Business Day
The New York Times

SATURDAY, MAY 29, 2010

NOAH BERGER FOR THE NEW YORK TIMES

Cortney Munna hoped for the best when she decided to attend New York University. Now she owes $100,000.

Placing the Blame as Students Are Buried in Debt

RON LIEBER

YOUR MONEY

Like many middle-class families, Cortney Munna and her mother began the college selection process with a grim determination. They would do whatever they could to get Cortney into the best possible college, and they maintained a blind faith that the investment would be worth it.

Today, however, Ms. Munna, a 26-year-old graduate of New York University, has nearly $100,000 in student loan debt from her four years in college, and affording the full monthly payments would be a struggle. For much of the time since her 2005 graduation, she's been enrolled in night school, which allows her to defer loan payments.

This is not a long-term solution, because the interest on the loans continues to pile up. So in an eerie echo of the mortgage crisis, tens of thousands of people like Ms. Munna are facing a reckoning. They and their families made borrowing decisions based more on emotion than reason, much as subprime borrowers assumed the value of their houses would always go up.

Meanwhile, universities like N.Y.U. enrolled students without asking many questions about whether they could afford a $50,000 annual tuition bill. Then the colleges introduced the students to lenders who underwrote big loans without any idea of what the students might earn someday — just like the mortgage lenders who didn't ask borrowers to verify their incomes.

Ms. Munna does not want to walk away from her loans in the same way many mortgage holders are. It would be difficult in any event because federal bankruptcy law makes it nearly impossible to discharge student loan debts. But unless she manages to improve her income quickly, she doesn't have a lot of good options for digging out.

It is utterly depressing that there are so many people like her facing decades of payments, limited capacity to buy a home and a debt burden that can repel potential life partners. For starters, it's a shared failure of parenting and loan underwriting.

But perhaps the biggest share lies with colleges and universities because they have the most knowledge of the financial aid pro-

Continued on Page 5

From First Business Page

cess. And I would argue that they had an obligation to counsel students like Ms. Munna, who got in too far over their heads.

How many people are like her? According to the College Board's Trends in Student Aid study, 10 percent of people who graduated in 2007-8 with student loans had borrowed $40,000 or more. The median debt for bachelor's degree recipients who borrowed while attending private, nonprofit colleges was $22,380.

The Project on Student Debt, a research and advocacy organization in Oakland, Calif., used federal data to estimate that 206,000 people graduated from college (including many from for-profit universities) with more than $40,000 in student loan debt in that same period. That's a ninefold increase over the number of people in 1996, using 2008 dollars.

The Family

No one forces borrowers to take out these loans, and Ms. Munna and her mother, Cathryn, have spent the years since her graduation trying to understand where they went wrong. Ms. Munna's father died when she was 13, after a series of illnesses.

She started college at age 17 and borrowed as much money as she could under the federal loan program. To make up the difference between her grants and work study money and the total cost of attending, her mother cosigned two private loans with Sallie Mae totaling about $20,000.

When they applied for a third loan, however, Sallie Mae rejected the application, citing Cathryn's credit history. She had returned to college herself to finish her bachelor's degree and was also borrowing money. N.Y.U. suggested a federal Plus loan for parents, but that would have required immediate payments, something the mother couldn't afford. So before Cortney's junior year, N.Y.U. recommended that she apply for a private student loan on her own with Citibank.

Over the course of the next two years, starting when she was still a teenager, she borrowed about $40,000 from Citibank without thinking much about how she would pay it back. How could her mother have let her run up that debt, and why didn't she try to make her daughter transfer to, say, the best school in the much cheaper state university system in New York? "All I could see was college, and a good college and how proud I was of her," Cathryn said. "All we needed to do was get this education and get the good job. This is the thing that eats away at me, the naïveté on my part."

But Cortney resists the idea that this is a tale of bad parenting. "To me, it would be an uncharitable reading," she said. "My mother has tried her best, and I don't blame her for anything in this."

The Lender

Sallie Mae gets a pass here, in my view. A responsible grownup co-signed for its loans to the Munnas, and the company eventually cut them off.

But what was Citi thinking, handing over $40,000 to an undergraduate who had already amassed debt well into the five figures? This was, in effect, a "no doc" or at least a "low doc" subprime mortgage loan.

A Citi spokesman declined to comment, even though Ms. Munna was willing to sign a waiver giving Citi permission to talk about her loans. Perhaps the bank worried that once it approved one loan, cutting her off would have led her to drop out or transfer and have trouble paying back the loan.

Today, someone like Ms. Munna might not qualify for the $40,000 she borrowed. But as the economy rebounds, there is little doubt that plenty of lenders will step forward to roll the dice on desperate students, especially because the students generally can't get rid of the debt in bankruptcy court.

The University

The financial aid office often has the best picture of what students like Ms. Munna are up against, because they see their families' financial situation splayed out on the federal financial aid form. So why didn't N.Y.U. tell Ms. Munna that she simply did not belong there once she'd passed, say, $60,000 in total

NOAH BERGER FOR THE NEW YORK TIMES

Citibank gave Cortney Munna $40,000 in loans, though she had already amassed debt well into the five figures. It was like the "no doc" loans that home buyers used to get in over their heads.

debt?

"Had somebody called me and said, 'Do you have a clue where this is all headed?', it would have been a slap in the face, but a slap in the face that I needed," said Cathryn Munna. "When financial aid told her that they could get her $2,000 more in loans, they should have been saying 'You are in deep doo-doo, little girl.'"

That's not a role that the university wants to take on, though. "I think that would be completely inappropriate," said Randall Deike, the vice president of enrollment management for N.Y.U., who oversees admissions and financial aid. "Some families will do whatever it takes for their son or daughter to be not just at N.Y.U., but any first-choice college. I'm not sure that's always the best decision, but it's one that they really have to make themselves."

The complications here go well beyond the propriety of suggesting that a student enroll elsewhere. Colleges don't always know how much debt its students are taking on, which makes it hard to offer good counsel. (N.Y.U. does appear to have known about all of Ms. Munna's loans, though.)

Then there's a branding problem. Urging students to attend a cheaper college or leave altogether suggests a lack of confidence about the earning potential of alumni. Nobody wants to admit that. And once a university starts encouraging middle-class students to go elsewhere, it must fill its classes with more children of the wealthy and a much smaller number of low-income students to whom it can afford to offer enormous scholarships. That's hardly an ideal outcome either.

Finally, universities exist to enroll students, not turn them away. "Aid administrators want to keep their jobs," said Joan H. Crissman, interim president and chief executive of the National Association of Student Financial Aid Administrators. "If the administration finds out that you're encouraging students to go to a cheaper school just because you don't think they can handle the debt load, I don't think that's going to mesh very well."

That doesn't change the fact, however, that the financial aid office is still in the best position to see trouble coming and do something to stop it. University officials should take on this obligation, even if they aren't willing to advise students to attend another college.

Instead, they might deputize a gang of M.B.A. candidates or alumni in the financial services industry to offer free financial planning to admitted students and their families. Mr. Deike also noted that the bigger problem here is one of financial literacy. Fine. He and N.Y.U. are in a great position to solve for that by making every financial aid recipient take a financial planning class. The students could even use their families as the case study.

ONLINE: A WORD TO THE WISE

Should banks and colleges counsel students and parents about the risks of a student loan burden? Leave a comment.

nytimes.com/bucks

The Options

The balance on Cortney Munna's loans is about $97,000, including all of her federal loans and her private debt from Sallie Mae and Citibank. What are her options for digging out?

Her mother can't help without selling her bed and breakfast, and then she'd have no home. She could take her daughter in, but there aren't good ways for her to earn a living in Alexandria Bay, in upstate New York.

Cortney could move someplace cheaper than her current home city of San Francisco, but she worries about her job prospects, even with her N.Y.U. diploma.

She recently received a raise and now makes $22 an hour working for a photographer. It's the highest salary she's earned since graduating with an interdisciplinary degree in religious and women's studies. After taxes, she takes home about $2,300 a month. Rent runs $750, and the full monthly payments on her student loans would be about $700 if they weren't being deferred, which would not leave a lot left over.

She may finally be earning enough to barely scrape by while still making the payments for the first time since she graduated, at least until interest rates rise and the payments on her loans with variable rates spiral up. And while her job requires her to work nights and weekends sometimes, she probably should find a flexible second job to try to bring in a few extra hundred dollars a month.

Ms. Munna understands this tough love, buck up, buckle-down advice. But she also badly wants to call a do-over on the last decade. "I don't want to spend the rest of my life slaving away to pay for an education I got for four years and would happily give back," she said. "It feels wrong to me."

Business Day

The New York Times

SATURDAY, JUNE 5, 2010

Student Debt And a Push For Fairness

RON LIEBER

YOUR MONEY

If you run up big credit card bills buying a new home theater system and can't pay it off after a few years, bankruptcy judges can get rid of the debt. They may even erase loans from a casino.

But if you borrow money to get an education and can't afford the loan payments after a few years of underemployment, that's another matter entirely. It's nearly impossible to get rid of the debt in bankruptcy court, even if it's a private loan from for-profit lenders like Citibank or the student loan specialist Sallie Mae.

This part of the bankruptcy law is little known outside education circles, but ever since it went into effect in 2005, it's inspired shock and often rage among young adults who got in over their heads. Today, they find themselves in the same category as people who can't discharge child support payments or criminal fines.

Now, even Sallie Mae, tired of being a punching bag for consumer advocates and hoping to avoid changes that would hurt its business too severely, has agreed that the law needs alteration. Bills in the Senate and House of Representatives would make the rules for private loans less strict, now that Congress has finished

Continued on Page 6

From First Business Page

the job of getting banks out of the business of originating federal student loans.

With this latest initiative, however, lawmakers face a question that's less about banking than it is about social policy or political calculation. At a time when voters are furious at their neighbors for getting themselves into mortgage trouble, do legislators really want to change the bankruptcy laws so that even more people can walk away from their debts?

There are two main types of student loans. Under the proposed changes, borrowers would remain on the hook for federal loans, like Stafford and Perkins loans, as they have been for many years. To most people, this seems fair because the federal government (and ultimately taxpayers) stand behind these loans. There are also many payment plans and even forgiveness programs for some borrowers.

In 2005, however, Congress made the bankruptcy rules the same for the second kind of debt, private loans underwritten by profit-making banks. These have no government guarantees and come with fewer repayment options. Undergraduates can also borrow much more than they can with federal loans, making trouble more likely.

Destitute borrowers can still discharge student loan debt if they experience "undue hardship." But that condition is nearly impossible to prove, absent a severe disability.

Meanwhile, the volume of private loans, which are most popular among students attending profit-making schools, has grown rapidly in the last two decades as students have tried to close the gap between the rising price of tuition and what they can afford. In the 2007-8 school year, the latest period for which good data is available, about one third of all recipients of bachelor's degrees had used a private loan at some point before they graduated, according to College Board research.

Tightening credit caused total private loan volume to fall by about half to roughly $11 billion in the 2008-9 school year, according to the College Board. Tim Ranzetta, founder of Student Lending Analytics, figures it fell an additional 24 percent this last academic year, though his estimate doesn't include some state-based nonprofit lenders.

JOSH ANDERSON FOR THE NEW YORK TIMES

Representative Steve Cohen of Tennessee introduced a bill that would ease the bankruptcy laws that govern student debt.

LAUREN VICTORIA BURKE/ASSOCIATED PRESS

Senator Richard Durbin also backed the bill, which would treat privately issued student loans like other debt in bankruptcy.

There is no strong evidence that young adults would line up at bankruptcy court in the event of a change. That gives Democrats and university groups hope that Congress could succeed in making the laws less strict.

In Congressional hearings on the efforts to change the rule, last year and then in April, no lender was present to make the case for the status quo. Instead, it fell to lawyers and financiers who work for them. They made the following points.

BANKRUPTCIES WOULD RISE At the April hearing, John Hupalo, managing director for student loans at Samuel A. Ramirez and Company, made the most obvious case against any change. "With no assets to lose, an education in hand, why not discharge the loan without ever making a payment to the lender?" he said.

Once you set aside this questionable presumption of mendacity among the young, there are actually plenty of practical reasons why not. "People don't like to go through bankruptcy," said Representative Steve Cohen, Democrat of Tennessee, who introduced the House bill that would change the rules. "It's not like going to get a milkshake."

Andy Winchell, a bankruptcy lawyer in Summit, N.J., likens student loan debt to tattoos: They're easy to get, people tend to get them when they're young, and they're awfully hard to get rid of.

And he would remind clients of a couple of things. First, you generally can't make another bankruptcy filing and discharge more debt for many years. So if you, in essence, cry wolf with a filing to erase your student loans, you'll be in a real bind if you then face crushing medical debt two years later.

Then there's the damage to your credit report. While it doesn't remain there forever, the blemish can have an enormous impact on young people trying to establish themselves with an employer or buy a home.

Finally, you're going to have to persuade a lawyer to take your case. And if it seems that you're simply shirking your obligations, many lawyers will kick you out of their offices. "It's not easy to find a dishonest bankruptcy attorney who is going to risk their license to practice law on a case they don't believe in," Mr. Winchell said.

Sallie Mae can live with a change, so long as there's a waiting period before anyone can try to discharge the debts. "Sallie Mae continues to support reform that would allow federal and private student loans to be dischargeable in bankruptcy for those who have made a good-faith effort to repay their student loans over a five-to-seven-year period and still experience financial difficulty," the company said in a prepared statement.

If the law is changed, would students walk away from debt?

While there is no waiting period in either of the current bills, Mr. Cohen said he could live with one if that's what it took to get a bill through Congress. "Philosophy and policy can get you on the Rachel Maddow show, but what you want to do is pass legislation and affect people's lives," he said, referring to the host of an MSNBC news program.

BANKS WOULDN'T LEND ANYMORE Private student loans are an unusual line of business, given that lenders hand over money to students who might not finish their studies and have uncertain earning prospects even if they do get a degree. "Borrowers are not creditworthy to begin with, almost by definition," Mr. Hupalo said in an interview this week.

But banks that have stayed in the business (and others, like credit unions, that have entered recently) have made adjustments that will probably protect them far more than any alteration in the bankruptcy laws will hurt. For instance, it's become much harder to get many private loans without a co-signer. That means lenders have two adults on the hook for repayment instead of just one.

BORROWING COSTS WOULD RISE They probably would rise a bit, at least at first as lenders assume the worst (especially if Congress applies any change to outstanding loans instead of limiting it to future ones). But this might not be such a bad thing.

Private loans exist because the cost of college is often so much higher than what undergraduates can borrow through federal loans, which have annual limits. Some lenders may be predatory and many borrowers are irresponsible, but this debate would be much less loud if tuition were not rising so quickly.

So if loans cost more and lenders underwrite fewer of them, people will have less money to spend on their education. Some fly-by-night profit-making schools might cease to exist, and all but the most popular private nonprofit universities might finally be forced to reckon with their costs and course offerings.

Prices might come down. And young adults just getting started in life might be less likely to face a nasty choice between decades of oppressive debt payments and visiting a bankruptcy judge before starting an entry-level job.

Business Day

The New York Times

SATURDAY, SEPTEMBER 4, 2010

TAMI CHAPPELL FOR THE NEW YORK TIMES

Kerrie Tidwell, a medical student facing $250,000 in school debt, is trying to figure out how to manage that debt with her boyfriend.

What Love Joins Together, Debt Can Put Asunder

RON LIEBER

YOUR MONEY

Nobody likes unpleasant surprises, but when Allison Brooke Eastman's fiancé found out four months ago just how high her student loan debt was, he had a particularly strong reaction: he broke off the engagement within three days.

Ms. Eastman said she had told him early on in their relationship that she had over $100,000 of debt. But, she said, even she didn't know what the true balance was; like a car buyer who focuses on only the monthly payment, she wrote 12 checks a year for about $1,100 each, the minimum possible. She didn't focus on the bottom line, she said, because it was so profoundly depressing.

But as the couple got closer to their wedding day, she took out all the paperwork and it became clear that her total debt was actually about $170,000. "He accused me of lying," said Ms. Eastman, 31, a San Francisco X-ray technician and part-time photographer who had run up much of the balance studying for a bachelor's degree in photography. "But if I was lying, I was lying to myself, not to him. I didn't really want to know the full amount."

At a time when even people with no graduate degrees, like Ms. Eastman, often end up six figures in the hole and people getting married for the second time have loads of debt from their earlier lives, it should come as no surprise that debt can bust up engagements. Even when couples disclose their debt in detail, it poses a series of challenges.

When, exactly, are you supposed to reveal a debt of this size during the courtship? Earlier than you'd disclose, say, a chronic illness?

Even if disclosure doesn't render you unmarriageable, tricky questions linger. If one person brings a huge debt to a relationship, who is ultimately responsible for making good on the obligation? And if it's $170,000, isn't the more solvent partner going to resent that debt over time no matter how early the disclosure comes? After all, it will profoundly affect every financial decision, from buying a home to how many children to have.

These were the questions that weighed on Kerrie Tidwell. A third-year student at the Medical College of Georgia and an aspiring emergency room doctor, she doesn't worry

Continued on Page 4

From First Business Page

so much about her ability to pay back her loans.

Ms. Tidwell, 26, is involved in a serious relationship with Stefan Kogler, an architect who is a native of Austria and living in Vienna. To Europeans, who often pay little or nothing toward their university studies, the idea of going deeply into debt to get educated is, well, foreign.

Ms. Tidwell feels no guilt about the $250,000 in debt she will probably run up, including some from a master's degree program she completed in London, where she and Mr. Kogler met. "I didn't acquire it because I go out and shop a lot," she said. "It's because I'm doing something that I'll love for the rest of my life."

Still, if she and Mr. Kogler are going to move in together and get engaged, she wants their financial arrangements to be clear and fair. But how do you define fair when you're bringing a quarter of a million dollars in debt to a relationship?

Mr. Kogler, 30, said he's not so worried about it. "In the long run, it will equal out," he said. "In the short run, you have to support each other, and I will support her as much as I can."

His stoicism is admirable. It's all the more so, given that if he moves to the United States permanently, he'll probably lose the chance to run his family's business in Austria. Supporting Ms. Tidwell as she begins to pay back her loans also means he doesn't have the freedom to, say, make a career change that involves a big pay cut. "I know he has his own dreams, and they will require money," Ms. Tidwell said. "Will my debt take away from that?"

Lisa J. B. Peterson, a financial planner with Lantern Financial in Boston, specializes in counseling young couples and has heard this story before. About half the people she sees are both bringing significant debt to the relationship, and about a quarter of the others have one person who has a pile of student loans.

When I told her about Ms. Tidwell and Mr. Kogler, one of her first suggestions was for them to make sure that Mr. Kogler did not have to make all the compromises when they prepared a joint household budget. "They can make some kind of sacrifice so that a goal of his is achieved, too," she said.

Stefan Kogler and Kerrie Tidwell in Lausdorf, Austria. "I know he has his own dreams, and they will require money," she said.

Then there's the question of how to plan for the unknowns. "What would happen if I got hurt and couldn't practice or got sued for malpractice?" Ms. Tidwell asked.

While insurance (which is itself expensive, alas) can reduce this anxiety, it can't cover the desire to stay home with children. Ms. Tidwell is resolute about having children and working full time, but Sheila G. Riesel, a matrimonial lawyer and partner with Blank Rome in Manhattan, said Ms. Tidwell ought to consider potential extreme circumstances as well. "It could happen that she wants to be a stay-at-home spouse for a while. What if she has triplets?" Ms. Riesel asked. "All of this is worthy of discussion."

Something old, something new, something borrowed — oops.

The problem is, most couples never get this far in the premarriage money talks. One advantage to prenuptial agreements is that they force the issue, even if it does turn the talks into a negotiation. "At least half the time, people are shocked at what the other person's attitude is," said Susan Reach Winters, a matrimonial lawyer with Budd Larner in Short Hills, N.J. "You ask how they'd handle it if someone wanted to stay home after having a baby, and at the same time they give completely different answers."

Legally, it is likely that any leftover debt that Ms. Tidwell brought to a marriage would remain hers alone after a divorce. But Ms. Reach Winters said that if she were representing someone like Ms. Tidwell's boyfriend in a divorce, she would argue that he deserved a sort of refund for everything he paid toward household expenses even if Ms. Tidwell were making the loan payments out of her salary alone. Whether a state's laws back up this argument may be beside the point; any lawyer can use it as a battering ram in settlement negotiations.

Ms. Riesel also said couples needed to be wary of states like New York, where an advanced degree acquired during the marriage, and the earning power it brings, are treated as assets to be divided.

While Ms. Tidwell seems resolute about cordoning off her debt and paying it off with money she alone earns, she and anyone like her probably ought to codify that intent in a legal agreement, even at the point they decide to move in with someone. And this only gets more complicated (and the agreements more crucial) in second marriages, where people may come to the relationship with assets, sole responsibility for a mortgage and a couple of college tuitions. Better to write it all down, no matter how clear the laws may be in your state.

In some ways, Mr. Kogler has it easy. There aren't a lot of unemployed doctors. So he and Ms. Tidwell should be able to pay back her loans (albeit over 20 or 30 years) as long as they live relatively modestly. He might feel differently if he were dating a lawyer with similar debt but less certain prospects, or an X-ray technician who would really like to be a photographer.

Still, all of this raises the question: At what point do you have a moral obligation to disclose your indebtedness during courtship? On the eighth date? When you get to third base? In your eHarmony online dating profile?

"It's a sliding scale," said Ms. Riesel, the Manhattan lawyer. "It depends on the person and the nature of the relationship." Ms. Winters, the Short Hills divorce lawyer, said it might depend on your definition of a serious relationship. "But I wouldn't wait until you were signing leases for apartments or picking out engagement rings."

Ms. Eastman in San Francisco says she knows that now. "What would I have done differently, besides bringing a copy of my credit report on the first date?" she said, with a rueful chuckle. "I would have been more responsible."

And while she hasn't dated anyone seriously enough in recent months to get to the point of disclosure, she says it's probably necessary by the eighth or 10th date. "I know that now," she said. "But it had never occurred to me that this is something that might end up being a deal-breaker."