

Week of 6.19.09

Transcript: Student Loan Sinkhole?

BRANCACCIO: We've all tried to keep up with the ongoing shocks to the American economy - the real estate bubble going pop, credit card debt, the bank mess overall. Well, now there's a new headache coming to a family near you - rising defaults on student loans. Once upon a time when many of us went to college those loans were small in size. Well, no more. Many of today's grads owe over a hundred grand. We're talking tens of millions of people in trouble. Alexandra Dean produced our report.

The phone rings often in Gina Moss' little house in Baltimore. It rings while she's getting daughter Alice ready for school. It rings when she's putting her to bed, and a lot in between.

MOSS: For two years I've been screening my calls. Any number that I don't recognize, I don't answer.

BRANCACCIO: Because why? 'Cause it might be one of these people—

MOSS: Cause it might be a bill collector, right. It might be one of the loan companies.

BRANCACCIO: The calls she's avoiding are from companies trying to collect on Moss' overdue student loan payments.

MOSS: They treat you like you're trying to be sneaky, and be deceitful, and, like, I'm hiding some Swiss bank account that I'm not giving them access to. And that's not the case at all. If I had the money, I would pay them. There just isn't any money.

BRANCACCIO: Moss currently owes about \$1000 a month in payments... that's more than a third of her gross salary as a social worker, so payments are always hard. But a few weeks ago, in the middle of this deepening recession, Moss lost her job. Now she finds the payments are impossible to make.

MOSS: It was very devastating initially. The first week was really, really hard.

BRANCACCIO: Gina Moss isn't alone. She's now at the heart of a colossal controversy. In America today there are 70 million people, about a quarter of the U.S. population, who owe a collective \$700 billion in student loans. As more and more of these debtors have their hours scaled back or lose jobs, rates of default are on the rise. Experts say this could be the next financial bubble to burst. The

Obama administration wants to do something about student loans, but the problem is much bigger than the initiatives so far proposed by the White House. More on that later.

During the time we spent with Gina Moss, it became clear that the burden of her student loans affects every moment of every day. As a busy single mom, finding time to unsnarl her finances is tough. Monday —Gina is a chaperone for her daughter's daycare fieldtrip.

MOSS: Hi! You look beautiful...

BRANCACCIO: Moss was herself raised by a single mom who got by on a small salary as a hairdresser. But she wanted something that her mother never had...

MOSS: I wanted a better life. I wanted more opportunities, more experiences. I wanted to meet interesting people and do interesting things and—just have a chance.

BRANCACCIO: She thought college would be her ticket. But the price tag attached was too high. Then a small private college in Ohio offered her a financial aid package tough to turn down. Gina only had to borrow \$7,000 a year for tuition. But throw in additional loans for books and supplies and living expenses and by the time she graduated with her bachelors and a Masters in social work, Gina Moss owed a lot more than she had planned.

MOSS: I think I—the total that I actually borrowed was about \$50,000. And then—now, it's a lot more with interest. There's—there's about an extra \$20,000—total for interest, and obviously it's just going up every day.

BRANCACCIO: You're thinking you owe like 70 some odd grand?

MOSS: About \$70,000, yes.

BRANCACCIO: That's a lot of money.

MOSS: It is a lot of money,

BRANCACCIO: You didn't wanna get one of those professional degrees that would—create higher paychecks when you got out, like goin' into law or something?

MOSS: It never occurred to me to get an MBA or something of that nature because I just thought, you know, there are enough people doing that.

BRANCACCIO: Moss' passion was teaching parenting skills as a social worker

and it's clear she's a natural. People often ask Moss why Alice's father doesn't help out. It's a painful subject. In college Gina was the victim of a sexual assault. Afterwards she realized she was pregnant and decided to keep the baby. She's still afraid of her assailant, so at her request we've changed her name for this broadcast.

If she had a few more years of experience, Gina could make a decent salary counseling parents, but in this awful economy, she says the job openings in her field seem to have disappeared.

MOSS: I have been working on my resume, working on my cover letter, being very creative. I've been applying for nanny jobs—which professionally is definitely a step backwards. But, I'll take any job.

BRANCACCIO: Wednesday afternoon, Gina has an interview for work as a part time CPR instructor. It's only a few hours a day - pretty far from what she needs, but it'll be something. Next week she'll find out if the CPR job came through. Thursday morning, and she's going out to go get food stamps for the first time.

MOSS: It just seems sort of bizarre—like I'm in the twilight zone, we don't own a TV, we don't go out to eat, we don't do luxurious things...and it seems a little bit strange that I still can't make enough money to take care of her...it's very sad.

BRANCACCIO: At the end of her second week out of work, I sat down with Moss to see if we could get a handle on all her different loans. Urgent. Student loan is 60 days past due, it says...yeah, you don't want to get these. One challenge here is that a lot of young people sign on to these loans at 17 or 18 years old, when few have much in the way of financial planning experience. Moss is no exception. She's been in a state of dread for some time about the bills she can't afford, and she's dealt with it by making scattershot payments. Now that she's lost her job, she hopes her lenders might grant her an unemployment deferment while she looks for work. But first, she has to understand her loans': original interest rate. What company gave her the loans. Still a bit of a mystery, despite all this paper.

Essentially, it's painful —

MOSS: It is. It's very painful and some of the papers don't have a lot of information they just sort of say pay me. I obviously get mail every day from these companies, and there are times when I don't even open them...I just—put the stack in there- and when I'm really feeling ambitious or brave, then I'll open them all...

BRANCACCIO: Sorting through the pile, I was amazed to learn that Gina Moss has 17 student loans. Sounds bizarre, but there reasons. Students get out separate loans for tuition and living expenses every semester. Adding to the

complexity...there are different flavors of student loans. There are private loans, from private companies. There are government loans, where the government lends the money right to you. And there also is a hybrid kind: government backed money from a private company. You need to know which ones you have because each has its own set of rules and regulations. Gina Moss has all three, so she starts calling her lenders.

MOSS: Hi Lucy, I was hoping that I could get some assistance in trying to navigate my student loans.

BRANCACCIO: Turns out half her loans are direct from the government...and those direct loans are in trouble.

VOICE ON PHONE: It shows they hold 8 of your Stafford loans in default.

MOSS: So I have 14? That seems like a lot!

BRANCACCIO: She can't defer those loans...but there is some hope. Moss is told to look into a new government program starting in July. It's called "income based repayment" and it's supposed to help low income borrowers.

MOSS: At this point I have nothing else to lose, my credit is ruined.

BRANCACCIO: But there is a big catch. First she has to get these loans into good standing....and that means making payments right away. How much?

LOAN REPRESENTATIVE: Can you pay 90-percent of it within 90 days? Which would be \$42,605.

MOSS: No, I'm sorry, I can't. That's an enormous sum of money! Do people actually say yes to you?

LOAN REPRESENTATIVE: Yes, they certainly do.... can you pay 1 percent of the current balance?\$475 a month...

MOSS: That is also a huge amount...sorry, \$475 a month?

BRANCACCIO: \$475 a month for ten straight months is what it would take to get into good standing just on these government loans, and it is way out of Gina's reach right now.

MOSS: I still don't actually know what's going on.

BRANCACCIO: Next, Moss looks into her hybrid, federally guaranteed but private loans - known in the biz as FFELP...f-f-e-l-p...for Federal Family

Educational Loan.

MOSS: I actually lost my job 2 weeks ago.

BRANCACCIO: They make up a quarter of her loans, and they're overdue, but still—technically—in what's called "good standing." So she can apply to put them on unemployment hold. Sounds like good news, but wait...here's why Gina's "FFELP" loans are in decent shape: she says collectors from these particular loans talked her into paying them before paying her rent.

MOSS: I'm behind in my rent. I owe my landlord rent money and also late fees for being behind on the rent.

BRANCACCIO: You've been in the position where you've taken the rent money to pay off some of your student loan debt?

MOSS: Yes.

BRANCACCIO: Does that make sense?

MOSS: No, it doesn't make sense, which is why I'm feeling so frustrated. Because I can't get sound financial advice. I can't—I can't find somebody to say, "Okay, this is what you do. This is the plan. This is how we're going to make it manageable."

BRANCACCIO: Is it really true that collectors for "FFELP" loans are pressuring student debtors like this way? To find answers, we looked into the collection practices of a leader in the student loan industry, Sallie Mae. While Gina's FFELP loans came from other companies, Sallie Mae is the largest FFELP lender. It's the company many of us think as the old government sponsored lender, but in fact, it was reorganized as a private company in 1997 and it purchased the name "Sallie Mae" for \$5 million. Most Sallie Mae employees are bound by confidentiality agreements, and don't talk to the media, but we found one man willing to break ranks. Mike Zahara, a former Sallie Mae debt collector, was so angered by what he saw happen at his branch in 2005 that he decided to speak with us.

ZAHARA: I heard people say, "Well, why—don't pay your rent this month? Why don't you pay your student loan instead?"

BRANCACCIO: You heard debt collectors for Sally May tell people who owed money that they should pay the student loan first, instead of the rent?

ZAHARA: Instead of the rent. Instead of the car payment. First things first, according to them.

BRANCACCIO: First things first? Listen, we all owe what we owe. And we all have an obligation to pay things back. But clearly if you don't pay your student loan, this is bad personal finance. If you don't pay your rent, you could be homeless.

ZAHARA: Well, exactly. And that was all because these kids who were making these calls all—had a bonus to chase. They didn't really care about the borrower. They cared about their end of the month numbers, is what they cared about.

BRANCACCIO: Zahara says he wasn't given enough time to help debtors understand their options.

ZAHARA: They wanted that collections effort done in two minutes. You were—audited by your supervisors. And if you were over a two minute average over that month, you got either written up, yelled at, or terminated.

BRANCACCIO: And you're aware that there are some better options for some people who find themselves in a bind. Were you allowed to share all those good options with the people you're talking to?

ZAHARA: No, we were not. We were not allowed to—to discuss and inform them. We were there, simply, to collect.

BRANCACCIO: The practice that troubled him the most was what happened when borrowers put their loans officially on hold—putting them into "forbearance" is the lingo, as he saw it, the borrowers didn't understand what they were getting into.

ZAHARA: So, I could go on the phone and say, "Well, you can't pay your bill right now. Let me offer you some verbal forbearance. What that's going to do is bring your loan current. And it's going to take everything that you owe us, and put it on the back of the loan." And then we had a little spiel to read to them. But they didn't quite understand that they were paying interest on their interest by that.

BRANCACCIO: Zahara argues that Sallie Mae had an incentive to let loans balloon that way because if the borrower couldn't pay back, the taxpayer would cover the bill, and since Sallie Mae allows "FFELP" loans to stay suspended for years, he says he's seen some loans double in size.

ZAHARA: Sallie Mae never loses. They—they—they win if the borrower pays. They win if the borrower doesn't pay. They win if the borrower defaults. They win any possible way that you look at it.

BRANCACCIO: Zahara claims that Sallie Mae sometimes even put loans into

forbearance without borrower permission. After he complained to the government about the practice, he was fired. The termination letter stated Zahara had violated the company policy that "we expect our employees to safeguard confidential information." Why should anyone believe a debt collector fired by Sallie Mae? His allegations are supported both by a lawsuit filed last year by Sallie Mae's own shareholders and in company emails and documents from a lawsuit Zahara once filed against the company. We requested an interview with Sallie Mae... and the company responded with an email denying Mike Zahara's allegations. A faxed statement from Sallie Mae said Zahara "demonstrated a pattern of accusing others of wrongdoing, regardless of merit. And the company said that "forbearance is used as an option of last resort." But recently, "FFELP" loans like these—made on behalf of the government by private companies—have been at the center of a white hot controversy on Capitol Hill. The Obama administration has proposed ending them in favor of direct loans...where the government hands out the loan....cutting out the middle man.

PRESIDENT OBAMA: It's not a free market when we have a student loan system that's rigged to reward private lenders without any risk.

BRANCACCIO: Congress is expected to make a decision on the future of FFELP loans within the next two months. But whatever congress decides, private lenders won't be cut out of government lending entirely. Just this week, the administration announced Sallie Mae was one of four private companies selected to service billions of dollars in new direct government loans and, private lenders including Sallie Mae are still lobbying hard for an even bigger role in the direct loan process...why? Even the industry admits it gives private lenders a strong presence on college campuses, and once there, it's easier for them to sell the third, and most volatile kind of loan: purely private ones. They're lucrative, much less regulated and interest rates, well, they can be surprisingly high.

SLIVOCKA: That's last year. How is it different? That's what I can't figure out.

BRANCACCIO: Denise Slivocka's son, Jay, came to her in a panic when he realized his private loan was charging an interest rate of 18-percent.

SLIVOCKA: This is a private loan. This is no different than a credit card. It's 18 percent. I find it real hard to understand that it is a student loan.

BRANCACCIO: Denise says she always trusted Sallie Mae. She saw it as the responsible, government lender from back-in-the-day so she encouraged her son to trust it, too.

DENISE SLIVOCKA: When I started school in the '70s, I had a Sallie Mae loan, \$2,500. And that loan at that time, by the time I got out of school, I paid \$42 a month. But the whole idea was that loan was paid off within ten years.

BRANCACCIO: In contrast she says her son could spend the rest of his life paying off a total loan of \$140,000, five times the amount he originally borrowed... and he's never missed a payment. High interest private loans like that used to be rare. But in recent years the cost of college has risen at double the rate of inflation. On average, federal loans max out at around \$10,000 a year. So in the face of higher costs, students are increasingly relying on these private loans to fill the gap. And with these loans, rules, penalties and interest rates can get pretty wild.

APPLEBAUM: Talk about predatory lending. These private lenders are—are the epitome of predatory. They're going after kids.

BRANCACCIO: Robert Applebaum is an advocate for student borrowers, He believes the Obama administration should create a way out for student borrowers drowning in bottomless debt.

APPLEBAUM: The only way to really unshackle yourself from your student loan debt is to pay them off, obviously, or to die.

BRANCACCIO: It's nearly impossible to get rid of student loan debt - federal or private—in bankruptcy. There was a time when student loans had full bankruptcy protection, but Kevin Bruns, a representative the student loan industry, says that privilege was abused.

BRUNS: There was a point in time, and you may remember this, when the default rate on federal student loans was close to 20 percent.

BRANCACCIO: But be aware that while default rates were about that high in the 1970s, less than one percent of those borrowers actually went into bankruptcy. It's one thing if some sort of dead beat kid's partying and not paying his or her student loans. But we are at a time of recession where people are losing jobs.

BRUNS: Well, the bankruptcy rules do app—do allow for dischargeability. Admittedly, it's difficult. And, you know, I have personal views on this that they probably should be made more lenient.

MOSS: I definitely explored the option of bankruptcy. Talked to a bankruptcy lawyer. Student loans don't count. You cannot file bankruptcy on student loans.

BRANCACCIO: When you add all this up, what does this say to you about the system that we've set up to help the people who have financial challenges get through college?

MOSS: It actually feels pretty discriminatory. People who come from families with a lot of money, whose parents are well educated, who have good jobs, who have that privilege, have the luxury of going to college. And somebody like me who doesn't have that privilege is sort of out in the cold. And I did the best that I could with the limited information that I had, and now I'm stuck. I can't give back the degree and say, "Take away the money and you can keep your degree." It doesn't work that way.

BRANCACCIO: Gina Moss is still fighting to get out from under her debt. She's just heard she got the job teaching CPR but it's a few days a week, so it's not big money. Meanwhile, her landlord has posted on her front door....a notice of eviction. Gina and her daughter will have to leave. For now, a friend has volunteered a spare room... but it's not a permanent solution. Five year old Alice is pals with the family's young daughter.

MOSS: We really want to be sisters.

FRIEND: We're not going to be sisters.

MOSS: We're just going to see each other every day...we're going to be with each other.

FRIEND: But, one day you'll live in a home, okay?

ALICE: Yeah, one day after that, I'm going to live in another home.

BRANCACCIO: Playing at house becomes playing at moving house. And then the real moving day arrives.

MOSS: What about the other toys from your bins?

BRANCACCIO: And it's time for Gina Moss to face a hard reality: her student loan debt has now -in a terribly literal sense—cost her the roof over her head...

MOSS: Oh my gosh, how'd you get tomatoes all the way up here?

ALICE: I'm sorry about that.

MOSS: I know cutie.

ALICE: Is it time to stop yet?

MOSS: Almost. Any artwork that you want to get rid of? We can't keep it all.

ALICE: But I like it all too much. It's hard for me 'cause I wouldn't get rid of

anything. I just love it all too much.

MOSS: I really thought I was gonna have a better life than my parents, and—and have so many more opportunities. And I—I don't think that's true.

BRANCACCIO: How many stories are there like Gina's? A couple of weeks ago we asked for your own student loan bedtime stories. The enormous, record-breaking response on our website terrified us. Read about the struggles of so many Americans whose dreams are buried under mountains of student loan debt. You can get there from our homepage.

And that's it for NOW. From New York, I'm David Brancaccio. We'll see you next week.