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New Peril for Parents: Their Kids' Student Loans

By KELLY GREENE



Josh Anderson for The Wall Street Journal

Bob Stinson at his home in Michigan City, Miss., says he keeps receiving letters demanding past payments on a student loan he co-signed for his daughter, Tiffany, who temporarily had to stop making \$1,200-a-month payments in order to help her mom while she recovered from surgery.

Cyndee Marcoux already was stretched thin, thanks to the \$80,000 in student loans she racked up after getting divorced and going back to school a decade ago. Her breaking point came in 2010, when her daughter defaulted on student-loan payments of her own.

That's because Ms. Marcoux, a 53-year-old library administrator in Seekonk, Mass., co-signed for about \$55,000 of her daughter's loans. When the daughter was unable to keep making payments, Ms. Marcoux was on the hook—a burden that forced her to reshuffle her entire life. To scrape up the extra \$550 a month she owed, she sold her house, then took a second job registering emergency-room patients on the weekend overnight shift. "You work your whole life and never pay a bill late," says Ms. Marcoux. "You don't ever think your kid isn't going to pay."

After years of facing all sorts of financial



If you're thinking of cosigning a private student loan for your college bound child or grandchild, you might want to do a little homework first. WSJ's Lam Thuy Vo lays out what you need to know before you sign on the dotted line.

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Join Kelly Greene and financial aid expert Deborah Fox for a live chat on Monday at 12:30 p.m. EDT. Ask questions now.

paying, co-signers are expected to pick up the tab—and soon find themselves fending off debt collectors. "People are confused about what it means to co-sign, and their ongoing obligation," says Deanne Loonin, director of the Student Loan Borrower Assistance Project at the National Consumer Law Center, a consumer-advocacy group in Boston. "When they come to understand that they are equally liable, the regrets set in."

Neither lenders nor regulators track student-loan co-signing, but experts say there are a host of signs pointing to this new burden for parents and grandparents. According to the Federal Reserve Bank of New York, some 2.2 million Americans who were 60 or older owed \$43 billion in federal and private student loans at the end of the first quarter this year, up from \$15 billion in 2007, just before the financial crisis erupted. The figures include loans made to parents as well as those for which older adults have co-signed.

pressures they never expected, from adult kids moving back home to their own parents needing help to retire, empty nest parents are struggling with a new headache. Thinking it was only natural to want to help children and grandchildren, many co-signed student loans. Now, they're becoming the latest victims of the nation's mounting problem with student-loan debt, which surpassed the \$1 trillion mark last year.

At a growing rate, young graduates who are either out of work or who didn't land high-paying jobs find themselves unable to pay their loans. When primary borrowers stop

For those age 65 to 74, education loans amounted to 13% of all installment debt in 2010, the most recent figure available, says the Federal Reserve. In 2007, the last time the survey was conducted, the level was so low that it wasn't disclosed. And as that debt burden rises, older people are having a tougher time repaying. About 9.5% of loan balances owed by Americans at least 60 years old were at least 90 days delinquent at the end of March, up from 7.4% at the same time five years ago, according to the New York Fed. For 50- to 59-year-olds, the numbers are rising almost identically.

The federal government usually doesn't require co-signers for the loans it makes to students. But the weak economy is forcing banks to demand co-signing for the private loans often made to families who already have maxed out on federal



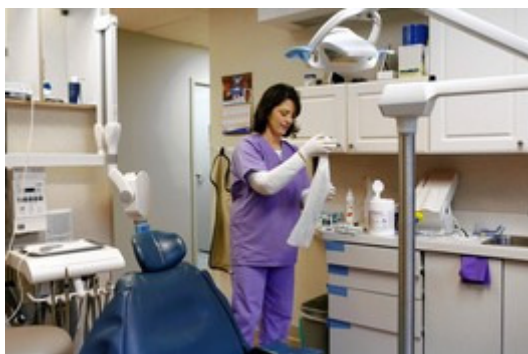
Ryan T. Conaty for The Wall Street Journal

Cyndee Marcoux is on the hook for her daughter's student loan.

More

[Five Things to Know Before Co-Signing a Student Loan](#)

I would have to pay a month, I wouldn't have gone," she says.



Josh Anderson for The Wall Street Journal

Mr. Stinson's daughter Tiffany works in a dental clinic in Memphis, Tenn.

she says. "I co-signed them."

It is almost impossible for someone who co-signed a private student loan to escape the debt. A bankruptcy-code change in 2005 made it much tougher for borrowers or co-signers to discharge private student loans in bankruptcy. The main avenue for ending the payments

loans. All told, more than 90% of private loans had co-signers last year, according to the Consumer Financial Protection Bureau, up from 67% in 2008.

For co-signers, the consequences of not paying are severe. Defaulted loans show up on their credit reports as if the debt were their own. Even when loans are current, the added debt can make it tougher for co-signers to qualify for mortgage refinancing or other loans. Faced with the question of whether to pay or not, many older people say they see simply no alternative but to dig deep into savings or tap retirement accounts to fulfill their obligations.

Ms. Marcoux, the Massachusetts librarian, says she feels trapped. She co-signed student loans for two of her three children—and both of them are struggling. One, Jocelyn Marcoux, 30, says she has given up on paying back the loans that allowed her to graduate from the University of North Carolina at Charlotte in 2005. An import-export agent for a freight company, she says she struggled to pay for child care and medical expenses for an autoimmune disease she developed. "If I had known the amount of money

The other, Matthew Marcoux, 27, who sells software for a visual-effects company in Cambridge, Mass., says he's having a hard time making \$850 a month in combined private and federal loan payments.

The younger Ms. Marcoux feels she is taking a calculated risk, because her husband owns their home and she has little savings. "If they sue us, they can't get anything," she says. But her mother sees things differently; she even moved in with her 83-year-old mother to pare expenses and make payments on Jocelyn's loans. "I have to,"

is to prove "undue hardship," and the hurdles are high, says William Brewer Jr., president of the National Association of Consumer Bankruptcy Attorneys, a trade group in Washington, D.C. "The court can take the position that all you need to do is sell your house," he says.

In some cases, grandparents are getting pulled into the debt morass too; some of them co-signed when a student's own parents didn't qualify to help out. Pam Gerke, a 49-year-old divorced fourth-grade teacher in Davison, Mich., owes \$98,000 on her own student loans—too much, she says, for her to co-sign her daughter's loans for beauty school. So Ms. Gerke's mother, Darlene Kuhn, did so instead.

After the daughter dropped out and quit making the \$200-a-month payments on her debt in 2010, the 72-year-old Ms. Kuhn took over. She says she fears her credit rating will fall, so she draws from the \$1,400 a month she collects in Social Security—her only income since retiring. "I tried to do a good deed," she says. Indeed, both Ms. Kuhn and Ms. Gerke say they are bitter about the whole experience. (The daughter declined to return phone messages.) "My mother would rather not eat than not pay her bills," Ms. Gerke says. "I'm mortified as a mother and a daughter."

Future parents could be paying off their own student loans when their kids start college.

Many financial planners advise older people to avoid co-signing loans if they can, because they could wind up owing money just as they are preparing to retire or are already living on fixed incomes. Experts also warn that unforeseen expenses such as health problems can leave older co-signers unable to pick up the slack when a child or grandchild defaults.

For their part, financial-aid administrators say they are frustrated by their inability to counsel families before they take out private loans with co-signers and have called on Congress to require private student loans to be certified by colleges, says Justin Draeger, president of the National Association of Student Financial Aid Administrators in Washington, D.C.

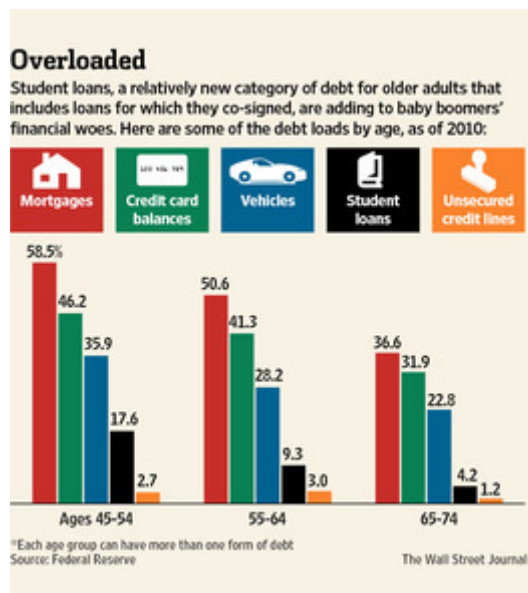
"Yes, the schools feel bad," he says. But he says part of the issue for schools is trying to get their arms around who's borrowing and how much. If families aren't doing it through federal programs, he says, "then aid offices are sometimes left in the dark."

Bob Stinson, 65, retired from his job as a [FedEx](#) Corp. plane-maintenance scheduler in 2003. Two years later, he co-signed for the first chunk of about \$50,000 in student loans for his daughter Tiffany, a dental assistant with an associate degree. Although Mr. Stinson had stopped working due to degenerative arthritis, he and his wife were enjoying a comfortable retirement at their home outside Michigan City, Miss., he says.

But after getting her bachelor's degree, Tiffany Stinson had to sidetrack her plans to go to dental school to help her mom recover from serious surgery. She says she stopped making

her \$1,200 monthly student loan payments when "I couldn't pay for stuff right then." She has since resumed making partial payments, but Mr. Stinson says he keeps receiving letters demanding past payments his daughter still hasn't made. Some threaten legal action—this when a recent surgery for prostate cancer has only increased his own financial burden.

Sure, he says, he knows he is on the loan, but he and wife can "barely survive" on his pension and Social Security because of their medical expenses. "There's no way I can pay anything," he says. "I'm at the point where I say, 'Come and get it. If you can find it, you can have it.' "



Financial experts say given a whole set of affairs today—the rate school student debt is growing, the state of the economy, and the fact many parents are approaching retirement—the co-signing dilemma is only likely to escalate.

They also worry about a "cascading effect" on the next generation of parents, because one-third of college graduates in the past year are expected to be eligible for a 20-year repayment term.

Some of these future parents could "still be paying back their own student loans when their children start college," says Mark Kantrowitz, publisher of FinAid.org, a student-loan website in Cranberry Township, Pa.

For now, some borrowers are simply working on paying off their debt faster—in part, to help get co-signers off the hook. Valentina Flear, a 29-year-old opera singer in New York, faithfully has made \$864 monthly payments on about \$90,000 in private student loans that helped her graduate from Barnard College and Manhattan School of Music in New York. She says her father co-signed for some of the loans because "it was only way I could get the money."

But her parents are Russian immigrants, and Ms. Flear says she didn't feel that she or her parents fully understood their commitment when they applied for the loans.

Today, she says, the debt "just hangs over me. I make those payments because I don't want any backlash hanging over them."

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