

DEFAULT

The Student Loan Documentary

[Transcript]

Matt: It's a weird feeling. Because I wanted to go to school and I wanted to get my master's degree, the rest of my life is dramatically altered. Can I get married? Real, real questions. Can I honestly have children? Because of the loan. And I don't feel like I can do that.

Carmen Berkley: I think it's easier for financial aid offices to say, "Well, it's not our responsibility. We're giving you all the information, so you have to figure it out." But what does an eighteen year old know about private loans and direct loans? When I was signing those promissory notes, I didn't really look at the interest rate. I didn't really care. I just wanted to get the money so they wouldn't kick me out of school.

Robert Applebaum: There's absolutely a student loan bubble. And if it hasn't already popped, it's about to.

Title Screen: Default: The Student Loan Documentary

Carmen Berkley: In my family, my mom didn't have the opportunity to go to college and so, for her, it was really important that my sister and I received an education. She sent us to private schools. When I went to public school, I went to one of the best public schools in Atlanta. And so the University of Pittsburgh offered me a great amount of money and so I decided, "I'm going to go. I've got financial aid; I've got a grant from the University. It's not going to be that expensive."

Matt: I had wanted to go to that film school forever. I was just so excited about it for years. It was kind of my biggest dream. It was like somebody gearing up to try to get into Harvard Law and I got my acceptance letter and I couldn't believe it. I was really on cloud nine. No matter how much, at least at the time, that it cost I was just like, "I'm just gonna find a way."

Robert Applebaum: All I know is that I wanted to go to school, so I had student loans available to me and I took them out.

Anya Kamenetz: The birth of student loans actually happened by accident. In 1968 -- the reauthorization of the Higher Ed Act -- there was a proposal to put in a tax credit for middle class families that had two or more kids in college. And at the last minute they came up with this counter-proposal to do a guaranteed federal student loan, instead of a tax credit. You never would have thought that it would have grown to be the largest single source of money for tuition that it is now.

Lauren Asher: Student debt has become a much bigger issue over the last fifteen to twenty years. It used to be that you could go to a state college, work truly part-time at minimum wage while you were in school and full-time in the summer, and if you came from a low-income family you'd graduate without debt. Right now that same student would have to borrow to get through school.

Edie Irons: Public institutions, state schools... tuition has risen really quickly. Especially in the last ten, fifteen years. And it used to be that grants that you don't have to pay back were available to cover seventy-five percent or more of the cost of an average four-year institution. That sounds like a fantasy to us now. It's completely switched. So we've gone from relying on grants to relying on loans, putting the burden of paying these huge costs onto students and their families.

Gregory Cendana: I was lucky enough that I was able to receive a Pell Grant, a Cal Grant, Work-Study and other federally funded financial aid programs and I'm really happy about that but, at the same time, I still had to work three part-time jobs throughout the year. I worked almost thirty to forty hours a week during the school year, and more than sixty hours a week during the summer and somehow I still ended up with more than thirty thousand dollars of debt after I graduated.

Jelisa: I have Perkins Loans and Direct Loans, and I'm a Work-Study student. I have another job as well on the side, and I still have to take out private loans. I currently have around forty thousand dollars in debt and, by the end of my four years, I will probably be a little bit over sixty thousand dollars in debt.

United States Student Association Protesters: "What do we do? Stand up, fight back! Education is under attack!"

Tamara Draut: A generation ago, the Pell Grant covered almost three-quarters of the cost of going to a four-year school. Today, it covers around a third. What that means is your average Pell Grant is probably going to cover, hopefully, the cost of books for a year and not much more than that. So, a low-income student who gets a Pell Grant still has a lot of cost to cover and they don't have parents who can help them cover some of those costs.

Robert Applebaum: It never occurred to me that I would not make a lot of money after going to law school. So repayment never seemed like a daunting task to me because I just always assumed I'm going to a great law school, I'm going to graduate and have a law degree and get paid lots of money, and I could pay back my loans quickly and easily.

Mel: I just kept looking at these bills piling up. They were getting higher and higher and I was looking at, at least, another two to three years full-time to complete my degree. And also, I didn't see any way that I was going to be able to pay these back. And I thought, well, I really should start looking for a journalism job and go to work.

Carmen Berkley: I was actually at a training for USSA and I started to get a really bad headache. And that headache turned into an even worse headache, and I couldn't go to

school anymore. I ended up having something called a "pseudotumor cerebri" and so I had to drop out of school my senior year of college so that I could have brain surgery. I had to leave school for an entire semester. I tried to catch up in the summer and then I just ended up with double the debt because the school wouldn't give me back the money, because I had gotten sick at the end of the semester.

Anya Kamenetz: The reality of higher education in America today is that only about half of people who begin a degree program actually complete it within one and a half times the allotted time. Those people who do graduate, two-thirds of them take out student loans. People commonly talk about the undergraduate student loans and the average of about twenty thousand dollars for people with a bachelor's degree. But for those in graduate school, the numbers get much, much bigger. For master's degree recipients, the number is in the thirty thousands. For law students, I believe the average is up over a hundred thousand. And for medical students, it's about a hundred and fifty thousand in both federal and private student loans.

Robert Applebaum: I received an offer to work as an assistant attorney in Brooklyn. My starting salary was thirty-six thousand dollars per year. I had to make a decision between paying back my student loans or paying for rent. I couldn't do both. My rent was a thousand dollars per month and I was earning about eighteen hundred dollars per month, and there was nothing left to pay for student loans. So I placed them into forbearance.

Nick: I got my first bill for my student loans and the first bill was a total of about a thousand dollars and it was quite a shock. I was expecting to see a bill around five hundred dollars a month. After that shock, I had three months warning that my payment was due and it took me that three months to save up the thousand dollars to make my first payment. And after making my first payment, I owed more money than I owed before I made my first payment, after interest charges had been applied.

Matt: After I graduated NYU the payments were scheduled to be I think somewhere around fourteen hundred dollars. I went into default and that was a huge addition to the loan at that point and, currently now, it's roughly about two thousand dollars per month.

Anya Kamenetz: People always talk about the "million dollar diploma," or the advantage of your degree over a lifetime, if you get a bachelor's degree versus not getting a bachelor's degree. But that advantage has actually gotten bigger since the 1970's, not because the bachelor's degree people are earning more, but it's because the people without a bachelor's degree are earning less. So the top line is really flat, the bottom line is going down and that advantage is getting bigger. But for the people who are just getting a bachelor's degree, the bonus or the payoff of that degree has not actually been growing. It's actually, in the last decade, been getting a little bit smaller.

Text on Screen: Check all that apply. Forbearance: Postpones or reduces monthly repayment, only for a limited time, interest accrues, interest is added to principal.

Robert Applebaum: When I initially did it I had no idea what forbearance was. All I knew was that I didn't have to pay back my loans at that time. So I was more than happy to do it. So for the next five years while working as an ADA, my loans just increased. They ballooned. Like I said, I owed about sixty five thousand dollars. By the end of my five-year tenure, I had probably an additional twenty-five thousand dollars in debt.

Faith: I called Sallie Mae and I asked them, "How did it get to be fifty-four thousand dollars, when originally it was only thirty-two thousand dollars?" "Oh, well that's your forbearance." I said, "My forbearance? I don't understand." "Well, you signed the loan papers, you should be responsible. Do you want us to send them to you?" I said, "Can I renegotiate the loan?" "Oh, absolutely not. Unless you go back to school." Excuse me? I was sixty years old. Was I really going to go back to school? I don't think so.

Robert Applebaum: Little did I know that the lenders are more than happy to let you put your loans into forbearance because of a racket called compounding interest. Basically what it is, is that the interest continues to accumulate while the loan is in forbearance and that interest gets tacked onto the principal. So, the interest increases exponentially as the amount gets tacked onto the principal. So it's sort of a snowballing effect. Once the process of forbearance starts, your loans start to grow and grow and grow, and that's what happened to me.

Mel: The Citibank Student Loan Corporation would send me these notices and they'd say, "You are on deferment or you are on forbearance or you on your grace period, having left school. This is just to notify you of your interest rates." And then they started sending me one saying, "This is just to notify you of a change in your interest rates." It was like watching the odometer on a car.

Anya Kamenetz: There's no limit to what they can charge in terms of fees and penalties if you go into delinquency or default. And so since they have the power to take your twelve thousand dollar student loan and turn it into forty thousand dollars of penalties, why wouldn't they do that? Why wouldn't they want to charge you absolutely as much as they possibly could, knowing that they'll never settle. Knowing that courts have found that people's social security payments and their federal disability payments can be seized to pay back old student loans. Even their disaster relief payments from the federal government if you're in an earthquake or a hurricane. So knowing that they're going to get their money, they might as well put it down that you owe as much money as possible and that sort of seems to be the thinking behind their delinquency and their default policies.

Lauren Asher: Unfortunately very little data are collected on private loans. However, one recent indicator is that a big for-profit college company called Corinthian Colleges told its investors a few months ago that they were going to make about a hundred and thirty million dollars of their own private loans to their own low-income students in this fiscal year, and they expected defaults to be around fifty-eight percent.

Alan Collinge: Well it's really sort of a three-headed piece, comprising the lenders, congress and the universities. You have the universities, who are raising their tuition. But

you also have this lending industry that is sitting there, funding congress to the tune of tens of millions of dollars per year, who also are pushing to get the loan limits increased and also are, frankly, responsible for having all the consumer protections that were taken away, taken away.

Robert Applebaum: For whatever reason, congress has decided to treat student loan debt completely differently than every other type of debt. So you can discharge your gambling debts in bankruptcy but you can't discharge your student loan debt in bankruptcy and that makes absolutely no sense.

Tamara Draut: And that one, sort of, exception to the bankruptcy law I think really provides an indication of the extraordinary power that the student loan industry has in our political system.

Anya Kamenetz: Once you made that decision to sign the promissory note and become a Sallie Mae customer, you're done with that, you can't get rid of that loan. There's no discharging it in bankruptcy. And they make more money the worse you do with that loan. They kind of want you to be in delinquency and they kind of even want you to be in default, assuming you keep paying it back. And you probably are going to keep paying it back, because you don't have any choice. So if you just look at their basic business model, they don't want to be nice to you. And so, all of the people that I've heard from, it doesn't seem like Sallie Mae ever makes a mistake in anybody's favor. If they ever make a mistake, it's against the student.

Mel: You know, if you look at it in the roundhouse view, okay it was thirty thousand dollars to go to UNR for three years. They now say that I owe about ninety thousand dollars. So it's triple.

Nick: I originally borrowed forty-six thousand dollars for my private student loan and I think when we spoke a year and a half ago, I owed approximately eighty thousand to ninety thousand. Now that figure, in July of 2009, is about a hundred and twenty-two thousand dollars.

Faith: I borrowed thirty-five thousand dollars. I've paid back twenty, almost twenty-five, twenty-six thousand dollars and I still owe fifty-seven thousand dollars.

Matt: So, in relationship to the cost that I have now, it is two hundred thousand dollars, which is maybe one of the few times I've ever said it out loud.

Interviewer: How did that make you feel?

Matt: Uncomfortable. I was actually kind of worried about saying the amount.

Carmen Berkley: So right now, I'm in about eighty thousand dollars in student loan debt. I don't even know how much medical debt I'm in because my mom kind of keeps up with those bills because it's just too daunting for me. And, I'm about five thousand dollars in

credit card debt. So I do this work because... I'm sorry. I do this work because I don't want anybody to feel the way I feel. I don't want the banks to call their job and tell them that they owe them so much money. It's difficult. These people at our conference -- I just want them to understand that they don't have to go through this and that if they want to go to school they should try to get a scholarship, or they should try to get grants, and they should definitely take out money from the federal government because the private loan industry -- they don't care about people. When I told them, "Look, I don't make that much money. I make thirty-four thousand dollars a year. There's no way I could spend six or nine hundred dollars a month paying just for loans." And they said, "Well, there's nothing we can do about it."

Matt: I really feel like I am not going to have any legitimate credit the rest of my life. And that's a hard thing for a number of reasons. In future purchases, and the girl that I'm living with right now in this apartment -- crazy about her, the best person in the world -- I was like, you know, I don't know if I can continue this relationship because... You know, I just don't want to bring you into this thing with me.

Nick: I was talking to a friend of mine about this, who happens to be a loan officer. And he tried to reassure me that things will get better, that we are not a country with a debtor's prison. But the more and more I think about it, maybe we are and we just don't know it.

Jeff Blum: Most of all, we need your sense of hope. I don't need to tell you that your classmates are worried about whether there are jobs after school. That some of your former classmates are fighting wars all across this globe. That this year alone, more than four hundred thousand young people will not go to college because they can't afford it. [Crowd booing]. And yet, despite all the bad news you read online in the morning, I believe you've got hope.

Alan Collinge: It is imperative that consumer protections be returned to student loans. People don't realize that the most basic, fundamental consumer protections that we take for granted with every other type of loan simply don't exist for student loans.

Robert Applebaum: We're constantly being told about how far behind America is lagging compared to other industrialized nations in terms of math and science and what-not. But we're not paying for it. We need to actually put our money where our mouth is.

Anya Kamenetz: The federal government spends about seven times as much on people over the age of sixty-five as we do on everybody from the age of zero to about twenty-five. As our country continues to age, demographically, in the next ten or fifteen years, younger peoples' issues, and particularly higher education, are going to be perpetually pushed to the backburner. So the onus is really on young people to organize and to agitate for their own causes and their own beliefs.

Gregory Cendana: We need to see more students lobbying to their elected officials. We need to see more students understanding how their state and federal budgets are affecting

their experiences in higher education. We need to see more students draw links to higher education and to even broader economic justice issues.

Carmen Berkley: What do you want out of your higher education? Do you want to go to school for little to no money? Tell us how we should message it and we'll do it.

Robert Applebaum: On January 29th, 2009, I was watching the news and I believe that was the day that news broke about the CEO of Merrill Lynch and his exorbitant, Marie Antoinette like office redecorations. And this was in the wake of the seven hundred billion dollar TARP bailout. Instead of throwing trillions of dollars at the banks, insurance companies and all the financial institutions that were responsible for the mess to begin with, I thought we, as a society, would be better served by forgiving everyone's student loan debt and putting hundreds and, in some cases, thousands of extra dollars per month, every month into the hands of middle-class educated consumers. So I wrote what I thought was a pretty good essay laying out my proposal and I posted it to a group on Facebook. And, as of today, there are over 233,000 members of the group. I recognize how radical and dramatic the proposal to forgive the student loan debt of all Americans really is. I get it. I'm basically asking that taxpayers foot a seven hundred billion dollar bill. We've already done that several times in the last year.

Alan Collinge: We need to not be quiet. We need to not suffer individually, in silence, about this issue. We need to come together. We need to solve it.

Mel: I was watching Sixty Minutes one Sunday evening and it was Alan Collinge talking to Lesley Stahl, and they said that there's a guy that's starting a grassroots movement in Washington State.

Allan Collinge on Sixty Minutes: We're just asking college students, sort of at random, about the student loan issue. Do you remember ever having a choice of who you borrowed the money from? Do you remember actually making a decision about who to borrow from?

Woman: No. You just need money, so the school came up with a plan and that's what I've gone off.

Alan Collinge: Student Loan Justice is the first organization to stand up and be vocal, from a grassroots perspective, about the problem. Before Student Loan Justice was in existence, the student loan issue was rarely, if ever, covered by the popular media. Since we've started, however, we've been featured in dozens of television shows, including Sixty Minutes, Frontline, 20/20 and others. I have an issue and it is to convince congress to restore standard, basic consumer protections to student loans. Getting congress to move, now that is another challenge. But anybody, anywhere can go down and get a meeting with either their elected official or their staff. I suggest if they feel more comfortable acting in a group, that they should come to "StudentLoanJustice.org" and they can find dozens, if not hundreds, of people in their home states that they can plan and coordinate with, and get together with and act jointly with.

Carmen Berkley: I actually think that if a bunch of us, you know, outed ourselves and said, "I'm in eighty thousand dollars worth of debt!" Then somebody else would say, "I'm in forty-five thousand dollars worth of debt," and then we would actually realize that it's the banks. It's the private lending companies who are the only people benefitting from these programs and all we're doing is pushing ourselves deeper and deeper into debt.

Lauren Asher: I am hopeful that that growing awareness and that growing sense of consumer movement will help make sure that, for those who need to borrow, borrowing is safer and less burdensome, and hopefully that there's less need to borrow because we have more grant aid and better financing of higher education.

Mel: We have to have doctors, we have to have lawyers, we have to have microbiologists and we have to have newspaper reporters and public school teachers and professional photographers, and all of that. And those are all jobs; those are all careers that require a significant amount of education.

Carmen Berkley: An educated society is a more just society. The more of us that are educated, the better we can all do. Because we can all make better decisions.

United States Student Association Protesters: "Education must be free!"

Anya Kamenetz: Pessimism is an option for people that aren't actually in immediate danger. Once you get into immediate danger, optimism is the only option. You have to be working on solutions. If you're not working on solutions, you're just making things worse. And so that's really been the credo that I try to live by. I used to be much more of a gloom and doom person by nature. I imagined a lot of very scary scenarios and I would get hooked on, sort of apocalyptic – you know, literally apocalyptic ideas – about the future of capitalism and the future of the country and the future of the planet. And all of those things are true but I think to the extent that you believe that there are real problems in the world, energy is best focused on solutions.

President Barack Obama: In this economy, a high school diploma no longer guarantees a good job. That's why I urge the senate to follow the house and pass a bill that will revitalize our community colleges. And let's tell another one million students that when they graduate, they will be required to pay only ten percent of their income on student loans and all of their debt will be forgiven after twenty years, and forgiven after ten years if they choose a career in public service. Because in the United States of America, no one should go broke because they chose to go to college.

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