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SPEND YOUR STUDENT LOANS ON A VACATION. NO ONE IS WATCHING.

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by Morten Buttler and Raul Hernandez

Part I: "Who's to say what dollar is spent on what."

Liz Gagne and her wife decided the ceremony would start at 2 p.m. so the lighting would be perfect. On that warm October day in 2014, Liz got married. They had eloped, inviting only two close friends as witnesses.

"Our friends — two six foot tall grown men with beards — cried because our vows were so spot on," says Gagne. "Despite my wife having read lots of blog posts about how to not cry on your wedding day — because makeup — she cried through the whole thing."

But as any newlywed knows, wedding days come at a cost.

In total, Gagne's wedding day cost her and her bride less than $15,000, not including the rings. By having a small ceremony and having a dress made from scratch instead of buying one and having it tailored, Gagne and her now-wife were able to keep the costs from getting out of control.

The majority of wedding expenses were paid from Gagne's savings, but the rest was paid off with a different source of capital: student loans. Gagne spent between $3,000 and $4,000 of loan money on her wedding, essentially "subsidizing" the day. But even after the wedding, the costs kept coming.

"Most of my loans were taken out for living expenses, so the wedding ended up lumped in with everyday expenses," says Gagne. "I didn't take out loans intending to spend the money on a wedding. The whole thing was pretty sudden."

Student loan debtors who spend their loans on non-educational expenses — like Gagne — increase the likelihood of financial hardship once they begin repayment. But contributing to the financial struggles of student loan debtors is an overly-complicated student loan system which can entangle borrowers with unclear financial statements and a glut of federal loan repayment programs.

There are only two U.S. government agencies that track outstanding student loan debt: The Department of Education and the Federal Reserve. Both of these financial institutions estimate the total outstanding student loan debt in the U.S. to be north of $1.2 trillion, but neither tracks the way in which students spend those loans.

The Department of Education's Financial Aid Office guidelines on federal student loans authorize spending on "tuition, room and board, fees, books, supplies, equipment, dependent child care expenses, transportation, and rental or purchase of a personal computer."

But from the time students take out their loan to the time it is paid back, no government agency is tracking whether that money is indeed going towards those authorized educational expenses.

And according to Mark Kantrowitz, one of the nation's leading student loan experts, it is impossible to track.

"There's no enforcement that student loans need to be spent on education," Kantrowitz says. "It does allow for spending on basic everyday costs. Some of these [non-educational] activities might not be okay, but who's to say what dollar is spent on what."

Part II: Statements of Confusion

The issue of financial literacy — and specifically student loan literacy — is a major issue for many student loan debtors, according to Kantrowitz. Terms such as "aggregate loan limit," "capitalized interest," and "origination fee" are often beyond their understanding.

Cryptic labeling can lead students to misunderstand the type of financial aid they are receiving and how much money they will end up owing once they've completed their studies, according to Kantrowitz.

"It's a challenge for students because they get reward letters that blur the distinguishing on grants and loans," says Kantrowitz.

Gagne works in education research and has a background in data analysis and math. She acknowledges the difficulty in understanding much of the terminology of her own federal loan statements. She often found herself doing hours of research on very specific items.

"I'm sure lots of people read through their loan materials and think they understand what certain terms mean," says Gagne. "But if you're not used to reading technical documents like laws and policies, you're at an inherent disadvantage."

While complicated terminology in loan statements can lead student borrowers to misunderstand their debt obligations, even if they can decipher the jargon, there are times when they are given false information about their loans.

The Consumer Financial Protection Bureau (CFPB) receives complaints from borrowers of many types of loans and debt (mortgages, auto loans, payday loans), including student loans.

So far in 2016, the CFPB has received 1,139 complaints filed under the category "received bad information about my [student] loan." That ranks as the second most common student loan complaint behind "trouble with how payments are handled" (1,655 complaints).

In the complaints that the CFPB receives, some have complaint narratives included. These are specific, detailed — but anonymous — explanations of the borrower's experience with their loan servicing company. These complaints often focus on erroneous late fees or misinformation the borrower was given over the phone with a representative from the loan servicer.

But one Wyoming borrower's March 2016 complaint illustrates how the loan servicing companies can make costly — one might even say, fatal — errors.

"I was sent a letter giving condolences for my death," writes the borrower. "I called and informed the company that I was very much alive. Another letter was sent that my mother received while at my house — it caused her quite a fright. I have yet to hear anything back from the company either way, and have not had any of my automatic payments taken out for months. I absolutely refuse to pay any late fees or interest that is tacked on."

Part III: Till Debt Do Us Part

In 2010 Katilyn H. entered her final year as a college student at Florida State University practically with no debt, since her parents had been paying her tuition. But when she married her boyfriend David ahead of their senior year, her parents stopped supporting her financially.

While she began the marriage with no debt, her new husband had $60,000 in student loans, a debt burden she too was responsible for now. Adding to the financial responsibilities, Katilyn H. learned that she was pregnant just before she graduated.

Her big dream was to live abroad and Paris was her destination of favor. After graduating from FSU, she was accepted to The American University of Paris' master's program in global communication, so she went with her husband David to the French consulate in Miami to apply for visas. The consulate wanted to know how the couple were going to pay for their stay abroad.

Initially the couple were not worried. They both had jobs after graduating and they made $60,000 combined with housing and food being their largest expenses and they were still determined to go to Paris.

"We felt like we had a ton of money. We didn't spend any kind of time thinking about how we were going to pay for our trip," Katilyn H.. said. "Not a single person ever asked how we were paying for all of this except the French consulate."

The decision from the consulate was not uplifting though. The consulate rejected them saying they needed to come up with more money.

She secured $75,000 in federal student loans in order to pay for the $38,688 tuition and life in Paris, one of the most expensive cities in the world. In addition to that Katilyn H. secured $25,000 in private loans from friends and family. The couple also had David's father sign a letter — at the request of the consulate — where he committed to sponsor the couple with a monthly allowance.

Her dream became reality. She went to Paris with her husband and their newly born daughter and pursued her master's degree while working part time. During weekends and school breaks, Kati and David H. wanted to explore France and other parts of Europe.

They went hiking just outside of Edinburgh, the capital city of Scotland. They went on weekend getaways to Normandy in the north-western part of France. They tried to keep costs down by staying with friends and family but in the end they used some of their student loan funds on these trips.

"We were young and stupid and then we realized the big financial burden we had put on ourselves."

Today Katilyn and David owes just north of $100,000. Their monthly $1,300 minimums are eating up a quarter of their base take-home pay. And since some of the loans are graduated, the minimums are increasing semi-annually. Her family and friends don't know that she spent the money they lend her this way, and that's the reason her last name is not shown.

They have made a rigid plan to follow to repay their loans and Katilyn H. hopes that their student loan debt nightmare will soon be behind them.

"We will be debt free in three years and then we will be able to start our lives over again."

With $1.26 trillion in outstanding federal student loan debt spread across 41.5 million borrowers, the average student owes $30,410, according to data from the Department of Education.

The total outstanding student loan debt is increasing by $2,698 per second, according to an up-to-the-second clock developed by StartClass, an education research company, for Marketwatch, an online business publication, using data and surveys from the Federal Reserve tracking federal and private student loan debt over the past decade.

The national average of tuition costs increased 42 percent in the last 15 years in real dollars, which is the prefered measurement used to compare currency value over time. The average college tuition — public and private combined — was $24,706 in 2013, according to data from the DoE and the Bureau of Labor Statistics.

Add to that stagnant wage development throughout the last 15 years. The median household income fell $15 from 2001 to 2015 from $56,531 to $56,516 (real dollars), according to data from the U.S. Census Bureau.

All these economic indicators suggest an increased demand for student loans to cover the cost of tuition. And the data backs that up. In 2007, there were 28.3 million federal student loan borrowers, according to DOE data. In 2016 there are 41.5 million, a 46.6 percent increase.

For student borrowers, federal student loans are appealing because of their relatively low interest rates, the lowest being the direct subsidized undergraduate loan's 3.76 percent for 2016–17 academic year.

Even with those low federal student loan interest rates, some students choose to borrow privately through a bank or financial institution. But it is unclear exactly how much private student loan debt is held by U.S. borrowers. Estimates of total outstanding student loan debt coming from private lenders are between five and 10 percent, according to Kantrowitz.

When Sabina Monaghan returned to Fairleigh Dickinson University — her alma mater — in 2011 for her master's degree in education, she chose to take out private student loans totaling $45,000.

"The 45 thousand dollars I owe for my master's could have gone towards a Mercedes Benz," says Monaghan. "At least I would have looked cool being poor."

Monaghan received no loan counseling with her private loans, and having received an athletic scholarship for her undergraduate degree, she was inexperienced at dealing with loan repayment.

While federal student loan borrowers are required to go undergo exit counseling to better understand their student loan debt obligations, many complain that type of counseling does little to help borrowers cope with their debt responsibilities.

Part IV: "As much as they think they understand student loans, they don't."

For every student loan borrower, there comes a moment when they embark on the last phase of the student loan process: repayment. This stage offers new obstacles and complexities not just for the borrowers, but also for financial professionals and even the Department of Education.

In order to get graduates off on the right foot with their student loan repayment, federal law requires students who borrow from the Department of Education to undergo exit counseling when the student graduates. Exit counseling reviews deferment, borrower rights and responsibilities, and repayment plan options.

But student loan consultant Jan Miller says the advice graduates receive from these types of programs do not equip them with the proper skills to get out from under their student loan debt.

“You can’t talk with your school financial aid. As much as they think they understand student loans, they don’t,” says Miller. “They know how to get you into debt, they have no idea how to manage it in almost all circumstances.”

Gagne’s experience with her own college’s financial aid office lines up with Miller’s assessment. She realized that she would need to look elsewhere for guidance in dealing with her student loan repayment.

“I prompted the conversation by going into the financial aid office to talk about loans and the guy answered my questions but didn’t have any new information to offer me. He basically only confirmed what I had already figured out on my own,” says Gagne.

After working in the financial field for 19 years, Miller now works as a student loan consultant for his own firm, Miller Student Loan Consulting LLC. In his opinion, the issues with the student loan system go beyond simply the financial aid offices of U.S. colleges and universities.

“The biggest problem with the student loan system is that everyone is under-trained,” says Miller. “Let’s say you call your student loan servicer. You’re talking to a representative on the phone who gets paid $9 per hour, who has a few days of training, and is going to tell you what is in the best interest of the company they work for. So the options are very limited for borrowers to find people that will give them the best answers for them.”

Miller receives calls from financial planners who tell him that even for them, navigating the student loan repayment system is too complicated.

“I have a lot of financial planners reaching out to me saying ‘this is getting over my head. My clients want to plan out their life, and I can help them do that, but the biggest part of their debt is student loans and it’s a whole different world,” says Miller.

According to Miller, the type of debt financial planners are used to dealing with are auto loans and mortgages. These obligations almost always cost less the faster they are paid off because less interest accrues over time, making for a relatively simple recommendation for the financial planner: pay off the debt faster, and it will cost you less in the long run.

But factors that are unique to student loan debt — such as student loan forgiveness — change the equation, according to Miller.

“There’s never a one size fits all answer with student loans,” says Miller. “In fact I always tell anybody I’m talking to, if someone gives you an answer without looking into your situation very thoroughly, then it’s wrong just by default.”

Even the DOE — the department that disburses the federal loans — has struggled with student loan budgeting.

At the end of November 2016, the U.S. Government Accountability Office (GAO) published a report in which they scolded the DOE for systematic accounting errors pertaining to the Income-Driven Repayment (IDR) plans they offer.

On one hand, costs were overestimated by not including inflation when measuring borrowers' income, which is a part of federal accounting guidelines. This resulted in an estimated $17 billion in savings.

But the DOE also underestimated costs by not including projections for how many borrowers would switch into or out of the IDR plans. The GAO estimated that participation in these plans grew "more than double from $25 to $53 billion for loans made in recent fiscal years."

"The bottom line is that we have many areas of concern that point to weakness in their methodology," says Melissa Emrey-Arras, director of the GAO.. "The cost has been a lot higher than what the DOE estimated. They may be off by billions of dollars."

Liz Gagne considers herself one of the lucky ones. She and her wife are living comfortably while managing their student loan payments each month. They were even able to save up enough money to get a keeshond puppy by the name of Gotham.

But Gagne's loan repayment journey was just beginning. She has since been through the complicated system of loan refinancing, and on top of all that, the "life expenses" that needed to be paid for with her student loans didn't end with the wedding.

"My wife wanted to send announcements to everyone she's ever met in her entire life and those got expensive," says Gagne. "That was loan money."

When Gagne speaks about her student loans, she does so with depth and detail. The type of detail one may expect from a financial planner or even a student loan consultant. It has crossed her mind that maybe a career in finance would suit her. There's just one obstacle: money.

"My wife has said I should work in finance," says Gagne. "Honestly, the only reason I haven't applied to MBA programs is because of the loans. I can't stomach $250,000 in student loans."

For more on Liz's story and the issue of loan refinancing, listen to the above feature.