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Yale Sues Former Students Amid Crisis in Loans to the Poor

By Janet Lorin on February 05, 2013

Needy U.S. borrowers are defaulting on almost $1 billion in federal student loans earmarked for the poor, leaving schools such as Yale University and the University of Pennsylvania with little choice except to sue their graduates.

The record defaults on federal Perkins loans may jeopardize the prospects of current students since they are part of a revolving fund that colleges give to students who show extraordinary financial hardship.

Yale, Penn and George Washington University have all sued former students over nonpayment, court records show. While no one tracks the number of lawsuits, students defaulted on $964 million in Perkins loans in the year ended June 2011, 20 percent more than five years earlier, government data show. Unlike most student loans -- distributed and collected by the federal government -- Perkins loans are administered by colleges, which use repayment money to lend to other poor students.

“If you borrow to go to school, it may not be just the government that ends up coming after you if you can’t pay,” said Deanne Loonin, an attorney with the National Consumer Law Center, a nonprofit advocacy group in Boston. “We offer credit very easily.” If the student doesn’t benefit financially from the education, “the government or the school comes after them very aggressively.”

Perkins Pot

The increase in the amount of defaulted loans among poor students comes as President Barack Obama says he wants to expand access to college for working-class families and increase funding for the Perkins program. Under his proposal, the pot for Perkins loans would increase to $8.5 billion from about $1 billion. The Education Department would service the loans instead of colleges.

Aaron Graff, a farmer's son from Denver, graduated from George Washington in 2010 with the help of $62,500 in scholarships over two years, according to his financial-aid award letters. He defaulted on $4,000 in Perkins loans.

Graff, 30, said he hasn't been able to find a full-time job. He earns $800 a month from teaching high-school equivalency courses and restores basements for extra money. He said he is trying to pay off other student loans first because they were co-signed by his parents.

"I live on the bare minimum," he said. "It's not like I'm defaulting on my student loans to live the lavish life. I'm defaulting on my loans because I really don't have it."

Multiple Debts

George Washington's financial-aid office e-mailed Graff at least twice since last February, warning him of the delinquency and offering to work out a repayment plan. It filed a lawsuit in May 2012 in District of Columbia Superior Court. Graff lost a default judgment in December for $5,050 including interest and attorney fees because he didn't attend the hearing, according to court records.

Repaying Perkins loans may be a lower priority for borrowers with multiple debts, said Nancy Coolidge, associate director of student financial support for the University of California system. They may be more likely to pay back private student loans first because they can carry much higher interest rates, she said.

Perkins loans are given to the most at-risk students, and "they may have the least ability to pay it back," Coolidge said.

When students don't repay, colleges say they are obliged to recover the money on behalf of taxpayers. Schools including George Washington say they first try to work with delinquent students to repay the loans, then warn them they may be sued, and only then turn to debt collectors and the courts.

Student Obligations

“Perkins loans are issued from a revolving fund, so any monies recovered through litigation increase universities’ ability to help other students with education costs,” Candace Smith, a spokeswoman for George Washington, said in an e-mail. The university doesn’t comment on specific lawsuits, she said.

Students who take these loans have an obligation to pay them back, said Neal McCluskey an associate director at the Cato Institute in Washington.

“You could take a job at Subway or wherever to pay the bills and that’s something you need to do if you have agreed in taking a loan to pay it back,” McCluskey said. “It seems like basic responsibility to me.”

The interest rate on Perkins loans is 5 percent, and students get a nine-month grace period after leaving school or graduating. In the 2007-2008 academic year, 64 percent of Perkins loan recipients reported parental income of less than $50,000, according to Mark Kantrowitz, who runs finaid.org, a website on educational lending.

College Costs

With college costs climbing faster than the rate of inflation over the past four decades, students have taken out more loans, swelling outstanding education debt to $1 trillion, more than what Americans owe on their credit cards.

The University of Pennsylvania filed at least a dozen Perkins lawsuits last year, according to court records. Penn, based in Philadelphia, gave out more than $8 million in Perkins loans in the year ending June 2012, according to the school.

The university is seeking to recoup $22,607 from Kyle P. Lopinto, including $7,000 in Perkins loans and $15,039 in unpaid tuition charges, plus attorneys’ fees of $3,027 and additional interest and anticipated court costs of $387, according to a suit filed on Nov. 15 in the Philadelphia County Court of Common Pleas. An arbitration hearing is scheduled for July.

Promissory Note

Lopinto, who signed a promissory note in June 2008 to study at Penn’s School of Design, according to the university’s court filing, didn’t return messages left with his father or by e- mail. According to his website, he earned a master’s degree in sculpture from the school in 2010.

Penn declined to comment on specific student cases.

Penn refers loans to a collection agency when they have been delinquent for 120 days. Michelle Brown-Nevers, an associate vice president, declined to discuss thresholds because she said she didn’t want to reveal collection practices.

“We try all practices possible,” Brown-Nevers said in an interview. “When we’re not able to work it out outside of court, that’s going to be the place of resolution.”

Yale is suing Elizabeth M. Triggs, who studied there between 2001 and 2006 and signed five promissory notes totaling $8,255 under the Perkins program, according to a filing in Superior Court of New Haven last year.

Unpaid Perkins

She defaulted in September 2010, leaving a combined principal balance of $6,455 plus $2,880 in collection fees, according to the filing. In an e-mail, Triggs declined to comment.

Federal law requires that Yale attempt to collect unpaid Perkins money, Tom Conroy, a university spokesman, said in an e- mail. Accounts must be at least 120 days past due before being referred to a collection agency, he said.

“Litigation is a last resort collection effort for all of our student-loan borrowers,” he said.

Yale, in New Haven, Connecticut, stopped offering Perkins loans to undergraduates in the 2008-2009 academic year when it increased other types of financial aid and eliminated loans, Conroy said. Yale, the second-wealthiest U.S. college, following Harvard University, has an endowment valued at $19.3 billion as of June 2012. Penn, with an endowment of $6.8 billion, is the 11th-richest.

Students who take out Perkins loans aren't eligible for government income-based repayment plans when they run into financial trouble, unlike borrowers from the more popular Stafford loan program used by many middle-income families. Such repayment plans let students with high debt relative to their paychecks make smaller payments over time. Colleges can work with Perkins students to develop individual plans.

Financial Counseling

While schools making Perkins loans aren't required to offer financial counseling for students entering college, the Education Department recommends stressing that repayment is required regardless of educational outcome or "subsequent employment or lack thereof."

The federal government also lets universities and debt collectors charge higher collection fees than Stafford when they pursue a Perkins debtor.

On the first attempt, schools can charge 30 percent of loan principal, along with interest and late fees. They can charge 40 percent for the second effort and an additional 40 percent on litigation, according to the Education Department.

The fees are higher than the 25 percent allowed for government-backed Stafford loans because the lower value of the Perkins ones makes them less appealing to collection agencies in terms of commissions, said Dan Madzelan, a former Education Department official.

Not Practical

The University of California system tries to use its own personnel before suing Perkins debtors because balances are relatively small, said Coolidge. When borrowers don't have assets or income, winning a judgment doesn't actually result in collecting the money, she said.

"It's not that we wouldn't do it," she said. "It's not that practical."

The cases are George Washington University v. Graff, 2012- sc3-3308, District of Columbia Superior court (Washington); University of Pennsylvania v. Lopinto, 1211011562, Philadelphia County Court of Common Pleas; Yale University v. Triggs, CV-12- 6027993-S, Connecticut Superior Court (New Haven).