

Iowa Student Loan Responsible Borrowing Tool

A new tool introduced by Iowa Student Loan® in December 2010 helps borrowers understand the implications of borrowing more than necessary to pay for postsecondary education.

Goal

The responsible borrowing tool is the result of one of several initiatives recommended by the Iowa Student Loan® board through its Student Indebtedness Task Force. This tool is designed to educate private student loan applicants about the dangers of overborrowing and how the borrowing decisions they make now can affect their financial future.

Features

The responsible borrowing tool is integrated into applications for all private student loans owned or serviced by Iowa Student Loan, so applicants automatically use the tool as part of the online application process. A progression of interactive screens take borrowers through the following process:

- ▶ Input a requested loan amount.
- ▶ Read about real borrower's experience and other potential problems of overborrowing.
- ▶ See an introduction to student loan debt-to-income and how that ratio can indicate future financial situations.
- ▶ Select a future career to generate estimated salary and job prospects.
- ▶ Enter estimated past, present and future student loan amounts.
- ▶ See a calculation of an individualized approximate student loan-to-debt ratio and a warning about the serious financial obligation intrinsic to student loans.
- ▶ Walk through an estimated budget based on the approximate starting salary and student loan debt generated earlier and national-average expenses.
- ▶ Consider a variety of means to reduce costs and increase income to reduce borrowing.
- ▶ Make an action plan of steps to take now to lower borrowing.
- ▶ Change the requested loan amount before proceeding with the application.

Benefits to Students and Cosigners

The responsible borrowing tool promotes a general awareness of effects student loan decisions can have on a borrower's financial future.

- ▶ Interactive features allow applicants to have a customized experience, making the financial concepts more real and easy-to-understand.
- ▶ The tool's placement in the applications allows applicants a real-time opportunity to consider their requested loan amounts and, if possible, to lower them after learning about overborrowing.
- ▶ The budget brings home future expenses in comparison to actual starting income to create a complete and eye-opening picture for students who may have not considered finances beyond graduation.
- ▶ An option to print results and share them with any cosigners allows parents and other cosigners to fully grasp how much money the applicant is requesting to borrow and discuss other options with him or her.
- ▶ Ongoing evaluation of the tool's use and impact will help Iowa Student Loan evaluate its impact for future growth and improvements.

