A Federal College Loan Program Can Trap Parents in Debt

The popular parent PLUS loans are made without regard to the ability of borrowers to repay, and have fewer protections when they can't.

By Tara Siegel Bernard

June 6, 2021

Kate Schweizer and her husband didn't want their two daughters, just 13 months apart, to begin their adult lives saddled with college debt, so they borrowed much of the money themselves. Beginning in 2005, the couple took out a new batch of federal loans each academic year, eventually accumulating about $220,000 in debt.

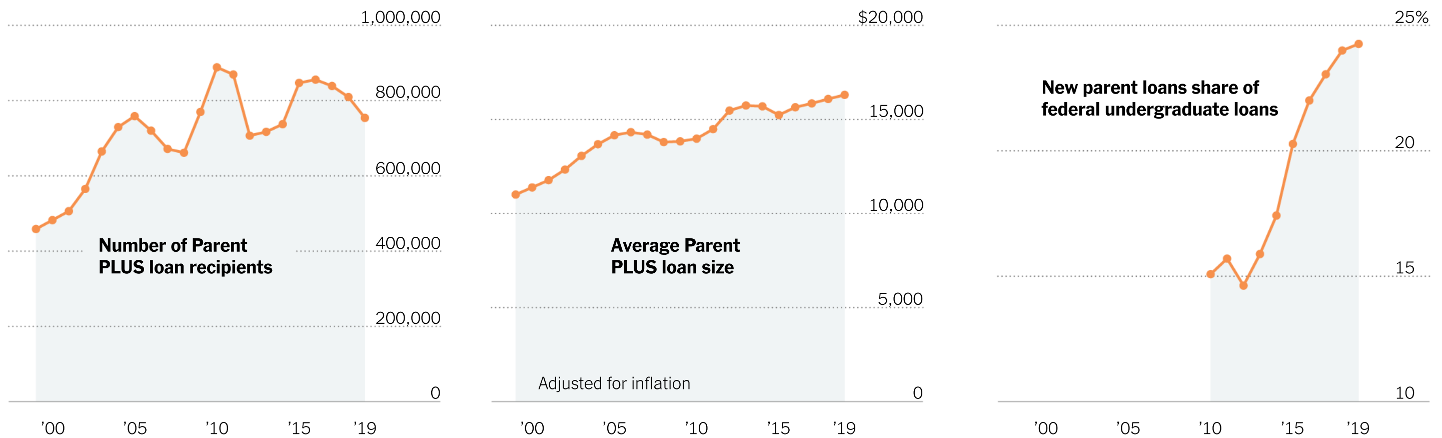
Today, they owe half a million dollars.

"Even though the cost of tuition seemed insane, I convinced myself that it would all make sense and pay off in the end," Ms. Schweizer, 65, said. "I had hoped that since my husband had a solid, union job, we would — we should — be able to afford this."

But as they borrowed more each year, their monthly payments began to climb, until they reached $1,500. "We tried repeatedly to renegotiate the interest or the balance, or the payments, any part of it, many times," she said. "It was 'No, thanks — put it in forbearance or hardship with 8.5 percent interest,' over and over again."

The Schweizers took parent PLUS loans, which are underwritten by the federal government and have become popular with parents who want to borrow to help pay for their children's education. Although the Schweizers, who live in the New York metropolitan area, carry more debt than most, many parents have turned to such loans as college costs have rocketed past wage growth, researchers say.

Parent PLUS loans now account for nearly a quarter of new federal borrowing for undergraduates. And while they are still just 6 percent of the $1.57 trillion in current federal student debt, and can let families of more limited means have their children attend the college of their choice, they can be problematic because they allow families to borrow without regard to their ability to repay.



Note: Parent PLUS loans are federal loans that parents of dependent undergraduate students can use to help pay for college. • Source: Mark Kantrowitz (Cerebly Inc.) • By The New York Times

It's also easier to accumulate heavier debts, because the only cap on parent PLUS loans is the total cost of attendance, minus any other aid provided. They generally carry higher interest rates than students' loans, and come with fewer safeguards should a family's financial situation take a turn for the worse. Only a basic credit check — looking for "adverse" events — is required to get one.

"The parent PLUS loan does not come with an attempt to understand the parents' ability to repay," said Rachel Fishman, deputy director of research for the higher education program at New America, a nonprofit research and policy group. "When the federal government is saying you can borrow this loan, and an institution is saying you can borrow this loan, that leads someone to believe that the federal government has done their due diligence. They have not."

The Education Department views these loans — as it does all student loans — as "instruments of social insurance policy and not traditional debt," which is why they are not subject to traditional underwriting norms, a spokesman said.

At the end of last year, there were 3.6 million loan recipients with nearly $101 billion in parent PLUS loans — an increase of about 40 percent from $72.2 billion (adjusted for inflation) at the end of 2014. In particular, they can be risky for many Black parents, experts said, who have been taking out more of these loans in recent years but who tend to have less wealth.

In 2016, 58 percent of students whose parents took out parent PLUS loans were white, 19 percent were Black, and 15 percent were Hispanic or Latino, according to Ms. Fishman's analysis of federal data. Four years earlier, 15 percent were Black and 12 percent Hispanic or Latino. Three-quarters of Black borrowers had adjusted gross income of $75,000 or less in 2016, compared with just 38 percent of whites.

According to an analysis of federal College Scorecard data, which looked at 2017-18 and 2018-19 graduates, the typical parent borrows $24,416 in PLUS loans. But many borrow significantly more — though the pandemic year was an exception — especially at private colleges that are much more expensive.

At New York University, where the Schweizers' older daughter studied, as many as one-fifth of students had a parent who took a parent PLUS loan, according to the most recent Scorecard data — which showed that the median total debt at graduation was $74,201.

A spokesman for the university said it did not recommend the loans and no longer mentioned them in financial aid letters sent to students and their families "so they're not seen as among the first things to turn to pay for college."

At New York University, as many as one in five students had a parent who took a PLUS loan, and the median total debt at graduation was $74,201. Gabriela Bhaskar for The New York Times

The interest on such loans can be unforgiving, said Adam Looney, a finance professor and the executive director of the Marriner S. Eccles Institute for Economics and Quantitative Analysis at the University of Utah. If borrowers default on or consolidate their loans — or if they receive a forbearance or a deferment, putting payments on hold — the interest that accrues is capitalized, which means it is added to the principal balance, he said, pushing payments higher. That's what happened to the Schweizers' loans, which were consolidated more than once and in forbearance for long stretches.

"Things really spiral out of control for borrowers who face repeated economic or financial ups and downs, especially when they have high-interest loans like PLUS loans," Mr. Looney said.

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“For a financially secure, high-income parent that makes automatic payments,” he added, “the loans work fine. But if anything bad happens, it’s a disaster.”

Parent PLUS loans also have fewer protections than other student loans. If borrowers can’t afford to pay, they generally have access only to the most expensive income-driven repayment plan, which requires borrowers to pay 20 percent of their discretionary income for 25 years; anything remaining is forgiven. Like other student debts, PLUS loans are not automatically discharged through bankruptcy, but require a separate proceeding with more stringent legal hurdles. The consequences of default are serious: The government can confiscate tax refunds and garnish wages and Social Security.

While data on default rates for parent PLUS loans is limited, they are far lower than for loans taken by undergraduates — but still worrisome, student loan researchers said. To keep debts manageable, parents should borrow no more than what they earn in a year — for all children, said Mark Kantrowitz, an expert on financial aid.

“A significant portion of parents are borrowing more,” he added.

Misty Wyscarver, 55, of Caldwell, Ohio, has put her four children through college, and now carries nearly $194,000 in parent PLUS loans for three of them. Her youngest graduated in May 2020.

“We qualified for very little student aid,” Ms. Wyscarver said. “The kids only received Pell grants when two kids were enrolled at the same time.”

Despite the heavy load, she may be one of the more fortunate. As a public servant for more than 30 years, Ms. Wyscarver qualifies for the public service loan forgiveness program, which, given her salary of $50,000, reduces her monthly payments to about $250 from $2,000. After 120 payments, over 10 years, any remaining balance is forgiven. But to remain eligible through the nine years of payments remaining for her youngest child’s education, she needs to continue holding a qualifying job.

“If I were to lose my job, I am done,” said Ms. Wyscarver, who works as a software trainer for the State Library of Ohio.

Some higher education researchers say that putting limits on parental borrowing could help, but that it must be done in tandem with providing more grants and other aid to lower- and middle-income students so they are not shut out, or shunted into predatory loans elsewhere. They also say institutions that encourage or even goad parents into borrowing need to be held accountable for loan outcomes.

Currently, “there are no repercussions if the parent can’t pay and defaults in the future,” said Ms. Fishman of New America. “It is ‘free money’ for the institution.”

But restricting access to PLUS loans also has consequences. When the Obama administration tightened the credit check criteria in 2011, for example, loan denials increased. And certain institutions whose students rely more heavily on the loans, including historically Black colleges and universities, were particularly hard hit. The backlash was swift — and the rules were loosened a few years later.

“I had hoped that since my husband had a solid union job, we would — we should — be able to afford this,” Kate Schweizer said. Erica Lee for The New York Times

The Schweizers were living on a solidly middle-class income when their older daughter started at New York University. They lived in a 900-square-foot house, drove used cars and went on their first vacation 15 years after their honeymoon. William Schweizer, 60, works as an operating engineer for climate control systems in big office buildings and is the main breadwinner.

When the couple took out their federally backed loans, they earned too much to receive aid that doesn’t need to be paid back, Ms. Schweizer said. But private college was out of reach without heavy borrowing, so they borrowed.

Their elder daughter graduated with honors at the end of 2008, after three and a half years, for which her parents borrowed about $114,000. They took on $107,000 for their younger daughter, who graduated from Manhattanville College in 2010. Today, their daughters carry additional debts, largely for graduate school, but are enrolled in income-driven repayment plans.

On top of the loans, there were car repairs, dental work and other unexpected costs that would throw the couple’s budget off course. Their credit card balances mounted while their daughters were in college. Eventually, they filed for bankruptcy in March 2010, just before their younger daughter graduated, and their debts were discharged in 2012. They started the foreclosure process the next year, and moved to a rental.

Today, their standard monthly payment would be around $5,000, according to a July letter from their loan servicer. The income-based plan would bring it down to about $2,200, as estimated by a calculator, and it would be paid off when the Schweizers turned 85 and 90. After Ms. Schweizer said they couldn’t afford to pay that much, they were permitted to put their loans in forbearance again.

The “scolds” who say they borrowed too much are right, Ms. Schweizer said. “But now what do I do?”

Kitty Bennett contributed research.

Tara Siegel Bernard covers personal finance. Before joining The Times in 2008, she was deputy managing editor at FiLife, a personal finance website, and an editor at CNBC. She also worked at Dow Jones and contributed regularly to The Wall Street Journal. @tarasbernard

A version of this article appears in print on , Section B, Page 1 of the New York edition with the headline: Parent Loans Can Become Debt Traps