EPISODE 598

[INTRODUCTION]

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FT: You're listening to So Money everyone, welcome to the show, I'm your host Farnoosh Torabi. Our topic today is affording college. Some of you are about to send your little kiddos off to college, can you believe it? They're already 18, 19 years old. Some of you might be graduated, some of you might still be grappling with your student loans from college 10 years ago. We will be talking about all things affordability.

How to afford college while you're in college, how to afford college while you're done with school because you've got student loans. We have a great guest for this, he is Joe DePaulo, CEO and cofounder of College Ave Student Loans which is currently the leading fin tech next generation student loan marketplace lender. Joe is a financial services veteran, he previously worked as CFO and executive vice president of Banking and is a member of the board of directors at Sally Mae. Before Sally Mae, he was CEO and co-founder of Credit One Financial Solutions which is a company focused on debt consolidation.

Joe and I talk about how we can better educate students to borrow just enough, not too much but just enough so that they can instead focus their efforts on finishing school, getting that great job and not making their debt a burden. How do you make sure college is a return on investment and much more and I should mention that I am actually a partner with College Ave Student Loans, they approached me to work with them on some initiatives. I'm happy to say I'm working with them as a brand collaborator and it's been a lot of fun and I'm really excited to bring you this special episode.

Here we go, here is Joe DePaulo.

[INTERVIEW]

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FT: Joe DePaulo. Welcome to So Money, great to connect with you.

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JDP: Thank you Farnoosh, great to talk to you as well.

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FT: Just to let listeners know, occasionally, I do partner with some great brands and organizations that I feel very excited about, I feel they're on an important mission, and College Ave Student Loans is definitely one of them. Joe, you're the CEO and cofounder. Tell us, how is College Ave different than some of the other lenders in the student loan marketplace?

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JDP: Well our approach to this business of lending money to students as they go to school is really designed around the concept of being clear and trying to be personalized with how the student borrows money.

What we mean by that is, we try to keep the terms of the loan aligned so that they're in the best interest of each individual student. We essentially give students choices as to how they want to design their loan.

We encourage them strongly to do things that reduce the cost of that loan over the life of the loan. The simplest way to think about it is if you make some payments while you're' in school, in the long run, the loan's going to cost you a lot less money and if you get in a track of paying it back faster, you're going to pay much less interest over the life of the loan.

We believe that's so important that we'll actually incent you by lowering the interest rate on the loan as you choose to make larger and larger payments while you're in school.

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FT: Ultimately, giving more flexibility to the borrower. Is it a problem that these loans come due four years after you borrow the money and then even then there's a grace period so you can forget. I mean, what's the behavioral benefit to this strategy?

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JDP: You just hit it on the head Farnoosh, it's making sure that the customer, the student is aware of the obligation so not only do we encourage people to make some type of payment while they're in school and by the way, 60% choose this, we also send statements to them while they're in school.

They understand the obligation in the simplest terms, when you borrow money for college, the most important number to know is what will be your monthly payment after you graduate?

That's a more important number, perhaps than your SAT scores because you're going to live with that for a long time. If you know what that monthly payment is before you graduate and while you're in school, then you will be able to manage your expectations about when you graduate, what job you might need to cover that, where you could afford to live, whether or not you could afford a car, all of those things become part of the equation because you're thinking about hey, I have this monthly payment.

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FT: Yeah, have gone to college campuses and I go back to my alma matter pretty often and the biggest question I receive from students is how am I going to pay back these student loans.

My first reaction is, what's your monthly payment and surprisingly, they just don't know, I was shocked but I guess from your perspective, this is more prevalent than we think.

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JDP: Great question. We're the only company in the student loan business who when the customer's applying, we actually have this really simple calculator and this customer says, here's what I want my pay in school and after I graduate, here's how many years I want to pay it back.

Eight, 10, 12, 15 and based on sliding those two scales, the payment while you're in school and the number of years you will see for instance if you're borrowing $10,000, whether you're going to pay us back $14,000 let's say over the next couple of years or $24,000. It's that much different depending on how much you delay the payments and how much you spread them out.

You also will see your monthly payment when you graduate. That could be $120 or it could be $180. You will see those two numbers and so you will understand the – when people say what's the cost of the loan, it should be, I gave you a thousand dollars and you paid me back 1,200. Then the cost of the loan was at 200.

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FT: The cost of college as you know has been rising far faster than the rate of inflation since the 70's. Borrowing money for colleges most likely inevitable for a lot of people, how much is too much to borrow? Does College Ave ever stop and say that borrowers, you know what? Maybe you shouldn't borrow this much?

I agree with the conventional wisdom that you want to limit your borrowing to no more than your anticipated salary in that first year of graduating from school. What's your take?

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JDP: That's a pretty good measure and that also explains why some kids can borrow $100,000 and some kids should only borrow 30 or 40 because the person borrowing a hundred might be getting an MBA or in a medical program, there's a much deeper logic to what you just said, we should have tried to influence that in two ways.

One is, that monthly payment should be thought about in some terms, if your monthly payment for all your loans is going to be $300 a month, then the first 3,600 or roughly 4,000, you won't see when you come out earning money. If you come out earning 40,000, it's really 36 and that doesn't factor in taxes.

We like that monthly payment as one of the guides. The other thing is I think, you got to have a reasonable comfort level at a large borrowed amount without consideration of what you actually want to spend on tuition, room and board, if they're disconnected, it doesn't make as much sense, I'd like to always tell people.

When it comes to spending money on higher ed, as you're going into the decision, you have to have at least two choices on the table before you go to those schools that are a little bit more aspirational and it may be aspirational.

One choice is your in state option. Look at your in state options because it will always be more economical. The second is, look for options where if your grades are good statistically, you should be well above the average statistics for that school because then you might get merit aid.

Those two become the more economical options before you have that aspirational school that might not give you any aid. But in your mind a slightly more prestigious sound to it. We really encourage people to have those two options first and start thinking about those options sort of in sophomore and junior year of high school, before your emotional in your first semester of senior year.

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FT: Right, you want to make sure that there is a return on investment. You know, my parents were very insistent on that and my dad said to me back when I was choosing schools, he said, look, if you had gotten into Harvard, I'd be saying congrats and we'd be heading up to Cambridge but I was basically choosing between Pen State University and NYU and he said to me, you know, you've got a scholarship for Pen State and we're also in state in Pennsylvania at the time.

NYU is $50,000 a year. The choice to them was obvious, it wasn't so obvious to me at the time because I was being very emotional and I wanted to be in New York. Very important to do the math.

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JDP: One of my second kid goes to Penn state.

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FT: Oh right.

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JDP: I think that conversation probably sounded something like that.

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FT: Right. Many families are sending off their graduates, their high school graduates to college this fall. Any advice for families as far as how to reign in the cost of college while you're at college?

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JDP: Sure. The first thing is, think about what benefits you have coming out of high school. If you have credits for courses that can apply towards college which could take away the cost of courses, you should aggressively try to monetize those AP courses of the traditional, there could be any courses that could minimize the number of credits you need to take to get that degree is really helpful.

The second thing is, you have a lot of flexibility around how you spread out, how you incur cost. As an example, a lot of students might actually want to take a lower course load and four courses versus five, take two in the summer because then they could work throughout and work study and other jobs could help defray that total cost and they can continue working during the summer.

Some people like to continue taking classes and work straight through so I think the combination of income from jobs that you can make room for still being full time plus lowering the cost of those courses either because maybe in the summer time, my son during the summer time takes an online course.

He's got a full-time job and he's actually taking two online courses through Penn State by the way. He actually gets time to work and do other things during the school year. You know, that's the tradeoff, he probably had a little less time on his hands to enjoy the summer but that's a tradeoff he's making.

That's the same tradeoff I made when I was in school. I have couple of times took summer courses in state in Washington where I went to school and I was able to work more during the year and work more during the summer. I also think aggressively think about what your housing situation is.

Off campus is unfortunately sometimes much less expensive than on campus being an RA, that helps tremendously to defer the cost. You know, sometimes, meal plans are cheaper, sometimes you know, figuring that out yourself is cheaper but I think you'd be stuck to the basics of what can I earn over the four years to help defray what I might need to borrow?

Combined with can I take the courses in any other order or in any other format to lower the cost like online, or like AP credits. Because that's what you're really doing, you're trying to increase the amount of resources you have available to not borrow at the same time, lower that cost of going.

One other point, I think there's a really good argument for two years at a community college followed by two years at the place where you finally get your degree.

That just takes a lot of discipline and the only thing I caution about that is when you go from high school to college, you have the support usually of the support of some type of staff in your high school to help you with that transition.

Then when you get to college, you're a freshman, there's usually some support network to help you. If you do it through a community college, you probably don't have as much support networks so it is much more on you to get that done. So while I love the idea, I'm not blind to the fact that's not as easy to do it that way. To go straight from a four year high school to a four year college.

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FT: This also reminds me of the point that it's important to plan out your course work so you can actually graduate in four years. The reality is a lot of kids are graduating in five years, in six years. It can be a very easy delay because you don't plan correctly because classes fill up. Sometimes schools don't have enough classes every semester for every kid to take them. It could be a matter of not signing up fast enough and that delays graduation and therefore for some families it could mean borrowing more money.

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JDP: Well first, that is a great point. So let's start with a simple statistic. The average in school tuition is $9,000 in the average state school. The average in school room board and everything else, $15,000. So think about if you took an extra year to complete your studies or an extra half a year, you are probably incurring a good portion of that 15,000 as opposed to you incurring some of the nine but you are probably incurring a lot of the 15.

I totally agree. It's sort of like a construction project. If we took three years versus two, it's going to cost you a lot more money to get that project and school is the same way. That's why I like those options on classes. That's why I like trying to get many credits going in. That's why I like using the online option. You can't get the course done usually there's a state school or an option. A lot of the state schools have online courses.

And a lot of times, both private and public schools will take that credit. So if you need to get it done, get it done that summer even if you are working somewhere just to make sure you don't fall behind and you don't incur another year of overhead.

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FT: Now before you co-founded College Ave Student Loans Joe, you are with Sallie Mae. You've had a pretty long career in the financial services industry, what was your "aha moment" that you decided there had to be another way for people to borrow for school?

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JDP: What I saw in the student loan business when I was there was this very much lack of transparency and lack of simplicity. I think it's confusing for people because there's lots of jargon. It is an intimidating process, you only go through it when you're 18, 19, 20, 21 and you just forget about it for 25 years until you have kids and you go through it again. So unlike a mortgage which is very complicated you do that multiple times back to back.

So I think the fact that it is intimidating and it appears complex made us realized, me and my team who founded this company, that the way to go at this is to try to boil it down to its simplest principles. Once you've chosen the school and we encourage you to look at options like the in state options and schools that might give you more aid, once you have chosen that school at that point, your goal is to know exactly what the borrowing costs are.

And exactly what your obligation is when you leave, everything else is noise and so we try to boil it down to that so that there's a limited opportunity for confusion or dissatisfaction quite frankly or disappointment and that really was the guiding principle because think about higher education, it is confusing for many reasons. It's not designed to be confusing, it just is and it's a long process that starts when mom and dad helped you pick out the school and fill out that faster form and then you are in the shoot and it takes a while for it to all play through.

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FT: You have an unmatched perspective. You know that there aren't many people that have your unique view. What are your predictions as far as student loans go? Is College Ave Student Loans paving the way for others to follow and have a market place that is more flexible that caters more to borrowers?

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JDP: I think our approach to this is taking what you've seen in a lot of industries both financial services and none financial services where companies are really disrupting the normal assumptions about how things happen in a business whether it's how you buy your glasses, how you shop for travel and the combination of technology plus taking assumptions and turning it on their head, I think it's going on in a lot of industries and I think we're just an example of that in the student lending industry.

We're really taking it from the customer's perspective and if you noticed a lot of things that has become innovations even on the last 10 years, a lot of them are just thinking differently about the things customers do. A simple example is it Warby Parker, the eyeglass company or Uber, right? We think of us not like that but we think of it like, "Look this is really simple" so my prediction is we're part of an overall landscape.

I'd like to think that over the next five plus years that anybody playing in the space looks more like us overtime because I think if the consumer is clear on what they are borrowing and understands their obligation, the overall ecosystem for going to college and borrowing money is better. If people are aware of what they're getting into and have clear expectations. It might be more competitive for a lender but there'll be more satisfied customers to serve.

And I think that's what people sometimes don't realize. If you make the industry better, you have more satisfied customers to appeal to versus an industry that has traditionally been very difficult to understand. Again, all the boats rise when the water rises and that's how we look at it. We don't think if people follow us we think that's a good thing. It's more people make it clear like if more providers of loans and that's one of the things.

As I've said often I think in both the federal and the private loans, the more clarity around what those expectations are, it will be less nerve racking as what they're doing when they are going through the process.

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FT: Speaking of lack of clarity, many borrowers are grappling with what do I do, what are my options? As far as refinancing, restructuring what's your advice to someone who's already borrowed money who now has to pay back the money and can't make payments, doesn't know what their options are?

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JDP: There's two avenues to pay. Obviously in the federal program there's a lot of options for changing your payment obligations into an income based repayment. So if you are payment is $400 a month and you can't make that because of your income level is too low, then it's a little confusing because there's lots of variations on that program but there are lots of ways to get into such a program and reduce your burden for a while.

In the private space, that issue of the burden has been less so partly because in the private space we underwrite to the credit. So if you can't pay it, you normally have a cosigner and so normally that person either because of the borrower or the cosigner is a more informed user of credit, the likelihood of over borrowing is much less. So default rates in the private program, in private portfolios are 1% a year.

The default rates in the federal are in the double digits but that's because it is a different program. Everybody can access it, there's not a credit under writing which is why there's more functionality around and more opportunities to reduce your burden if you've got into something you can't pay.

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FT: When borrowers come to you to College Ave, what criteria are you looking at? What's the process like?

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JDP: Again, we keep that pretty simple as well. First of all, we keep the process down to three minutes or less. So you should be able to get an answer by filling in about 20 spaces, 20 fields even on your iPhone you should be able to do that and you should be able to get an answer very quickly. If you don't qualify for credit then we ask you to bring a cosigner who can do the same thing in the same number of minutes to fill out about 20 fields.

And we give the loan to a party either borrower or the cosigner who can actually handle the obligation tomorrow morning even if the student went to school and three months later decided this isn't for me. They didn't get into an obligation that they can't handle and so we're really writing it as if it's a consumer obligation where the backup plan is the cosigner but we fully intend to expect that the student will graduate and will be able to service that loan.

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FT: We hope so. I hope to get to a place where borrowers are able to make ends meet. It's definitely a problem in this country. We need more solutions, more out of the box thinking. Thank you for coming on the show and for your advice Joe.

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JDP: Well I really enjoyed talking to you. What you are working on is really important and what you cover is really important. We're very passionate about it here at College Ave, I think the toughest we discussed today hopefully they help students and they help families.

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FT: I think they will. Lots are going through the college process now where they're out of college. It's never too late to learn how to save and if you are going to take my word for it, be sure to graduate in four years. Don't become a super senior.

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JDP: That's probably one of the most important ones. Know what you owe.

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FT: All right Joe thank you so much. Best wishes to you.

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JDP: And to you too Farnoosh, thank you.

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