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The next bubble? THE RISING DANGERS OF STUDENT DEBT

By Eric Schulzke Deseret News

Nick hated his job. But looking back, he wishes he had thought twice before leaving it. A recent college graduate with zero debt ? a rarity of late ? Nick was selling mutual funds and annuities, earning a respectable entry-level salary in 2005. With the economy booming in 2006, Nick, who asked that his real name not be used, decided to upgrade his skills with an MBA, eventually settling on a small private school perched on a seductive piece of California coastline.

With the school dangling expected starting salaries pushing $100,000 for graduates, Nick began racking up student debt for tuition and living expenses. Two years, one MBA and more than $130,000 in debt later, Nick entered a fading job market just as the recession began. Over the next four years, amid spells of unemployment and underemployment, interest on Nick's debt drove the principal up to $160,000. Nick now has a good job that he enjoys and is beginning the long dig out of his debt hole. But it won't be easy. "I am now paying over $1,000 a month on interest alone," he said.

Nick is on the extreme edge of the tsunami of student debt that has helped motivate the Occupy Wall Street movement and roiled presidential politics. The debt is driven largely by skyrocketing tuition costs, which have dwarfed general inflation and even outpaced growth in health care costs. Pointing to growing tuition and high default rates, some have begun echoing Herbert Stein's dictum: "If a trend cannot be sustained, it won't be." The fear is that student debt is a new bubble that, like the housing bubble, will burst and hamstring the economy as borrowers like Nick see their life options shrink under debt. On the other side of the balance sheet, student loans are now the federal government's largest asset, according to investor data aggregator Doug Short at Advisor Perspectives, which generates data for investors. By 2011, he said, 31 percent of money owed to the federal government was in student loans, with the next closest category being mortgages at 8 percent. This has huge implications for government solvency as pressure grows for loan forgiveness and interest rate cuts, and a politically driven Congress and president are poised again this month to lower interest rates on student debt.

Explanations for the cost spikes and debt spirals in higher education are disputed, but many experts are questioning the bang-for-buck ratio and calling for an overhaul in how America thinks about ? and pays for ? post-secondary education. What is it worth? One scenario of student debt is captured by Mark Kantrowitz, the publisher of

finaid.org and an expert on college financing. A student goes to an elite university and, encouraged to "follow his dreams," majors in ethnomusicology and racks up $100,000 in debt. "Not a very lucrative degree," Kantrowitz said. "There are only two jobs you can get with it. You can be a music librarian for a record label, or you can go to graduate school and go on to teach more victims."

A popular belief is that a bachelor's degree is worth a million dollars, a number originally offered in a 2002 U.S. Census Bureau report and then picked up and widely touted by the College Board. The idea is that over a lifetime, a college degree increases a worker's earnings by roughly that figure, compared to those who do not earn a degree. But that belief is rife with flaws, according to Mark Schneider, a vice president at American Institutes for Research, a social policy think tank. Schneider said the College Board backtracked on the million-dollar claim, but the number took on a life of its own and has never died. Recalculating in 2008 with more variables, one critic came up with a lifetime gain of $279,893. But this correction is not enough, Schneider said, as it doesn't control for what the student brings to the table.

All things being equal, those who finish college usually start with better resources and skills than those who don't. Rather than adding value, a college education may simply echo existing advantages. Even more problematic, according to Schneider, is that earnings differ radically from school to school and between programs within schools. Very little careful attention has been given to usefully extracting that data for the consumer, he said. Schneider proposes four questions every student should ask before they attend a school or choose a program within a school: "What are my chances of actually graduating? What am I actually going to have to pay for this? How much will I have to borrow? And how much will I earn?" Schneider is working to bridge the data gap on the last point with a program that mines state-level employment statistics and links them to transcript records at public universities, allowing earnings to be tracked according to schools and majors. At least 30 states have this data lying at their fingertips, Schneider said. He is currently working with several states to put this data online for consumers, with Virginia likely to be the first out of the box. The federal government also wants better data and results, and the Obama administration is pressuring for-profit universities.

In 2011, the administration announced new "gainful employment" regulations requiring career and professionally oriented higher education programs to track data on their graduates' earnings and employment records. The regulations treat all for-profit colleges under this umbrella. Disproportionate results Enrollment at for-profit colleges increased 225 percent from 1998 to 2008, reaching 1.8 million, according to the U.S. Department of Education. While 27 percent of students attending public colleges took out loans, 92 percent at for-profit colleges did. These schools account for nearly half of all federal student loan defaults, even though they enroll only 10 percent of all higher-education students, according to a 2010 report by Sen. Tom Harkin, D-Iowa. For-profit colleges tend to serve non-traditional students ? minorities, parents, low-income students ? and defenders argue that they offer opportunities that are not available to these students at traditional schools. Their career-oriented programs are a flashpoint of controversy, generating sharp disputes.

Urban League President Marc Morial wrote in the Washington Post that the new regulations "would have disastrous consequences for those who are at greatest risk of a life in poverty if they don't obtain a college education." NAACP President Benjamin Jealous said in the Huffington Post. "Students trying to improve their job prospects shouldn't be duped into taking on crushing debt in exchange for the

promise of a future job that will probably never materialize." Critics argue that completion rates at for-profit colleges are poor, loan default rates are high and many students who do complete the programs are burdened with debt out of proportion to their earning power. U.S. Department of Education data show that for-profit colleges invest far less in the classroom per dollar of tuition charged. In 2008-09, public four-year schools spent $1.17 in the classroom for every dollar charged in tuition and fees, while private four-year colleges spent $0.99 and for-profit colleges spent $0.12. Public colleges are heavily subsidized by taxpayers, some of whom debate the investment. Critics question why at-risk students attending for-profit colleges are not in state universities.

The target demographic at for-profit schools, said Mark Kantrowitz, is "low-income students who are the first in their family to go to college. They may be single parents, but even if they are technically dependents, they have little financial or emotional support from parents." These students have been abandoned by traditional colleges, Kantrowitz said. "If traditional schools did more for low-income and at-risk students, you wouldn't have for-profit schools." The value spectrum Lost in the din over the new gainful-employment regulations, wrote Doug Lederman at Inside Higher Ed, was that the Department of Education "has written into federal policy for the first time a direct (if crude) attempt to measure the value of an academic program, by linking a measure of student expenditure (student loan debt burden) with an outcome measure (graduates' average income)." This approach to evaluating post-secondary education should bring into relief a broad spectrum of educational needs and economic gains, experts say.

For privileged students, social skills and family connections may help absorb even high student debt acquired at an elite university, said Fabio Rojas, a sociologist at Indiana University, "but once you go down the spectrum, the risk-benefit calculation gets out of whack." According to Rojas, a working-class kid who wants to be an electrical engineer should not justify a high debt load at a private university since an electrical engineer's pay is not extraordinary and a cheaper state school would likely produce the same results. Rojas believes the value of for-profit schools varies, but he sees some as mainly in the game of processing student aid for profit without providing results. He is speaking of students who actually do complete their programs, but the non-completion challenge is equally controversial.

Of those who entered a four-year bachelor's program in 2002, 57 percent completed their program, according to the Department of Education. Broken down into the three key sectors, 55 percent of students at public universities complete their degrees, as do 65 percent of students at private nonprofit colleges, but the figure is only 22 percent at for-profit colleges. Defenders of for-profit colleges argue that their statistics are poor because they are serving low-income and at-risk students, many of whom are not well prepared. Critics respond that preparation needs to improve at the high school level but that mainstream public and nonprofit universities also need to do more to recruit and support promising at-risk students. The 78 percent who begin four-year programs at for-profit colleges but do not finish are saddled with debt. This is also true of students who complete programs but do not find work in their chosen field, and those who do find work that doesn't pay well enough to justify the debt. "You want a certificate, so you take out loans and go to school," Rojas said. "But are you going to start making enough extra to compensate? The answer is often no, even if they were giving good training. And many aren't."

Finding the right ratio Darrell Sheperd could be Exhibit A for Rojas. After spending 20 years in Arizona and Utah doing construction, Sheperd built a successful construction business with respectable earnings before the 2008 crash. When construction ground to a halt and his income evaporated, Sheperd turned to Stevens Heneger, a local for-profit college, hoping to become a registered nurse to adequately support his family. Instead, he found that after $23,000 of debt and two years of schooling, he could not complete his nursing degree because the school did not offer a nearby program, and he could not transfer his credits to a local state university because Stevens Heneger was not regionally accredited. He is now working as a lab technician, earning $12 an hour. "If I had known (about the accreditation issue), and if I had known that other schools were offering the same program for half the price, I would have arranged my schedule to go to the local state school," Sheperd said. He is now in survival mode trying to support a large family of adopted children, and he has not been keeping current on his loan payments. Stevens Heneger is nationally accredited, but arcane regional accreditation rules prevent credit transfer to local state schools. "Accreditation is a morass and a cartel," said Richard Vedder, an economist at Ohio University. "So often students are caught up in accreditation issues they should never be caught up in." "Investing in education has lifelong benefits for a student because it allows them to earn more over their lifetime than they would have without the education," said Eric Juhlin, the CEO of Stevens Heneger College. "According to salary.com, medical assistants earn an average of roughly $30,000 per year, with 25 percent earning up to $33,000 per year and another 15 percent earning up to $35,000 per year." Sheperd now earns $12 an hour, which puts his annual gross wages at roughly $24,000 per year. His starting salary is, in fact, equivalent to his total amount of student debt, the ratio that financial aid experts view as sustainable. But while that ratio may be sustainable at median income, those below the median use a higher percentage of their income for basic necessities, something the federal government recognizes. Federal loan borrowers are eligible for income-based repayment plans, for which Sheperd likely qualifies. These loans are subsidized by the taxpayer and forgiven after 25 years of very low or even no payments ? heavily subsidizing the already subsidized loans. Leaving Lake Wobegon With taxpayers on the hook, bang for buck becomes a collective concern. "We know that one-third of people overall with college degrees are in jobs that don't require them," said Neal McCluskey at the libertarian **CATO Institute.** According to the Bureau of Labor Statistics, McCluskey said, only three of the fastest growing job categories projected for the next 10 years require a bachelor's degree, and in fact 23 of the 30 require no more than a high school diploma. "We are telling everyone to take out big debt for post-secondary education, while the BLS is saying most new jobs require only on-the-job training," McCluskey said. These jobs pay below the median wage, as half of all jobs do, give or take. "It's like Lake Wobegon," said Mark Schneider, referring to Garrison Keillor's fictional town where "all the women are strong, all the men are good looking and all the children are above average." Schneider said that often dialog on post-secondary education seems to buck against statistics. "I hate to say it, but most people are average," he said. "While our goal should be to get more people post-secondary schooling, we need to think more carefully about results." Schneider's goal is to use data to make that rethinking easier. The data drawn from the new gainful employment reports and Schneider's efforts to tap state college and employment data are early steps in what could become a revolution in post-secondary education. The results could allow parents and students to get into their careers more quickly and with less debt, while allowing more focused preparation and guidance for those most at risk of excess debt and default. To borrow or not? Financial aid can be daunting to many prospective students. Mark Schneider of American Institutes for Research suggests four things to consider before taking on

any student debt. 1. What is my likelihood of graduation? The national average of graduating in a four year program is 57 percent, but success rates vary widely from school to school and based on life circumstances. Six-year graduation rates for four-year programs at for-profit schools is just 22 percent, according to the Department of Education. Before you contract debt, know the odds and ask yourself why you expect to beat them. 2. What am I really going to have to pay for this? There may be huge discrepancies between sticker price and what you really end up paying. Some private schools offer massive financial aid, routinely discounting their sticker price. Others offer very little. Consider cost-of-living as well, and project the totals. Then figure out how much debt you will need to take on to get there. 3. What am I going to earn? Here you have to focus on programs, not just schools. Find out what graduates of the programs and getting what salaries. If you have options, compare program to program. You may find that the more expensive school is not a good value in your field, and the less expensive state school will provide a better return on investment. Or you may consider switching to another field. 4. What is my debt to earnings ratio? Most experts agree that if your first year starting salary equals or exceeds your student debt, you should be able to afford it. As you progress in your career, your salary should climb while the payments stay the same. The caveat on this is at the lower income levels, where a greater share of income goes to basic necessities and where salary climb may not be as steep. A $25,000 salary with $25,000 in debt is harder to handle than $50,000 in debt with a $50,000 starting salary. email: eschulzke@desnews.com