Taxpayers Fund $454,000 Pay for Collector Chasing Student Loans

By John Hechinger - May 15, 2012 12:01 AM ET

57 COMMENTS Q QUEUE

Joshua Mandelman made $454,000 in a single year as a student-loan debt collector -- more than twice the pay of the U.S. secretary of education.

His boss, Richard Boyle, chief executive officer ofEducational Credit Management Corp., received $1.1 million in 2010, including commuting expenses from his ranch in New Mexico. Five other managers each took home more than $400,000.

Enlarge image

Occupy Wall Street protesters burn a Sallie Mae envelope during a demonstration against the rise of student loan debt reaching $1 trillion. Photographer: Scott Houston/Corbis

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Occupy Wall Street protesters demonstrate against student loan dept reaching $1 trillion on April 25, 2012 in New York. Photographer: Scott Houston/Corbis

ECMC, a Minnesota nonprofit group, owes its success to an 18-year-old agreement with the U.S. government. The company charges fees to borrowers and earns commissions from taxpayers-- totaling as much as 31 percent -- when it collects on defaulted student loans. Those rich rewards, which are approved by Congress, are sparking criticism that ECMC and similar collection agencies are reaping a bonanza from former students'pain.

The loan program "is enriching collection agencies and undermining a goal we all want for society -- to encourage people to go to college," Robert Shireman, a former deputy undersecretary of education under President Barack Obama, said in a telephone interview.

ECMC is one of 32 little-known "guaranty agencies" that play a key role in the world of higher-education finance. They oversee student loans for the U.S. Education Department, which began its lending program in 1965. The groups guarantee loans made by banks and other private lenders. They promise to repay the lenders if borrowers don't. If the agencies can't recover the money, the federal government takes over the loan, shifting the risk to taxpayers.

Scholarship Money

ECMC says it helps keep federal financial-aid programs solvent by recovering taxpayer money. Since its founding in

Enlarge image

Richard Boyle, chief executive officer of Educational Credit Management Corp. (ECMC). Source: Educational Credit Management Corp. via Bloomberg

Enlarge image

The 'Master of Degrees' strikes a pose during an Occupy Wall Street rally against the high cost of college tuition April 25, 2012 in New York. Photographer: Don Emmert/AFP/GettyImages

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U.S. President Barack Obama talks about the affordability of higher education during a speech at Carmichael Auditorium at the University of North Carolina in Chapel Hill, North Carolina, on April 24, 2012. Photographer: Shawn Rocco/Raleigh News & Observer/MCT via Getty Images

1994, the company has returned $4.3 billion to the U.S. Treasury, said Dave Hawn, ECMC's chief operating officer.

The agency's collectors steer borrowers into affordable payment plans, repairing their credit and turning their lives around, Hawn said in a telephone interview. ECMC also funds more than $20 million a year in college scholarships for low-income students and runs financial-literacy and higher-education counseling programs.

"I'm really proud of what we do as an organization," Hawn said.

ECMC's debt collectors earn bonuses as a reward for extracting money from defaulted borrowers. In 2010, the bonuses for top performers amounted to as much as 10 times their base salaries, which ranged from about $33,000 to $46,000, according to the company's tax return.

Highest-Paid Collector

Mandelman's $454,000 was more than double his pay in 2006, making him ECMC's highest-paid collector, tax records show. Four other debt collectors took home between $301,000 and $389,000 in 2010.

In an interview outside his home in Minneapolis, Mandelman, 32, said he works 12-hour days helping borrowers get their finances back on track. Thank-you notes cover his desk, he said.

"I did well," said Mandelman, part-owner of the Amsterdam Bar and Hall, a restaurant and nightclub in nearby St. Paul. "I worked hard. I also helped a lot of people."

U.S. higher-education debt is sounding alarms in Washingtonas defaults more than doubled since 2003, to $67 billion. Congress is debating whether to halt the doubling of interest rates on some student loans in July. With college costs soaring, outstanding student loans have spiraled over $1 trillion, surpassing credit-card debt.

In March, the Obama administration proposed changing how it regulates the student-loan debt collectors it hires, amid complaints they insist on stiff payments, even when borrowers'incomes make them eligible for leniency.

The Education Department declined to discuss compensation at ECMC, referring questions to the company.

'Personal Profit'

"We don't think anyone working on our behalf should put personal profit ahead of serving the best interests of students," Justin Hamilton, a department spokesman, said in an e-mail. "Much of the loan-collection work carried out by guaranty agencies is defined by congressional statute. Some of those policies deserve a second look and we welcome a conversation with Congress about how they can help us with that."

As ECMC'S debt collectors have prospered, so has Boyle, the CEO.

Boyle -- a former executive with SLM Corp. (SLM), the largest U.S. student-loan company, known as Sallie Mae -- received $271,000 in 2002. His compensation rose to $618,000 in 2004, $852,000 in 2008 and $1.1 million in 2010, making him the highest-paid head of a guaranty agency.

Carl Dalstrom, who leads Indianapolis-based United Student Aid Funds Inc., the largest guaranty agency, got $775,000.

Commuting Expenses

As part of Boyle's compensation, ECMC pays for his commuting expenses and then reimburses him for the taxes he owes on those expenses, a payment known as a "tax gross up," according to the company's tax filing. Besides salary and bonus, his pay includes deferred compensation and benefits.

Boyle lives on a 715-acre ranch in Youngsville, New Mexico, with 26 head of cattle, property records show.

The 64-year-old CEO makes two or three trips a month to ECMC's headquarters in Oakdale, Minnesota, near St. Paul, Hawn said. Boyle, who declined to be interviewed, also travels to ECMC offices in Sacramento and Indianapolis, Hawn said.

Boyle flies coach on commercial flights when commuting, Hawn said. Until recently, Boyle stayed in an apartment paid for by the company. He now stays in hotels, Hawn said.

Only "a small number" of ECMC's 90 debt collectors received pay in the $300,000 to $400,000 range, Hawn said. On average, they earn about $77,000 a year, he said.

Incentive Changes

ECMC itself decided that debt-collector bonuses were excessive. Last year, the company changed its incentive policy, making it difficult for collectors to earn more than $150,000 a year. ECMC took action to "get our compensation for that team in line with the market," Hawn said.

The company stands by its executive pay. Rising management compensation reflects ECMC's growth, said Hawn, who received $541,000 in 2010.

Since Boyle became CEO in 1999, revenue tripled, to $168 million, as the company took over the portfolios of guaranty agencies in Oregon, Connecticut and California. Under the company's charter, the Education Department turns to ECMC as the go-to organization to take charge of troubled agencies.

Boyle also used excess revenue to buy related businesses that aren't tax-exempt, including Premiere Credit of North America LLC, which chases patients for medical bills and parents for child support, as well as students for loan payments.

Directors' Compensation

When setting executive pay, ECMC directors consider compensation inside and outside the charitable world, Hawn said. Under IRS rules, nonprofit companies must demonstrate they aren't paying their employees excessively. ECMC directors hire independent compensation consultants to ensure they are in compliance, he said. Fees paid to company directors have about tripled during Boyle's tenure, to as much as $90,000 a year.

The company benefits financially from federal student-loan collectors' powers under U.S. law. Unlike those chasing credit-card borrowers, student-loan collectors can confiscate wages without a court order and seize tax refunds and Social Security checks. There is no statute of limitation on collecting student loans, which are rarely discharged through bankruptcy.

In February, an ECMC debt collector phoned Susan Raposa, a 61-year-old special-education teacher, telling her to pay or face wage garnishment, Raposa said. ECMC now seizes $600 a month on behalf of the federal government -- keeping $96 -- or 16 percent -- as its fee.

As a single mother, Raposa said she struggled to pay off her student-loan balance -- now $47,000 -- since she graduated from Bridgewater State College in Massachusetts in 1992.

'My Fair Share'

"I absolutely want to pay my fair share," said Raposa, who lives in Raynham, Massachusetts, about 35 miles south of Boston."But I'm going to live poorer than people on welfare."

ECMC won't discuss borrowers because of consumer confidentiality, Hawn said.

Like all guaranty agencies, ECMC receives more money collecting from borrowers like Raposa than it does keeping them from defaulting in the first place.

Agencies get 1 percent of a borrower's loan amount for preventing a default through counseling. That's $250 on a $25,000 loan, the current average of a student leaving college, according to the Education Department.

Once borrowers default, or fail to make payments for 270 days or more, the financial rewards for collectors multiply.

Under government rules, guaranty agencies add collection costs -- currently as much as 25 percent -- to a borrower's loan balance. They also keep 16 percent of any money recovered.

Hitting the Jackpot

If an agency "rehabilitates" a loan -- getting borrowers to make nine payments in 10 months -- it gets a jackpot.

By law, the organizations can receive as much as 37 percent of a borrower's entire loan amount, half in collection costs and half in taxpayer-funded commissions. ECMC says it typically collects 31 percent, or $7,750 on a $25,000 loan. That's 31 times what it can make for preventing the default through counseling.

In 2010, ECMC generated $131 million from collections, or about three quarters of its revenue, compared with about $17 million from programs aimed at preventing default.

In terms of caseload, ECMC devotes more employees to default prevention than collections, Hawn said. The company averages 77 default-prevention workers for 241,000 delinquent borrowers in need of counseling. It has about 90 debt collectors for 557,000 borrowers in default.

'Poorly Aligned Incentives'

Guaranty agencies now rely even more on collections after the Obama administration in 2010 stopped private lenders from offering federal student loans. The Education Department has since issued all new loans directly -- cutting out a major source of fees for guaranty agencies.

Last year, Education Secretary Arne Duncan, whose annual salary is just under $200,000, asked the guaranty agencies to choose either debt collection or default prevention. He cited“poorly aligned incentives” because agencies make so much more money collecting on defaults.

The request was voluntary, and two dozen agencies submitted proposals. ECMC wasn't one of them.

American Student Assistance, a guaranty agency in Boston, proposed getting paid based on the loans it keeps current.

"You shouldn't profit from defaulted borrowers" as a public-service organization, said Paul Combe, who received $364,300 in 2010 as CEO of the agency.

Defaults Prevented

The National Council of Higher Education Loan Programs, which represents guaranty agencies, says the organizations prevented 88 percent of seriously delinquent loans from defaulting in 2009, the most recent year for which data is available.

"There's no factual basis for this claim that the incentives are misaligned," Shelly Repp, president of the Washington-based council, said in a telephone interview, referring to Duncan's comments.

Off a highway interchange in Oakdale, ECMC operates from a two-story brick building in an office park across from a Target store and McDonald's restaurant. There is no sign out front, or in the reception area.

Prized Pinata

Debt collectors work in a "cubicle farm" in a one-story building attached to the main office, according to Shane Kussatz, ECMC's former director of collections support. There, supervisors would hang pinatas over top producers' desks, while automatic dialers and other computer systems helped the company track down more borrowers, he said.

"There was a lot of talk about operating as a nonprofit company," said Kussatz, who took a buyout in January after 12 years at the company. "At the end of the day, our job was to collect debt. I didn't fool myself."

ECMC emphasized collections, according to Paul Fiedler, who worked as a default-prevention counselor from 2004 through 2009 in Richmond, Virginia.

The company asked counselors to call as many as 500 borrowers a month to get them back on track with their payments, said Fiedler. Under the federal program, he could let borrowers defer payments or temporarily reduce outlays because of a job loss or other hardship.

During Fiedler's night shifts, counselors were expected to stay at their desks, except for bathroom breaks, said Fielder, 67. He left ECMC after it shut down the Richmond office.

"It was an endless job," Fiedler said in a telephone interview. "I don't know why they didn't hire more people. A lot of borrowers fell through the cracks. There were not enough hours in the day to get to them."

Including monthly bonuses tied to his record of preventing defaults, Fiedler earned in the mid-$40,000-a-year range, he said. ECMC's Hawn said collectors make more than counselors because recovering money from borrowers is "significantly more challenging."

Default-prevention counselors clamored for the rare openings in debt-collection, Fiedler said.

"Everyone knew that's where the big money was," Fiedler said.

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TAmerica 5 months ago

Thank your for the great reporting.

I am LIVID after reading this. Obama has ordered an assault on a s---load of law-abiding medical marljuana clubs in California, as well as ones breaking the law. Due the massive shutdowns, I now have to travel 2 hours each way to get cannabis, which was prescribed for several medical conditions. Ironically, the charge against the dispensaries is that they make a profit, which is forbidden by state law. Can anyone tell me why going after hippies is more important than investigating ECMC crooks who've been making PROFITS off taxpayer dollars for who knows how long? Shame!

Like Reply

akrunner907 5 months ago

Typical double standard by Bloomberg and others that praise capitalism, unless it doesn't fit into their world. The guy works 12-hours a day and is making money from his own efforts. If you want to blame the ills of the education system, blame the college faculty and administrators for demanding such huge salaries and benefits that are killing the education system. When a college administrator can retire and collect over $300,000 in retirement pay, while working at a state-funded university, there is something wrong with the picture.

The guy doing to the collection work is doing his job, and seems to do it quite well. Stupid people, like the reporter and commenters, that want to blame the education system problems on this guy? Get a grip.

1 Like Like Reply

Hooper823 in reply to akrunner907 5 months ago

He's making money on the backs of a predatory student loan system. That's not capitalism. Capitalists are entrepreneurs and put money into the system and push the economy forward. This guy works taking the money out of the pockets of those putting into the system, nothing more. He's a drag on captialism, bringing the economy down not up.

The entire education system and how it's funded is most certainly to blame because this is not a level playing field. There are no consumer protections on private OR federal loans. None exist at all. Does that sound like capitalism to you? No, I guess you think bailing out the banks was a true capitalistic thing to do while leaving the taxpayer to pick up the tab.

A college administrator should not be making 300K a year in retirement but in order to change that we have to restore consumer protections to student loans. Then the tuition will go down and I bet that the good college's will still somehow manage to survive. The rest who sell diploma's and were strictly created to secure loans from students to enrich themselves will disappear. That's why so many students can't find jobs after college..many of those degrees are not worth the paper they are written on.

2 Likes Like Reply

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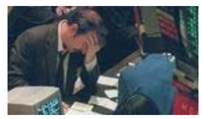

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