BANGOR DAILY NEWS

'Indentured' students increase as loans corrode education ticket

By Janet Lorin, Bloomberg News
Posted July 15, 2012, at 9:02 p.m.

NEW YORK — Geraldine Damiani Brezler took out a $5,000 student loan in the late 1960s to study at the State University of New York. She became a nurse, got married, bought a house and repaid the debt in less than three years.

Today, her son, David, 38, owes about $85,000 in loans for a master's degree in education at New York University. He can't find full-time work, lives with his parents in White Plains, New York, and has deferred paying his debt for three years.

The financial-aid odyssey of two generations of Brezlers tracks the history of U.S. student loans, which, like the home mortgage, helped define the American dream. In the early years, the loan program let ambitious teens take on a small debt that could pay off with a lifetime of higher earnings. Now, the $1 trillion in outstanding student debt has become a drag on the economic recovery, a flashpoint in the presidential election and a threat to the egalitarian ideals of U.S. higher education.

"It's like waking up to a snarling wolf every morning," said David Brezler, who spends his days searching job listings, following up by email and phone and taking on short-term consulting jobs. "The idea of buying a house — it's completely inconceivable."

How did a once-modest federal program spiral out of control, weighing down low- and middle-income families like the Brezlers that it was designed to help?

The answer echoes both the health-care and mortgage crises. As college costs have soared faster than the rate of inflation over the past four decades — reaching $60,000 a year at the most expensive private schools — Republicans and Democrats alike postponed a reckoning. They encouraged borrowing and ignored surging tuition, leaving loans to balloon to the size of mortgages, shocking even the system's own architects.

"No one ever conceived this was a way to create a debtor class of former students, the indentured student," said Tom Wolanin, who worked on federal higher education policy for 30 years and was a deputy assistant education secretary in the Clinton administration.

Politicians of all stripes ignored repeated warnings that the day would come when debt would become unsustainable.

“The path of least resistance was to have the student borrow more,” Wolanin said.

Congress, during the administrations of Jimmy Carter, Ronald Reagan, George H.W. Bush and George W. Bush dangled more credit to more families. The United States raised the total amount that dependent students could borrow during their college careers to $31,000, up from $7,500 when the loan program began, according to an April Congressional Research Service report. Under certain circumstances, the limit for dependent students is even higher.

In the final stretch to this year’s presidential election, college costs and debt are looming larger than ever. In a January speech at the University of Michigan, President Barack Obama proposed rewarding schools that control costs with access to more loans and grants. In June, at the University of Nevada, Las Vegas, he touted an executive order that eases the application process for a loan program that lets students make lower payments tied to their incomes, stretching them over decades.

“I want to make it easier for more students like you to earn a degree without shouldering a mountain of debt,” Obama said.

In his education plan released in May, Republican presidential candidate Mitt Romney said Obama’s financial-aid initiatives encourage students to take on more debt, “claiming to help them today and then sending them the bill tomorrow.” Romney advocates cutting education regulation and encouraging colleges to become more efficient, lowering costs partly through the use of online instruction.

The government began offering loans to all college students regardless of income in 1992. At the same time, it let parents borrow up to the cost of attendance minus any financial aid. Congress endorsed almost unlimited borrowing for graduate students in 2006, the same year it let federal grants and loans be used for online programs, especially at for-profit schools targeting working adults.

As borrowing soared, university presidents began a multibillion-dollar building boom across campuses, featuring private dorm rooms and network TV-ready football fields. Colleges themselves went into debt to pay for these extras. By the end of 2011, more than 500 colleges and universities rated by Moody’s Investors Service had $211 billion of outstanding debt, compared with $91 billion in 2002.

“The tendency of the colleges and universities at the undergraduate or the graduate level is to charge as much as they can, and continue to build and expand,” William Bennett, education secretary under Reagan, said in an interview.

Federal loans have enabled the number of college-goers to more than triple, to 21.6 million in 2010 from 5.9 million in 1965, Education Department data shows. The average debt held by members of the class of 2010 was $25,000, according to a report by The Institute for College Access & Success in Oakland, Calif.

For most graduates, that level of debt is manageable, said Sarah Flanagan, a lobbyist for the National Association of Independent Colleges and Universities, which represents more than 1,000 private, nonprofit schools.

But a survey last year by the Washington-based Pew Research Center found that more than half of U.S. adults said higher education failed to provide "good value" for the money, three-quarters said it was unaffordable for most Americans and almost half said the loans made it harder to pay other bills.

Some scholars are coming to a conclusion that shakes at the core of a long-held belief: College may not be for everyone.

The "college for all" movement focuses too much on helping students pursue four-year degrees when two-year and other programs may better prepare them for the workforce, according to a 2011 Harvard University report.

"Mindlessly drifting into college, believing that anything they study for however many years is going to be worth going into debt for — that's what is getting far too many young people into deep trouble," Robert Schwartz, academic dean at Harvard's education school, said in an interview.

The choices were easier for Geraldine Brezler, now 64. In addition to paying off her $5,000 student loan in less than three years in the early 1970s, she earned enough as a nurse to pay the $6,000 down payment on the family's first home in Akron, Ohio, while her husband began his medical career.

"When I borrowed for college, it was more like getting a car loan," she said. Regarding her three kids, who all have master's degrees, "the amount of money that they borrowed is more like a down payment on a house," she said.

The modern student-loan program was born in 1965, part of President Lyndon Johnson's Great Society. In a November ceremony at Southwest Texas State College, his alma mater, Johnson signed the bill authorizing the initiative, saying it would "swing open a new door for the young people of America."

"Education is no longer a luxury," Johnson said. "Education in this day and age is a necessity."

Under the program, the government would guarantee loans made to students by banks or private lenders and would pick up the interest while students were in college. Borrowers would start paying back one year after graduation. In 2010, under Obama, the Education Department started making all new loans directly, eliminating the role of private lenders — a decision Romney wants to reverse.

In the 1964-1965 academic year, it cost $1,560 on average to attend a public college, according to a 1965 speech to Congress by late congressman Carl Perkins, a Democrat from Kentucky.

Two decades later, politicians on both sides of the aisle were alarmed at the growth of the program, with more than $35 billion of outstanding federal student loans by 1985, according to a speech that year by Rep. William Ford, D-Mich.

“We are producing a class of indentured students who must work to free themselves from the bondage of educational debts,” said Ford, who sat on the House Education and Labor Committee during the passage of the 1965 Higher Education Act. “How will the next generation afford a home or car if their disposable income is committed to paying off student loans?”

In 1987-1988, the average costs for tuition and fees at a public university were $1,485, and $7,048 at a private college, according to the nonprofit College Board, whose members include colleges and universities. Bennett suggested that the availability of student loans paved the way for colleges to raise tuition at a rate that outpaced inflation.

“Increases in financial aid in recent years have enabled colleges and universities blithely to raise their tuitions, confident that Federal loan subsidies would help cushion the increase,” Bennett wrote in a 1987 op-ed piece in the New York Times.

The federal-aid expansion coincided with a boom in for- profit colleges, which have higher student-loan default rates than traditional colleges and rely on federal money for as much as 90 percent of their revenue. Turbocharging the growth of these institutions, George W. Bush’s administration eased regulations that capped the federal money they could receive.

Students at for-profit colleges carry the heaviest loan load: 53 percent of degree recipients had school debt of $30,500 or more, compared with 24 percent at private, nonprofit colleges and 12 percent at public schools, according to a 2010 report by the College Board using the most recent federal data available.

In 1992, the government opened the educational loan floodgates even more. Over the next 10 years, outstanding federal student-loan debt more than tripled to about $280 billion from about $80 billion, according to federal data.

Congress under President George H. W. Bush expanded its Stafford program, which had been limited to low-income students. Students could now borrow regardless of income.

At the same time, parents could also take out loans up to the cost to attend, minus any scholarships or loans granted to the student. While parents must pass a credit check to prove they aren't in bankruptcy, they don't need a medical exam and there is no age limit.

The new provisions made the federal program politically appealing to middle-class voters, said Neal McCluskey, associate director of the Cato Institute's Center for Educational Freedom in Washington.

By 2005-2006, tuition and fees at a public university were $5,492, while the costs at a private, nonprofit college averaged $21,000, according to the New York-based College Board. A year later, under President George W. Bush, graduate students were able to borrow up to the cost to attend, which can amount to $100,000 or more. Universities began enrolling more students.

In the past decade, Northwestern University, expanded its graduate offerings aimed at working professionals in the School of Continuing Studies to 2,000 students from 150, said Thomas Gibbons, dean of the school based in Chicago. Two-year programs cost from about $38,000 to $50,000, he said.

Many families like the Brezlers are asking whether graduate school is good value. About a third of people with masters' degrees make less money on average than a typical bachelor's degree holder, according to data analyzed by Stephen J. Rose, a labor economist at Georgetown University.

When Brezler's children decided to pursue graduate school, the idea was "if they got more education, they would get better jobs and would be able to pay back their degrees," Brezler said. "Now the paradigm has shifted."

The recession that began in December 2007, combined with increases in college costs, prompted more anger from students and indebted families.

Obama said in 2009 before a joint session of Congress that by 2020, "America will once again have the highest proportion of college graduates in the world." At the same time, others began to question whether graduating with a high level of debt was worth it.

To ease the burden on federal loan borrowers, Obama has promoted a plan that took effect in 2009, letting them make payments based on income. For those whose circumstances don't improve, their loans can be canceled in 25 years. Under a plan unveiled last year, some borrowers' debt could be canceled in 20 years.

The younger Brezlers may need help with their debt for the next few decades. While Geraldine Brezler and her husband Mario paid for their children's undergraduate educations, the three, all in their 30s, took on debt for graduate school yet haven't landed the full-time jobs they'd expected after additional schooling, she said.

Their daughter, Katherine, 30, graduated from college in 2005, earned a master's degree in education and is working on a second one in urban affairs. She has defaulted on some of her loans as she tries to cobble together an income from teacher's assistant jobs while seeking a full-time teaching position.

David, who has been at his parent's house since August, carries on with his job search. In the meantime, he freelances as a Spanish interpreter for doctors and in courtrooms from 20 hours a week to 20 hours a month. His brother Benjamin, 34, just finished a master's degree in microbiology and continues to interview for jobs.

"The hope was you get more advanced degrees and get a better job and it just hasn't panned out that way so far," Geraldine Brezler said.

With assistance from John Hechinger in Boston.