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Placing the Blame as Students Are Buried in Debt

By RON LIEBER

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 process. 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 co-signed 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 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.

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."

Correction: An earlier version of this column online misstated the benchmark year in a study by the

Project on Student Debt.