

# Does Salient Financial Information Affect Academic Performance and Borrowing Behavior Among College Students?

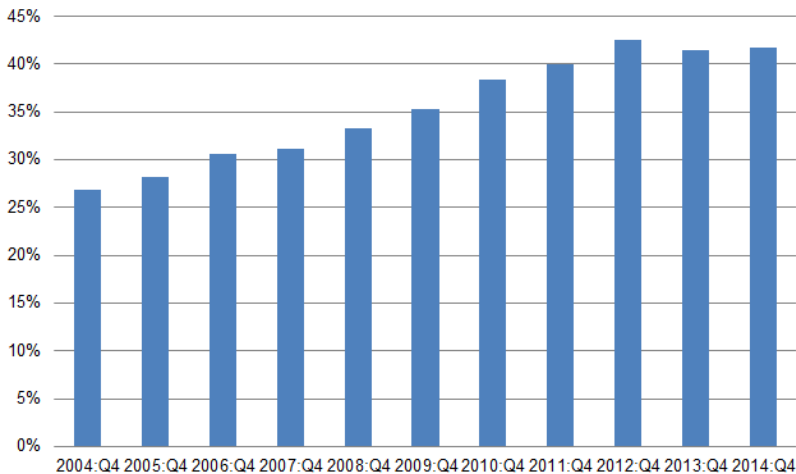
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Philadelphia - 2 October 2015

<sup>1</sup>The views expressed in this paper reflect those of the authors, and not necessarily those of the New York Fed or the Federal Reserve System.

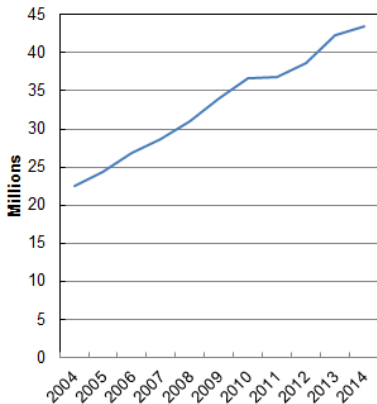
# Motivation- Student borrowing increasingly prevalent

Share of 25 year olds with student debt

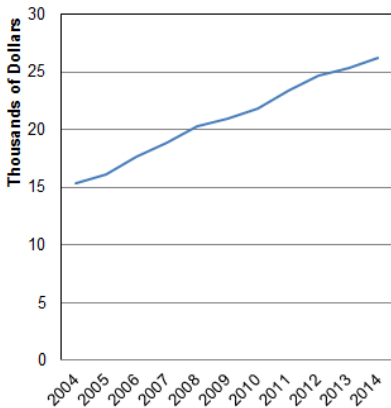


# Motivation- Increase in Extensive and Intensive Margin

## Number of Student Loan Borrowers



## Average balance per borrower



## What do we Know?

- Rigorous descriptive evidence on trends and correlations between SLs and outcomes (such as home ownership)
  - Hardly any causal evidence
- This paper presents findings from an intervention that targeted high student debt borrowers

## Summary of Findings

- Huge impacts of the intervention in subsequent semester. ITT estimates:
  - change in SL borrowing: -\$1,361 (a drop of a third)
  - change in likelihood of declaring STEM major: 1.9pp
  - no negative impact on GPA or credits
  - less likely to make financial "mistakes"
- Significantly larger impacts on freshmen
  - a drop of \$1,882 in SL borrowing
  - an increase of 11pp in the likelihood of declaring STEM major (on a base of ~40%)

# Comments

1. Impacts are very large.
2. What exactly is the intervention.
3. Identification Strategy.

## Impacts are Very Large

- Literature on information interventions usually finds small effects.
- SL borrowing declines by a third. Likelihood of declaring a STEM major increases by more than 20%
  - Treatment on the treated much larger
  - Most confounding factors are biasing estimates downwards.
- What is different about this intervention/context?

# What exactly is the intervention?

How should one think about the intervention?

- New Information
- Salience
- Counseling



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Why would students switch major?

- the letter has nothing about returns by field.
- awareness/salience of debt makes them explore higher-paying fields?
- counselors discuss returns to different majors?

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Need more details on the intervention; content of the counseling sessions; aggregate counseling take-up rate.

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  - show pre-trends
  - an event-study approach?
  - level of clustering

# Identification

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- Why did Missouri State initiate the intervention, but not University of Missouri?
  - show pre-trends
  - an event-study approach?
  - level of clustering
- Whether someone gets a letter is determined by a school-year specific debt threshold
  - ideal set-up for a Regression Discontinuity.
  - local treatment effect useful to see, even if not enough power.

# Conclusion

- A very nice study that tries to understand the determinants of student borrowing.
- Would be useful to get at the mechanisms.
- Looking forward to seeing impact on the longer-term outcomes:
  - graduation rates
  - actual major at graduation
  - SL balances in the long-run, and other financial outcomes.