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THE U.S. MAKES IT EASY FOR PARENTS TO GET COLLEGE LOANS—REPAYING THEM IS ANOTHER STORY

The federal Parent Plus loan program has millions of borrowers, many with subprime credit ratings; its default rate exceeds the rate for U.S. mortgages at the peak of the housing crisis

By Josh Mitchell
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Millions of U.S. parents have taken out loans from the government to help their children pay for college. Now a crushing bill is coming due.

Hundreds of thousands have tumbled into delinquency and default. In the process, many have delayed retirement, put off health expenses and lost portions of Social Security checks and tax refunds to their lender, the federal government.

Student loans made through parents come from an Education Department program called Parent Plus, which has loans outstanding to more than three million Americans. The problem is the government asks almost nothing about its borrowers' incomes, existing debts, savings, credit scores or ability to repay. Then it extends loans that are nearly impossible to extinguish in bankruptcy if borrowers fall on hard times.

As of September 2015, more than 330,000 people, or 11 percent of borrowers, had gone at least a year without making a payment on a Parent Plus loan, according to the Government Accountability Office. That exceeds the default rate on U.S. mortgages at the peak of the housing crisis. More recent Education Department data show another 180,000 of the loans were at least a month delinquent as of May 2016.

"This credit is being extended on terms that specifically, willfully ignore their ability to repay," says Toby Merrill of Harvard Law School's Legal Services Center. "You can't avoid that we're targeting high-cost, high-dollar-amount loans to people who we know can't afford to repay them."

Parent Plus is one thread in a web of higher education loan programs that have come to resemble the subprime mortgage industry a decade ago, given the shaky quality of many of the loans.

The number of Americans with federal student loans, including through programs for undergraduates, parents and graduate students, grew by 14 million to 42 million in the decade through last year. Overall student debt, most of it issued by the federal government, more than doubled to $1.3 trillion over that period.

The financing fueled a surge in college enrollment. Between 2005 and 2010, enrollment grew 20 percent, the biggest increase since the 1970s. The Obama administration supported such lending in an effort to widen access to college education.

Nearly four in 10 student loans – the vast majority of them federal ones – went to borrowers with credit scores below the subprime threshold of 620, indicating they were at the highest risk of defaulting, according to a Wall Street Journal analysis of data from credit-rating firm Equifax Inc. That figure excludes borrowers, such as many 18-year-old freshmen, who lacked scores because of shallow credit histories. By comparison, subprime mortgages peaked at nearly 20 percent of all mortgage originations in 2006.

Roughly eight million Americans owing $137 billion are at least 360 days delinquent on federal student loans, nearly the number of homeowners who lost their homes because of the housing crisis. More than three million others owing $88 billion have fallen at least a month behind or have been granted temporary reprieves on payments because of financial distress. New research from Federal Reserve economists shows that most student-loan defaults are among borrowers who had weak credit.

Consumer advocates say defaults will continue to mount as loans taken out after the recession enter the repayment cycle.
An Education Department spokesman said the agency is reviewing Parent Plus and all other programs "to determine how best they can fit into the administration's goals of helping students and taxpayers, while promoting excellence in education."

President Donald Trump pledged during his campaign to ease families' student-debt burdens, and his campaign at one point suggested privatizing federal student loans. Senate Republicans plan to study whether to restrict access to Parent Plus as part of a broader higher-education bill expected to be debated as early as this year.

Parent Plus, created by Congress in 1980, allows parents to borrow to cover tuition and living expenses – often after their children borrow the maximum in undergraduate federal loans, capped by law at $5,500 a year for freshmen, $6,500 for sophomores and $7,500 for juniors and seniors. There is no limit to how much parents can borrow. Supporters say the program ensures students can go to schools of their choice.

Rebecca McEvoy, 53 years old, had been a retired public-school teacher for several years, coping with multiple sclerosis, when she turned to Parent Plus in 2010. She borrowed $84,000 to help her oldest son through an art and design college.

After he graduated, she successfully appealed to the government to have the debt expunged under a federal law that forgives balances for borrowers deemed permanently disabled.

Three years ago, she and her husband, Dave, 64, also a retired schoolteacher, turned to Parent Plus again to help their younger son, Alex, cover costs at Ohio University. Dave McEvoy took out the loans under his name. They borrowed $40,000 over the past several years and expect to borrow another $10,000 for his senior year.

The McEvoys' finances likely would have raised red flags with private lenders: They are living off modest pensions and have existing debts that eat up much of their income. "I have nothing left by the time I do my mortgage, the car, food and medical," Ms. McEvoy says.

She says they have started paying down the debt and plan to continue, but they likely won't be able to cover the full monthly payment once her son graduates in 2018.

Valerie Miller, Ohio University's director of student financial aid, says she can't comment on individual borrowers. She says the school counsels parents on all their options and on whether they will be able to make payments under Parent Plus.

Alex McEvoy, 20, says he plans to work in the tech industry and pay off his parents' loans. "I'm like, 'Mom don't worry about it. It's going to be fine,'" he says.

Obama administration officials, worried Parent Plus was heaping debt on high-risk borrowers, put in place tighter restrictions in 2011. But after schools argued stiffer underwriting would prevent many students from covering tuition, thus reducing college access for minorities and poor students, the administration rolled back the new rules.

"Without this program, our fear is that many of these families would be getting private loans at less-favorable terms or less-favorable repayment options," or they wouldn't be able to cover tuition at all, says Cheryl Smith, head of government affairs for the United Negro College Fund.

Research shows that restricting access to loans based on credit scores leads to lower college enrollment.

Enrollment in Parent Plus has grown quickly since the early 2000s. When the recession hit, private lenders tightened underwriting and many families saw savings and access to other forms of credit wiped out.

The number of families enrolled in Parent Plus jumped more than 60 percent since 2005, to 3.5 million as of Jan. 1. They owed roughly $77.5 billion – an average $22,000 per borrower, Education Department figures show.

Many borrowers are poor and older. More than one-third of such loans in recent years have gone to households that also received Pell grants, a student-aid program for families typically earning below $30,000 a year, federal data show. Other research suggests about one-third were single parents and a similar share lacked college degrees themselves.

The program checks only a borrower's past five years of credit for major blemishes such as bankruptcy or foreclosure, and the past two years for delinquency on debts of more than $2,085.

Consumer counselors are hearing from borrowers who make as little as minimum wage but borrowed tens of thousands of dollars and now can't repay. Some expected their children to get good jobs and pay off the loans for them. In many cases, their balances have grown with interest – most Parent Plus loans issued over the past decade carried rates of between 6 percent and 8 percent – and thousands of dollars in fees the government charges when borrowers default.

Federal law prohibits borrowers from discharging student loans in bankruptcy, except in extremely rare circumstances. Instead, the government reduces tax refunds and Social Security checks of borrowers, leaving some with below-poverty incomes, the GAO reported in December.

"If Bank of America did that, Sen. [Elizabeth] Warren would have them in the biggest hearing you've ever seen," says Betsy Mayotte, a consumer advocate and student-loan expert.

The number of Americans who had wages, tax refunds or Social Security checks reduced because of unpaid student debt increased 71 percent between September 2010 and September 2015, according to the GAO. About 41,000 Parent Plus borrowers were among one million student-loan recipients who had checks garnished in the 2015 fiscal year. The government garnished the Social Security checks of 173,000 borrowers from student-loan programs in 2015, up from 36,000 in 2002.

Other borrowers are seeking relief through plans that cut their monthly payments and ultimately forgive some debt. Enrollment in the plans, known as income-driven repayment, has more than doubled in the last three years. The government doesn't publish data on parent participation.

"At some point, we're going to have to realize that a bunch of loans that have been made are not going to be repaid," says James Kvaal, former President Barack Obama's top education adviser.

The GAO estimates taxpayers ultimately will forgive $108 billion on student loans made through the current fiscal year. By comparison, the savings-and-loan crisis of the 1980s cost the federal government roughly $181 billion, in today's dollars, according to the Federal Deposit Insurance Corp.

Sherry McPherson took out Parent Plus debt in 2006 so her son could enroll in a seven-month certificate program at a Seattle for-profit school that teaches commercial diving. She was an unemployed single mother with thousands of dollars in credit-card debt, a car loan and a subprime credit score. She had just retired from the Army after suffering an injury in Iraq.

The school, the Divers Institute of Technology, told Ms. McPherson she needed to borrow nearly $16,000 to cover remaining tuition after her son maxed out on undergraduate federal loans, she recalls.

Ms. McPherson, now 50, remembers telling the school's financial-aid administrator she wouldn't be approved because of her shaky credit and unemployment.

"She looked at me and said, 'Look, all we need is your Social Security number,' " recalls Ms. McPherson. "They approved me in three minutes."

She hasn't worked since, partly because she attended college and graduate school herself. Her Parent Plus balance has more than doubled. Combined with her own student loans, she now owes more than $100,000 to the federal government.

Ms. McPherson has refinanced into an income-driven plan, which sets her payments at zero while she is unemployed.

She and her son plan to start a commercial-diving company that she hopes will allow her to pay off the debt. But when she applied for a $60,000 loan to start the company, a private lender approved her for $20,000, at a nearly 16 percent rate, because of her student debt.

John Paul Johnston, executive director at the Divers Institute, says the financial-aid officer who dealt with Ms. McPherson has left the school, and that he couldn't confirm her account. The current financial-aid director, Caycee Clark, says the school informs parents of all their options, and that often Parent Plus is the only alternative for families with no savings. The school charges $26,000 tuition for a seven-month course.

As of late 2015, nearly two-thirds of borrowers with Parent Plus debt were between ages 50 and 64, the GAO said. Nearly four in 10 Americans age 60 and above with student debt – most of whom borrowed for children or grandchildren – reported skipping health-care needs in 2014, according to an analysis of survey data from the Consumer Financial Protection Bureau. That compares with 25 percent of above-60 Americans without student debt who said they went without such needs.

Harry Hagan, 66, of Syracuse, N.Y., delayed retirement to repay debt. He owes about $130,000 in Parent Plus debt after helping four children through college over the past decade, including a son still in school. He estimates the debt will rise to $175,000 once he graduates.

Mr. Hagan also owes about $60,000 to $70,000 in credit-card debt and a mortgage, and has a subprime credit score. He has no savings and receives a small pension from a previous employer.

A couple of years ago, he says, he called the company that services the loans and said there was no way he would be able to make the roughly $1,200 a month payment they were expecting. The company suggested he refinance into a 30-year plan.

"I said, 'Listen, I'm 64 years old. In 30 years, God willing, I'll be 94. There's a very good chance I'm not going to make it. What happens?'" Mr. Hagan recalls asking.

"They said, 'If you die before the loan goes up, it goes away.' I said, 'Good, let's do that.'"