profile is based on participant sample and should not be considered representative.

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Round One

Disclosures Tested in Round One

Disclosure 1

You have the right to choose a different repayment plan

Your current plan	Option 1: Less now, more later	Option 2: Income driven
Fixed Repayment (10 year)	**Graduated Repayment**	**Pay As You Earn (PAYE)**
10 years of monthly payments that stay the same each year	Up to 10 years of monthly payments based on your remaining loan balance; payments start low and increase over time	Up to 20 years of monthly payments based on your family size and income, then any remainder is forgiven
MONTHLY PAYMENT **$271.54**	MONTHLY PAYMENT **$152.00**	ESTIMATED MONTHLY PAYMENT **$45.00**
PAYMENTS REMAINING **112 payments** (9 years, 4 months)	PAYMENTS REMAINING **112 payments** (9 years, 4 months)	PAYMENTS REMAINING **Up to 232 payments** (19 years, 4 months), then the loan balance is forgiven
	Monthly payment starts low ($152/mo) and increases gradually over time ($455/mo); the highest payment is your last one at payoff	Based on a current income of $29,457 and family size of two; payments will never be higher than $271.54; if you recently lost your job or make less than $23,895, payments may be as low as $0

Keep in mind: Switching to a plan with a lower monthly payment often means paying more over the life of your loan.

There's never a fee to change your repayment plan

Explore repayment plans
To learn more about your repayment options, including details about other plans, total loan costs, and how changing plans or loan forgiveness could affect your taxes, visit studentaid.ed.gov/repay-loans.

Enroll in a new plan at any time
You may qualify for additional plans. To sign up for a different repayment plan for free, call [your servicer] at 555-555-2200 or visit studentloans.gov.

Disclosure 2

As of March 15, 2016, your account is 90 days overdue.

You can lower your payments with a new repayment plan

You have the right to switch to the Pay As You Earn (PAYE) repayment plan, which has a lower monthly payment based on your income and family size.

Pay As You Earn (PAYE)

HOW IT WORKS	ESTIMATED MONTHLY PAYMENT	PAYMENTS REMAINING
Up to 20 years of monthly payments based on your family size and income, then any remainder is forgiven	**$45.00** Based on a current income of $29,457 and family size of two; payments will never be higher than $271.54; if you recently lost your job or make less than $23,895, payments may be as low as $0	**Up to 232 payments** (19 years, 4 months), then the loan balance is forgiven

Keep in mind: Switching to a plan with a lower monthly payment often means paying more over the life of your loan.

There's never a fee to change your repayment plan

Explore repayment plans
To learn more about your repayment options, including details about other plans, total loan costs, and how changing plans or loan forgiveness could affect your taxes, visit studentaid.ed.gov/repay-loans.

Enroll in a new plan at any time
You may qualify for additional plans. To sign up for a different repayment plan for free, call [your servicer] at 555-555-2200 or visit studentloans.gov.

Round 1: General Findings

- Action: Most participants indicated that they would call their loan servicer or go online to research the plans being offered to them.
- Sender: Participants generally expected to receive this type of disclosure from their loan servicer or the Department of Education (ED).
  - A few participants did not believe it was in their servicers' best interests to offer this plan and, therefore, would not expect to receive the disclosure from them.
  - Several participants said they would be more likely to believe or trust the information if it were sent (or branded) by ED because, as a government agency, it would not be trying to make money from the consumer.
- Mail or Email: Participants' preferences for whether they would like to receive this type of disclosure by email or mail were generally consistent with how they currently receive their statements.
  - Participants were fairly evenly split on whether they wanted to receive the disclosure with their statement or separately, but did indicate that the disclosure needed to stand out from other materials.

"I'm always wary of what my loan provider, the information it gives me, 'cause I always know in the back of my head they're sort of like credit cards in that they want you to have more interest and then pay more in the end." – In Distress

"It doesn't seem like [the loan servicer] would broadcast or advertise stuff like that, 'Pay us less money.'" – Not In Distress

"The Department of Education, they're not as involved, it's not in their best interest to steer me one way or the other, so I think that would seem a little more impartial… if it came from the loan office, I'd have to wonder if they're trying to fool me into paying loans for 20 years." – In Distress

Round 1: General Findings

- Comprehension: Essentially all participants could articulate the purpose of the disclosure and that there was no cost to switch repayment plans.
  - Most indicated that the purpose was to provide them with options if they couldn't afford their current monthly payment.
  - Essentially all participants could express that, on income-driven repayment plans, their payments would adjust with their income.
  - Approximately half of participants understood the meaning or could accurately describe the intent behind the statement "you have the right;" however, one participant thought the phrase sounded like a commercial and a few others felt it could be replaced with "you can switch."
- Eye-Catching Content: Nearly all participants indicated that the bold text (monthly payment amount and payments remaining) were the items they looked at first.
  - A couple of participants indicated liking the brief descriptions of the repayment plans (e.g., "less now, more later") but said that they did not stick out or catch their eye.
  - Participants often did not read the bottom section with the "Explore repayment plans" and "Enroll in a new plan at any time" paragraphs closely. Some missed the links until probed on what they would do to get more information.

"The purpose of the notice is to let me know that before I end up in default there is a way to work this out." – In Distress

"['You have the right' is] straightforward, as a customer these are your options, I don't think it's trying to trick you in any way." – Not In Distress

"The 'how many payments,' 'how long it's going to be,' and the monthly payment are the first things to look at." – Not In Distress

"I think for these two [plans], the payment and the amount of payments remaining [are most important]." – Not In Distress

Round 1: General Findings

→ Customization: Overall, participants said that they preferred seeing information that was tailored to their specific situation, rather than example numbers.

- However, some participants reported that if the customized numbers were off by too large a margin, they would be less likely to trust the information and more inclined to assume it is spam or that the offer may not apply to them.
- Most participants seemed to believe that the servicer or a government agency would already have their income and family size information (e.g., from taxes or loan applications), although a few participants said seeing this personal information might raise privacy concerns.
- A small number of participants were asked if they would like to see plans listed that were not available to them—most of these participants indicated that they only wanted to see those plans that applied to them.

"I think [the disclosure] would get my attention more if it had my information so I could really see how it would affect me without having to take an extra step." – Not In Distress

"[If it had incorrect information] I would definitely think it would be more spammy and be more likely to toss it out." – In Distress

"[With customized information] I would say to myself, 'How did they get that information?' But I would assume they got it from, like, the whoever keeps track of where someone works, or the IRS." – Not In Distress

"I wouldn't be too concerned [about seeing personal information]. I would just assume they already have that information." – Not In Distress

Round 1: General Findings

- Income-driven Repayment Plans: Virtually all participants understood the concept of “forgiveness,” but many participants stated they would like to see more information on precisely what “forgiven” means in this context and if there is “a catch” associated with it.
  - Only two participants mentioned the potential tax implications associated with loan forgiveness.
  - When asked about whether or not they could enroll in PAYE if they were currently unemployed, most participants were unsure, although some were able to confirm after re-reading the disclosure.
- Most participants indicated that they were aware, before seeing this disclosure, that a plan with lower monthly payments often means paying more over the life of the loan.

“[‘Forgiven’ means] it's completely gone but... I don't know what that process is, after 19 years, 4 months, do I have to do something or file some paperwork or is it just gone?” – Not In Distress

“[‘Forgiveness’] means it's forgotten about but I'd want to know more about what that means ‘cause later on it says it affects your taxes so it’s not clear what that means, if your tax repercussions are astronomical at the end of this and you don't have the money to pay for it, that's equally bad.” – Not In Distress

"No, I didn't know that [it could affect taxes], I would probably want to know how it would affect it, that's definitely a cause for concern but if it wasn't a big difference I wouldn't care.” – Not In Distress

“I don't know if you can enroll in [PAYE] if you didn't have a job now but it does say that if you lost your job, payments would be as low as $0 [if you were already in the plan].” – Not In Distress

Round 1: Disclosure-Specific Findings

→ **Disclosure 1:**
- The content that read "how changing plans… could affect your taxes" (in the lower left text block) was not easily associated with forgiveness in the PAYE Repayment plan.
- When viewing the Graduated Repayment plan, many participants stated they would like to see a timeline or image showing how the payment increases over time.
  - Most participants understood the concept behind the Graduated Repayment plan (e.g., that the student loan payment would increase over time); however, participants expressed that the uncertainty around how and when the payments would increase made this plan the least appealing.
- Some participants mentioned that they would want to see interest rates shown for each plan.

→ **Disclosure 2:**
- Of the participants shown both disclosures, most preferred Disclosure 1, saying that they liked seeing their current plan and having the ability to compare several plans side by side.

"[For the graduated plan], give me a timeline. If it's up to 10 years, is it every year I'm gonna see an increase? Is it every 6 months I'm gonna see an increase? I'd like to know how this affects my bottom line, my budget. Just this information, it doesn't tell me anything." – In Distress

"I don't see where the interest rate is for any of these, that would be the second thing I always look for… I would like to know what the interest rate is." – Not In Distress

"[Disclosure1] to me is more informative because it really lays everything out in a manner that is easily understood; you see what your current plan is and then you see your options." – In Distress

Round Two

Forms Tested in Round Two

Disclosure 1

Change your repayment plan at any time without a fee

Your current plan	Option: Less now, more later	Option: Income driven
Fixed Repayment (10 year)	Graduated Repayment	Revised Pay As You Earn (REPAYE)
10 years of monthly payments that stay the same each year	Up to 10 years of monthly payments based on your remaining loan balance; payments start low and increase over time	Up to 20 years of monthly payments based on your family size and income annually, then the remainder is forgiven
MONTHLY PAYMENT **$271.54**	MONTHLY PAYMENT **$152.00**	ESTIMATED MONTHLY PAYMENT **$45.00**
PAYMENTS REMAINING **112 payments** (9 years, 4 months)	PAYMENTS REMAINING **112 payments** (9 years, 4 months)	PAYMENTS REMAINING **Up to 232 payments** (19 years, 4 months), then the loan balance is forgiven, which could affect your taxes
	Monthly payments start low ($152/mo) and increase every 24 months, reaching the highest amount ($455/mo) at the end of the loan	Based on a current income of $29,457 and family size of 2: if you lose your job or make less than $23,895, payments may be as low as $0 when you enroll in this plan

Keep in mind...

Switching to a plan with a lower monthly payment often means paying more over the life of your loan.

Learn more about your total costs with the "Repayment Estimator" at **studentloans.gov**.

Ready to enroll?

Call [your servicer] at 555-555-2200 or visit **studentloans.gov**. Ask if you qualify for more plans than the ones listed above.

Learn more at **studentaid.ed.gov/repay-loans**.

The disclosure title was changed and the "you have the right" language was removed. The line stating, "There is never a fee to change your repayment plan" was cut from the bottom of the disclosure and this information was put in the title.

Information about taxes was removed from the bottom section and "...which could affect your taxes" was added to the income-driven section to connect it more clearly to loan forgiveness.

Text was added explaining that the monthly payment amount increases on the Graduated Repayment plan every 24 months.

The line of text, "Switching to a plan with a lower monthly payment..." was moved to this section.

The links were bolded to stand out more.

Forms Tested in Round Two

Disclosure 2

As of October 03, 2016, your account is 90 days overdue.

Lower your monthly payments with a new repayment plan.
There is never a fee to change your plan.

Under your current plan, your scheduled monthly payment is **$ 271.54**

Pay As You Earn (PAYE)

HOW IT WORKS	ESTIMATED MONTHLY PAYMENT	PAYMENTS REMAINING
Up to 20 years of monthly payments based on your family size and income annually, then any remainder is forgiven	**$45.00** Based on a current income of $29,457 and family size of 2; if you lose your job or make less than $23,895, payments may be as low as $0 when you enroll in this plan	**Up to 232 payments** (19 years, 4 months), then the loan balance is forgiven, which could affect your taxes

Keep in mind...

Switching to a plan with a lower monthly payment often means paying more over the life of your loan.

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Learn more at **studentaid.ed.gov/repay-loans**.

The "you have the right" language was removed from the title section. The line stating, "There is never a fee to change your repayment plan" was cut from the bottom of the disclosure and this information was put in the title.

A line was added to inform consumers about their current monthly payment.

The language about enrolling if you "...recently lost your job or make less than [X]..." was changed to "...if you lose your job or make less than [X]..."

Headings for this section were changed to be action-oriented.

Information about the "Repayment Estimator" was added to this section.

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Round 2: General Findings

→ Several themes were consistent with Round 1:

- Action: Most participants indicated they would call their loan servicer or go online to research the plans being offered.
- Sender: Most participants expected to receive the disclosures from their loan servicer or the Department of Education.
- Mail or Email: Preferences for how to receive these disclosures were generally consistent with how participants currently receive their statements, and participants still varied on whether they would prefer the disclosure with their statement.
- Comprehension: Essentially all participants could articulate the purpose of the disclosure, that income-driven payments would adjust with their income, and that there was no cost to switch repayment plans.
- Eye-Catching: Nearly all participants first noticed items in bold (monthly payment amount and the number of payments or months remaining).
- Customization: Most participants said they would prefer customized numbers, and would assume that the servicer or a government agency would already have their personal information. A few participants, however, said that seeing this personal information might raise privacy concerns.

"I'd probably be more inclined to pay attention to the one from the Department of Education because you would perceive it as being impartial." – In Distress

"With the options, the first thing I looked at was amounts that were due and total payments, how long it would take, going from nine years to 19 years… that was a bit shocking." – In Distress

"[If it had standard numbers] I probably would just delete the email, I probably wouldn't take the time to read through it… it wouldn't really catch my attention, I think, if it didn't have my information on it." – Not In Distress

Round 2: General Findings

→ A few themes were unique to Round 2 as a result of changes to the disclosures or line of questioning:

- Although many participants still did not closely read the bottom sections (under “Keep in mind…” and “Ready to enroll?”), most indicated that the links drew their attention.
  - A few participants did specifically note the Repayment Estimator.
- When reviewing the PAYE Repayment plan, nearly all participants could accurately describe the meaning of loan forgiveness. In this round, however, participants noted the association between loan forgiveness and tax implications.
  - However, when participants guessed what the tax issues might be, most assumed that money might be taken from their income tax refund.
- When asked about whether or not they could enroll in PAYE if they were currently unemployed, roughly half of the participants in this round were unsure.
  - Several participants indicated they were unsure if they would have to enroll before losing their job.
- A few participants saw disclosures with a $0 monthly payment plan option or took notice of the language about payments being as low as $0.
  - Most participants who saw it, however, were confused by the concept that $0 could be considered a “payment.”

“I definitely would check out the Repayment Estimator just to play with it and see if I can get some trends and all of that before I would speak to them.” – In Distress

”There you go, the catch, it could affect your taxes. So why if it's forgiven and the loan's gone, why is it gonna affect my taxes again? When I file taxes, they'll take my money.”
– In Distress

“I think [you could enroll if unemployed], I don't know, I can't tell from this if I could or couldn't after I've lost [a job].”
– Not In Distress

Round 2: General Findings

- Most participants said they thought that under PAYE and REPAYE, they would be paying on their loans for the full 232 payments.
  - Even when probed on the "Up to" language, few participants could articulate that they could pay off the loan early.
  - Even when the PAYE plan had a substantially lower payment amount than the current plan, many participants expressed concerns about the number of payments or years for this plan.
- Most participants indicated that they were aware, before seeing this disclosure, that a plan with lower monthly payments often means paying more over the life of the loan. Only some of the participants noticed this line of text without being prompted.

"Are they saying they're capping it at 232 payments? Let's say I'm homeless for five years, is it still 232 payments or how does that work?"
– Not In Distress

"Once I saw that I may ignore this whole [plan], because the idea of having to pay 232 more payments makes me want to hyperventilate.... I'm kind of a one-track mind so once I saw that, I may just say that's not an option, I am not interested." – Not In Distress

"All I could see was, oh my gosh, 232 payments, how much extra is that on the loan with interest? Nineteen years, oh my gosh, I'll be 80, like that's what I'm thinking and I'm not seeing anything else." – Not In Distress

"Yeah, that's common with any payments or any credit cards... common to pay more interest. That's a standard practice."
– In Distress

Round 2: Disclosure 1 Findings

- Fewer participants had questions about the Graduated Repayment plan than in Round 1.
  - In this round, participants could more consistently explain how the payments would increase steadily (every two years) over the life of the loan. As a result, there were no requests for timelines or visuals.
  - However, participants still often indicated that this repayment plan was not appealing given concerns about their future earning potential and ability to repay at the higher amounts.
- Some participants mentioned that they would want to see interest rates for each repayment plan.

"[The graduated plan says] reaching highest amount at the end of the loan. I would not touch that... I don't know what's going to happen down the road, then I could be stuck paying $725 a month with barely enough money to pay my mortgage." – In Distress

"'Less now, more later,' I don't want to pay more later, I don't know where I'm going to be later." – In Distress

"[Payments may be as low as $0] makes me wonder what's the kickback on that; like, what's the consequence to that? Will your interest rate go up, does it stay the same but you continue to accrue interest?" – Not In Distress

"It would make more sense if they did the total math. This is how much you owe [at the end of the loan] with a 10-year plan, this is how much you'll pay with a 20-year plan." – Not In Distress

Round 2: Disclosure 2 Findings

- Of the participants shown both disclosures with Disclosure 2 first, most preferred Disclosure 1. Consistently, borrowers preferred seeing more rather than fewer repayment plans.
  - A few participants who were only shown Disclosure 2 mentioned without prompting that they'd like to see other plans they might qualify for—not just PAYE.
- Of those participants who saw Disclosure 2 with their current repayment plan, all who were asked understood the meaning of the number indicating their current monthly payment.
  - When asked if they could locate the total past due balance, these participants correctly said it was not on the disclosure.
- At least two participants in this round mentioned that the tone of Disclosure 2 was direct and informational (about being 90 days past due) but was also comforting or reassuring by providing clear alternatives to the current monthly payment.

"[On Disclosure 2] I'd also like to see my current [plan] and how long that would take and also if I pay more how long that would take… so I could see the numbers right there and compare it." – In Distress

"I have a much stronger preference for [Disclosure 1] over [Disclosure 2]… I think because they're presenting more than one option… it feels much more solution-oriented." – In Distress

"[Disclosure 2] seems pretty positive and it doesn't seem like it's confrontational… it just gives you the options of what you can do next; it would relax me even though it's a notice." – Not In Distress

Round Three

Disclosures Tested in Round Three

Disclosure 1

Lower your monthly payments with a new repayment plan. There's never a fee to change your plan.

Your current plan	Option: Pay less for longer	Option: Income driven
Fixed Repayment (10 year)	Extended Repayment	Pay As You Earn (PAYE)
10 years of monthly payments that stay the same each year	Up to 25 years of monthly payments that stay the same each year	Up to 20 years of monthly payments based on your family size and income, then the loan balance is forgiven, which could affect your taxes
MONTHLY PAYMENT **$271.54**	MONTHLY PAYMENT **$XX.XX**	ESTIMATED MONTHLY PAYMENT **$45.00**
PAYMENTS REMAINING **112 payments** (9 years, 4 months)	PAYMENTS REMAINING **Up to 292 payments or until the loan is paid off** (24 years, 4 months)	PAYMENTS REMAINING **Up to 232 payments or until the loan is paid off** (19 years, 4 months)
	Monthly payment will always be lower than your current plan ($271.54) until your balance is paid off	Based on a current income of $29,457 and family size of 2; payments will never be higher than $271.54 Payments may be as low as $0 if you make less than $23,895 or if you lose your job (you can enroll even if you're unemployed)

Keep in mind...

Switching to a plan with a lower monthly payment often means paying more over the life of your loan.

Learn more about your total costs with the "Repayment Estimator" at **studentloans.gov**.

Have questions or ready to enroll?

Call [your servicer] at 555-555-2200 or visit **studentloans.gov**. Ask about interest rates or if you qualify for more plans than the ones listed above.

Learn more at **studentaid.ed.gov/repay-loans**.

The disclosure title was changed to the one used in Disclosure 2 from Round 2, with the fee information in a separate sentence.

Text about loan forgiveness and taxes was moved from the "payments remaining" section of this plan to the initial section.

The Extended Repayment plan and an accelerated repayment option were shown to participants based on which one they qualified for. The Graduated Repayment plan was not shown this round.

Wording about the number of payments was changed to read, "Up to 232 payments or until the loan is paid off."

Language was added at the end of the income-driven section specifying that "you can enroll even if you're unemployed."

Disclosure Tested in Round Three

Disclosure 2

As of September 30, 2016, your account is 90 days overdue.

Lower your monthly payments with a new repayment plan. There's never a fee to change your plan.

Your current plan	MONTHLY PAYMENT	PAYMENTS REMAINING
	$271.54	**112 payments** (9 years, 4 months)

New plan: **Pay As You Earn (PAYE)**	NEW ESTIMATED MONTHLY PAYMENT	PAYMENTS REMAINING
HOW IT WORKS Up to 20 years of monthly payments based on your family size and income, then the loan balance is forgiven, which could affect your taxes	**$45.00** Based on a current income of $29,457 and family size of 2; payments will never be higher than $271.54; Payments may be as low as $0 if you make less than $23,895 or if you lose your job (you can enroll even if you're unemployed)	**Up to 232 payments or until the loan is paid off** (19 years, 4 months)

Keep in mind...

Switching to a plan with a lower monthly payment often means paying more over the life of your loan.

Learn more about your total costs with the "Repayment Estimator" at **studentloans.gov**.

Have questions or ready to enroll?

Call [your servicer] at 555-555-2200 or visit **studentloans.gov**. Ask about interest rates or if you qualify for more plans than the ones listed above.

Learn more at **studentald.ed.gov/repay-loans**.

Previously, only the borrower's current monthly payment amount was shown. In this round, the formatting was changed and the payments remaining for the current plan were also shown.

The plan shown on this disclosure was either PAYE or Extended Repayment, based on what the participant qualified for.

The title of this section was changed from "Ready to enroll?" to "Have questions or ready to enroll?"

Text was added here to encourage borrowers to "Ask about interest rates…"

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Round 3: General Findings

→ Several themes were consistent with previous rounds:

- Action: Most participants indicated that they would call their loan servicer or go online to research the plans being offered.
- Sender: Most participants expected to receive the disclosures from their loan servicer or the Department of Education.
- Mail or Email: Preferences for receiving the disclosures were consistent with how they currently receive statements and participants still varied on whether they would prefer the disclosure with their statement or separately.
- Comprehension: Essentially all participants could articulate the purpose of the disclosure, that income-driven payments would adjust with their income, and that there was no cost to switch repayment plans.
- Eye-Catching: Nearly all participants first noticed items in bold (e.g., monthly payment amount and the number of payments or months remaining).
  - As most participants looked first at the bolded sections, they often compared plans without reading the lines of text below the number of payments remaining. This often resulted in participants sharing how they would not consider an income-driven repayment plan simply based on the length of the repayment term.

"It would be a little more trustworthy [from Department of Education], there might be some... marginally disclosed fees coming from [my servicer]." – In Distress

"I don't receive a lot of postal mail anymore, and email gets lost so fast now, so if I got a letter and especially if it was just a single page or two by itself I would definitely be inclined to look at it." – Not in Distress

"To me, the whole point of this [disclosure]... Is to get you to take the next step to explore it, to either call or apply, and it would certainly make me do that." – Not in Distress

Round 3: General Findings

- Additional findings consistent with previous rounds included:
  - Customization: Essentially all participants said they would prefer customized numbers, and would assume that the servicer or a government agency would already have their information, although a few participants said seeing this personal information might raise privacy concerns.
  - Participants often did not read the bottom section with the "Keep in mind…" and "Ready to enroll?" paragraphs closely. However, most noticed the links at the bottom.
  - When looking at the PAYE plan, most participants expressed an understanding of what "forgiven" means.
    - Participants generally associated the tax implications with loan forgiveness but often referenced their own experiences when explaining what might happen. A couple of participants correctly identified the potential for taxable income whereas most indicated they were unsure and/or they thought it meant that money would be taken from their income tax refunds.

"I like that it's customized to you because it saves you the time… and they have all your information anyway so I don't really feel as though it's an invasion of privacy." – Not In Distress

"Based on here, it seems like it means that up to 20 years, after that period, I'm assuming if it's not paid off then the loan balance is forgiven, which really doesn't make sense… it seems kind of generous for the federal government to do that." – In Distress

"It's not forgiven, it's forwarded to affect your taxes… that doesn't even make sense…. They say 'affect'; they could just put 'garnish.'" – In Distress

Round 3: General Findings

→ A few themes were unique to Round 3 as a result of changes to the disclosures or line of questioning:

- A few participants noted the value of receiving this information with their statement (on a monthly basis) so that they were regularly reminded that switching plans was an option.
- When asked about whether or not they could enroll in PAYE if they were currently unemployed, most participants were able to correctly indicate that they could.
- Most participants thought that on the PAYE and REPAYE plans, they would be paying on their loans for the full 232 payments.
  - Despite the additional language specifying "until the loan is paid off," only a few participants were able to articulate that they could pay the loan off earlier.
- In this round, many participants noticed the Repayment Estimator text in the bottom. Several of these participants said that it would be a useful tool; some said they would consider using it after receiving the disclosure to compare plans.

"If you get [the disclosure] once and you recycle it, like, oh, what was that, a couple months ago? It'd be nice to be able to receive it more than once." – Not In Distress

"See, if it said '232 payments or until the loan is paid off' but it says 'up to'… I'm unsure whether they're saying that the assumption is that 20 years of paying that ought to pay off your loan or wouldn't necessarily pay off your loan. I'm unclear on that." – In Distress

"I like that you guys have the Repayment Estimator on here… if you wanna test out other options, you can do so." – Not In Distress

Round 3: Disclosure 1 Findings

- Participants who identified as "not in distress," and/or were focused on repaying their loans as quickly as possible, responded positively to seeing an option to pay off their loans on an accelerated repayment schedule.
  - Participants who qualified for an accelerated repayment schedule generally saw a disclosure that had a high income-driven payment amount. Most participants were unsure why that payment amount was so high in comparison to their current plan and accelerated repayment schedule.
- Some participants mentioned that they would want to see interest rates for each plan.
  - More specifically, some thought it would be helpful to know how much (in total) they would pay over the life of the loan, for each repayment plan being offered.
    - Some participants also asked whether the extra $50 payment in the accelerated repayment schedule was applied directly toward their principal.

"I feel like the income-driven is more appealing to people that are in financial hardship than it is for people like me who could afford more." – Not In Distress

"I think the only thing that anyone else would think about would be, like, the breakdown of the monthly payment in terms of how much of that is actually principal and how much of that is actually interest." – Not In Distress

"It would be more helpful if it just said what the monthly payment is and what the total you're going to have paid in the end is based on the interest." – Not In Distress

Round 3: Disclosure 2 Findings

- Multiple people identified Disclosure 2 as being non-threatening or supportive.
- Some participants had difficulty distinguishing between the current plan and the new plan, which were presented in a single shaded box.
  - One participant could not identify the new plan's monthly payment amount.
  - Another did not view the payment information as two rows showing two separate plans, but instead saw it as six separate blocks of text until the moderator talked the participant through the information.
- All participants shown Disclosure 2 understood the meaning of the number indicating their current monthly payment.
  - When asked if they could locate the total past due balance, participants correctly said it was not on the form.

"I used to get threatening letters you know, with this [disclosure] at least they seem like they're trying to work with you."
– In Distress

[Disclosure 2 plan layout] "We don't read like that, we read in formation [from left to right]."
– In Distress

"I like the format a little better [on Disclosure 1]… right there it's shaded, makes it more easy to understand [than Disclosure 2]." – In Distress

Round Four

Disclosures Tested in Round Four

Disclosure 1

Change your monthly payments with a new repayment plan.
There's never a fee to change your plan.

Your current plan	Option: Pay less for longer	Option: Income driven
Fixed Repayment (10 year)	Extended Repayment	Pay As You Earn (PAYE)
10 years of monthly payments that stay the same each year	Up to 25 years of monthly payments that stay the same each year	Monthly payments are based on your family size and income. After 20 years, the remaining loan balance is forgiven. You may have to pay taxes on the forgiven loan balance.
PAYMENTS REMAINING **112 payments** (9 years, 4 months)	PAYMENTS REMAINING **292 payments (or fewer if you pay off the loan early)** (24 years, 4 months)	PAYMENTS REMAINING **232 payments (or fewer if you pay off the loan early)** (19 years, 4 months)
MONTHLY PAYMENT **$271.54**	MONTHLY PAYMENT **$XX.XX** Monthly payment will always be lower than your current plan ($271.54) until your balance is paid off	MONTHLY PAYMENT **$45.00** Based on a current income of $29,457 and family size of 2 Payments may be as low as $0 if you make less than $23,895 Payments will never be higher than $271.54 You can enroll in this plan at any time, even if you're unemployed

Keep in mind...

Switching to a plan with a lower monthly payment often means paying more over the life of your loan.

Learn more about your total costs with the "Repayment Estimator" at **studentloans.gov**.

Have questions or ready to enroll?

Call [your servicer] at 555-555-2200 or visit **studentloans.gov**. Ask about interest rates or if you qualify for more plans than the ones listed above.

Learn more at **studentaid.ed.gov/repay-loans**.

The title was changed from "Lower your monthly payments" to "Change your monthly payments."

The plans shown on Disclosure 1 could be any combination of the Extended Repayment, Graduated Repayment, or PAYE depending on what the participant qualified for. The accelerated repayment schedule option was not shown this round.

Language about the number of payments remaining was changed from "up to 232" to "232 payments (or fewer if you pay off the loan early)."

The monthly payment amount was moved below the "payments remaining" section for all plans.

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Disclosures Tested in Round Four

Disclosure 2

As of September 30, 2016, your account is 90 days overdue.

Lower your monthly payments with a new repayment plan.
There's never a fee to change your plan.

Your current plan	MONTHLY PAYMENT **$271.54**	PAYMENTS REMAINING **112 payments** (9 years, 4 months)

New plan: Pay As You Earn (PAYE)

HOW IT WORKS	ESTIMATED MONTHLY PAYMENT	PAYMENTS REMAINING
Monthly payments are based on your family size and income. After 20 years, the remaining loan balance is forgiven. You may have to pay taxes on the forgiven loan balance.	**$0.00** Based on an income of $XX and a family size of XX you qualify for a $0 monthly payment	**232 payments (or fewer if you pay off the loan early)** (19 years, 4 months) Payments may be as low as $0 if you make less than $XX Each payment (even if it's $0) will count toward the 20-year period until your loan balance is forgiven Payments will never be higher than $271.54 You can enroll in this plan at any time, even if you're unemployed

Keep in mind...

Switching to a plan with a lower monthly payment often means paying more over the life of your loan.

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Have questions or ready to enroll?

Call [your servicer] at 555-555-2200 or visit **studentloans.gov**. Ask about interest rates or if you qualify for more plans than the ones listed above.

Learn more at **studentaid.ed.gov/repay-loans**.

The formatting of the current plan was changed to make it stand out from the new plan.

The plan shown on this disclosure could either be PAYE or Extended Repayment based on what the participant qualified for.

Language about taxes was changed from "...which could affect your taxes" to "You may have to pay taxes on the forgiven loan balance."

The formatting for this section on both disclosures was changed from a block paragraph to separate lines for each sentence.

Disclosures Tested in Round Four

Disclosure 2 – Zero Dollar Payment

As of September 30, 2016, your account is 90 days overdue.

Lower your payment to $0 with a new repayment plan.
There's never a fee to change your plan.

Your current plan	MONTHLY PAYMENT	PAYMENTS REMAINING
	$271.54	**112 payments** (9 years, 4 months)

New plan: Pay As You Earn (PAYE)

HOW IT WORKS	ESTIMATED MONTHLY PAYMENT	PAYMENTS REMAINING
Monthly payments are based on your family size and income. After 20 years, the remaining loan balance is forgiven. You may have to pay taxes on the forgiven loan balance.	**$0.00** Based on an income of $00,000 and a family size of 2 you qualify for a $0 monthly payment	**No more than 232 payments (until paid off or forgiven)** (19 years, 4 months) Payments may be as low as $0 if you make less than $00,000 Each payment (even if it's $0) will count toward the 20-year period until your loan balance is forgiven Payments will never be higher than $271.54 You can enroll in this plan at any time, even if you're unemployed

Keep in mind...

Switching to a plan with a lower monthly payment often means paying more over the life of your loan.

Learn more about your total costs with the "Repayment Estimator" at studentloans.gov.

Have questions or ready to enroll?

Call [your servicer] at 555-555-2200 or visit **studentloans.gov**. Ask about interest rates or if you qualify for more plans than the ones listed above.

Learn more at **studentaid.ed.gov/repay-loans**.

During this round, if a participant qualified for the $0 dollar payment under PAYE, they were shown a slightly altered version of Disclosure 2. The only modification to the disclosure was the headline that highlighted the fact that they qualified for a $0 monthly payment under a new plan.

Round 4: General Findings

→ Several themes were consistent with previous rounds:

- Action: Most participants indicated that they would call their loan servicer or go online to research the plans being offered.
- Sender: Most participants expected to receive the disclosures from their loan servicer or the Department of Education.
- Mail or Email: Preferences for receiving the disclosures were consistent with how they currently receive statements and participants still varied on whether they would prefer the disclosure with their statement or separately
- Comprehension: Essentially all participants could articulate the purpose of the disclosure, that income-driven payments would adjust with their income, and that there was no cost to switch repayment plans.

"I think it's trying to give you an opportunity to lower your payment and catch up." – In Distress

"I've read some really harrowing stories [about loan servicers]… I would feel a lot better if it came from the Ed. department as opposed to the loan servicers." – Not In Distress

"I would prefer this in the mail because most likely I'd sit down and read it versus emails I tend to skim them." – Not In Distress

"If I know for sure that this has the stamp of Department of Education, I know it's serious, I know it's important, I know it reflects me." – In Distress

Round 4: General Findings

→ Several themes were consistent with previous rounds:
  - Eye-Catching: Nearly all participants first noticed items in bold (e.g., monthly payment amount and the number of payments or months remaining).
  - Customization: Essentially all participants said they would prefer customized numbers, and would assume that the servicer or a government agency would already have their information, although a few participants said seeing this personal information might raise privacy concerns.

"The purpose of this is to let existing or former students know that we have the power and we have options to choose which payment plan that suits us." – Not In Distress

"I think tailoring it to an individual's circumstances is probably for the best because that way, you know neither of these situations is applicable across the board to everybody." – Not In Distress

"I might have for a second been like, 'How do they know that?' But like it wouldn't have bothered me, they have access to my social security number and they're the government." – In Distress

"[With standard numbers] I would say this is a waste of my time and I'm not looking at it." – Not In Distress

Round 4: General Findings

→ Additional findings consistent with previous rounds included:

- As most participants looked first at the bolded sections, they often compared plans without reading the lines of text below the number of payments remaining. This often resulted in participants sharing how they would not consider an income-driven repayment plan simply based on the length of the repayment term.
- Participants often did not read the bottom section with the “Keep in mind…” and “Ready to enroll?” paragraphs closely. However, most noticed the links at the bottom.
  - Many participants noticed the Repayment Estimator text in the bottom, and indicated that it could be a useful tool.
- When asked about whether or not they could enroll in PAYE if they were currently unemployed, most participants said yes.
- When looking at the PAYE plan, most participants expressed an understanding of what “forgiven” meant.
  - Participants generally associated the tax implications with loan forgiveness but often referenced their own experiences when explaining what might happen. A couple of participants correctly identified the potential for taxable income whereas most indicated they were unsure and/or they thought it meant that money would be taken from their income tax refunds.

“The payments [are what I looked at first], they're in bold.” – In Distress

“Forgiven, washed away like your sins.” – In Distress

“That's the little hidden message in there, so I don't know how much I will pay on taxes on the forgiven part of it though… That kind of makes me nervous.” – Not In Distress

“I'm not sure [when forgiveness would affect my taxes], I would have to talk to my tax man about it.” – In Distress

Round 4: General Findings

→ A few themes were unique to Round 4 as a result of changes to the disclosures or line of questioning:

- When participants were asked how often they would like to receive a disclosure like this, most indicated either quarterly or twice a year. A couple of participants mentioned that they would like to see this around tax season.
- Multiple participants said that although they knew other repayment plans existed, they did not know these plans were available to them.
- Some participants in this round were shown estimated monthly payments based on their income being rounded to the nearest $5,000 increment. These respondents said they would prefer to see payment estimates based on their exact income, but they would still pay attention to the disclosure if the income was approximate.
- Some participants were unsure if, with the PAYE plan, they would only be paying interest or towards the principal of the loan.

"[I would like to see a disclosure] every six months… I might lose my job or I might get a raise or anything so I would like, probably twice a year, to see different options."
– In Distress

"[I'd like my actual income] because if it's rounded it's not really my information… it's not exact."
– In Distress

"Now does this say if [the payment] counts towards the principal or the interest? It doesn't mention the interest." – In Distress

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Round 4: General Findings

→ A few themes were unique to Round 4 as a result of changes to the disclosures or line of questioning:
  - On the PAYE plan, when the estimated monthly payment amount was $0, a few participants expressed concern. One person said she would call to make sure that number was right because it "seems too good to be true."
  - Most participants thought that for PAYE and REPAYE, they would be paying on their loans for the full 232 payments.
    - When probed on the "232 payments (or fewer if you pay off the loan early)" text, many participants still believed they would be paying for the full 232 payments.
    - More people in this round compared to previous rounds were able to express that they could pay off the loan sooner if they put more money toward it.

"I would definitely call to make sure before I trust [a $0 payment]… I would be skeptical." – In Distress

"I mean, this [PAYE plan] would be comfortable for a moment for, like, if you're having trouble making a payment, but I would want to know if I do accept this, can I change it later on because 24 years, that's a lot." – In Distress

"Hopefully, I would be able to double up or pay more on the… principal so I wouldn't have to go to 232 payments." – In Distress

"Yeah, I mean, I think there could be an option [on this plan] to pay [the loan] off quicker or to leave it as is." – In Distress

Round 4: Disclosure-Specific Findings

- **Disclosure 1:**
  - Although participants could express why these plans might be beneficial or attractive to others, when they considered their own financial situation, uncertainty about their future finances made these plans less attractive.
    - Participants generally expressed a desire for consistent payments that did not change over time, and a plan that did not further extend the life of the loan.
  - Some participants mentioned that they would want to see interest rates for each plan.
- **Disclosure 2:**
  - Unlike Round 3, no participants expressed difficulty distinguishing between the current plan and the new plan.
  - All participants shown Disclosure 2 understood the meaning of the number indicating their current monthly payment.
    - When asked if they could locate the total past due balance, these participants correctly said it was not on the disclosure.

> "I guess just not knowing what the future's going to hold and then having to pay more when you don't know what your situation would be, that's what I wouldn't like about [the graduated repayment plan]."
> – Not In Distress

> "I'm probably going to want to stick with something that is consistent and I know that I can pay." – In Distress

> "I feel like [PAYE] is more realistic to people day to day, honestly, than these two because everyone's life changes and their family size changes. Yes, I understand I'm paying more but after 20 years, I'm done."
> – Not In Distress

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Summary and Conclusions

Summary and Conclusions

- → Participants consistently reported that the disclosures would spur them to take action.
  - – Most indicated that receiving this type of disclosure would prompt them to contact their servicer or to visit the listed websites to learn more about the alternative repayment options.
- → Participants overwhelmingly preferred to see repayment plans and payment amounts that were customized, and based on their actual income.
  - – They indicated they were more likely to read the disclosure and to trust the information if it was tailored to their financial situation. Additionally, they were more likely to contact their servicer if they thought the plans presented were something they would qualify for—and not just a marketing gimmick.
  - – Although a few participants expressed concerns about how the information was obtained, or if information was incorrect, most indicated they would still be likely to contact their servicer to learn more.
- → Borrowers appreciated the idea of being proactively notified about alternative repayment plans.
  - – Participants frequently described the disclosures as having a positive or supportive tone and said that the purpose was to help borrowers become better informed about what was available to them.
- → Virtually all participants indicated that the disclosures were clear and easy to understand.
  - – Many indicated that the simplicity of the layout and content was different, and simpler, than any documentation they'd received before from their student loan servicer.
    - Although a few borrowers indicated that they had seen some similar information presented on their servicer's website.

Summary and Conclusions

- → Borrowers differed in their preferences for when and how to receive the disclosures but said they generally felt that it would be good information to be occasionally reminded about.
  - – Some participants said they would be more likely to read the disclosure if it were delivered separately from the billing statement, whereas others said they would prefer it with their statement. If it is included in their billing statement, participants said the information should stand out from the statement in some way.
- → Participants consistently expressed the desire for a stable, predictable repayment amount.
  - – Participants often dismissed the Graduated Repayment plan as a viable option, even when clarifying language was added about the rate of graduation, because participants said they could not predict whether they would be in a position to afford higher monthly payments in the future.
- → Consistently, borrowers indicated that their eye was drawn to the text in bold on the disclosure (monthly payments and number of payments remaining).
  - – In some cases, participants felt this was helpful because it was the most important information. Whereas other individuals noted that seeing such a long repayment period would "turn them off" from fully considering the plan.

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Summary and Conclusions

- → Almost all participants could accurately explain the purpose and main concepts of the Income-Driven Repayment (IDR) plans.
  - Participants were able to easily grasp the idea that their monthly payment could increase or decrease based on changes in their income or family size, although they were not typically aware of when or how that might happen.
  - Even borrowers who would not qualify for a lower monthly payment through an IDR plan recognized that it could be a “safety net” if they lost their job or if they were experiencing financial hardship.
  - However, despite some simplification of language, borrowers tended to have difficulty understanding some of the nuances of the income-driven repayment plans.
    - In particular, participants were generally unable to determine the potential tax implications of loan forgiveness, and that the number of payments listed reflected the maximum number of payments possible under that repayment plan.
- → Servicers will need to be prepared to fill in the information gaps when borrowers reach out.
  - The complexities of various repayment plans—the income-driven repayment plans in particular—are such that a single disclosure cannot provide borrowers with all the necessary details.
  - The Department of Education should consider additional testing to determine how participants respond to different levels of customized data generated about their loans.