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How Much Student Debt Is Too Much?

By THE EDITORS

(Photo: Nancy Palmieri/Bloomberg News)

With colleges slashing financial aid and family budgets squeezed, freshmen entering college in the fall will probably borrow more this year than last. As it is, the average level of student debt for the Class of 2007 was about $20,000, with borrowers at private colleges owing more than $25,000.

A new federal program, called Income-Based Repayment, which goes into effect July 1, will allow some federal student loan borrowers to reduce their monthly loan payments, depending on income and family size.

How much is too much to carry in student loans? What factors should be weighed? Should a student forgo a top-choice school if it means carrying more debt?

Robert Applebaum, ForgiveStudentLoanDebt.com
James Monks, economist
Alan M. Collinge, StudentLoanJustice.org
Anya Kamenetz, author of "Generation Debt"
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Weigh the Bang for Your Buck

***Robert Applebaum**, a lawyer, is the creator of the Facebook group, Cancel Student Loan Debt to Stimulate the Economy, and the founder and executive director of ForgiveStudentLoanDebt.com.*

For years, parents, teachers and politicians have touted the value of a higher education. From birth, we're practically indoctrinated with the notion that an advanced degree automatically equates with higher earnings. But is it still automatic? Is your financial well being guaranteed simply by virtue of obtaining a college education? Recent evidence suggests that college graduates are no longer receiving the same "bang for the buck."

A generation ago, financing a college education included scholarships, grants and modest amounts of loans. Soaring tuition, combined with fewer grants, however, has left the majority of students today with no choice but to incur huge debt.

So now we have the educated poor, with student loan debt leaving ever more college graduates and young professionals unable to buy a house or start a family or a small business.

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Until higher education becomes a safe investment again, borrowers should give greater thought to the financial cost of seeking an advanced degree.

In 1995, when I decided to borrow the maximum amounts on both the "subsidized" and "unsubsidized" Federal Stafford Loans to attend law school, like so many others, I never even considered that I might wind up in a relatively low paying, but highly fulfilling public sector job. There's little assistance for those who find themselves unable to keep up with their student loan payments for whatever reason.

Student loans cannot be discharged in bankruptcy, there's a financial disincentive for lenders to help keep you out of default, and the financial options that do exist, like forbearance and deferrals, are ultimately so costly that they border on usury. (I didn't really give much consideration to what student loan forbearance was until I availed myself of it, and then watched as the amount I owed ballooned by nearly $20,000 during the time I served the community.)

Until higher education becomes a safe investment again, prospective borrowers should give greater thought to the financial consequences of seeking an advanced degree. Community colleges and state schools are probably better places to "find oneself," than expensive private institutions, particularly if the student doesn't really know what he or she wants to do for a living. Associates degrees and trade schools are other avenues to consider.

None of this is to suggest that a liberal arts education isn't good for the mind and spirit — but whether it's as wise a financial investment as it once was requires serious consideration.

A Good Investment

James Monks *is an associate professor of economics at the Robins School of Business at the University of Richmond. He does research and consulting on the economics of higher education.*

A great deal has been written about the onerous debt levels taken on by some of today's college students. Much of this discussion grossly overstates the true degree of burden that student loans place on most graduates. An overwhelming majority of students have reasonable and manageable levels of student loans. The typical four-year undergraduate student loan package totals approximately $19,000 — no more than a midsized car. An automobile begins depreciating the minute you drive it off the lot, while one's college degree is an investment that will garner you a lifetime of higher earnings.

From strictly an investment standpoint, a college education, even with $20,000 in student loans is a sound investment. The median earnings of a college graduate in the United States is approximately $50,000 per year, while the equivalent for a high school graduate is about $30,000 per year. So having to assume the usual package of student loans will pay for itself in just one year.

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Most students can easily repay their college loans and should not be deterred from borrowing sensibly.

Over the course of a 40-year career this difference in earnings translates into $800,000 (ignoring interest). Clearly, assuming a reasonable level of student loans is well worth the investment.

How difficult will it be to pay back one's student loans? A total of $20,000 in student loans would require a payment of approximately $250 per month for 10 years. Some personal financial planners suggest that student loans should not exceed 10 to 15 percent of one's gross earnings. Under this rule, an annual salary of between $20,000 to $30,000 would be sufficient to pay off the loan without due hardship. This level of income is below the earnings of most college graduates, and a new government program adjusts monthly payments based on one's level of income making repayment even more affordable. (FinAid.org has excellent loan calculators that students can use to input their own information.)

Much has also been said about student loans forcing young people to make career choices that they otherwise would not have made (i.e. pushing them into more lucrative fields like business or law rather than careers in public service or the non-profit sector). But there's little convincing evidence that that is happening.

While some students may have onerously high levels of debt, most have quite manageable levels of borrowing. With a dose of caution and planning students should not be deterred from taking out loans for their college education.

'No' to Student Loans

Alan M. Collinge *is the founder of StudentLoanJustice.org*

The most obvious advice for incoming or prospective students is this: Don't borrow. Based on a 2003 study by the Inspector General of the Department of Education, it is probably conservative to say that about 1 in 3 borrowers wind up in default on their student loans, and the consequences of this are often catastrophic.

Despite the various repayment programs that make student loans seem friendly and generous, make no mistake: most standard consumer protections — including bankruptcy protections, statutes of limitations, refinancing rights and others — have been stripped from student loans, and there is no indication that these will be restored anytime soon.

This has led to a large number of decent citizens being forced to either pay back many multiples of what they originally borrowed, or drop "off the grid" when they cannot pay. In the absence of meaningful Congressional action to address this problem, avoiding student loan debt altogether is clearly the first and best piece of advice for prospective students and their families.

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Don't be overly swayed by a college's claim that it's "the best" in a given field of study.

While this advice is easy to give, it is much harder to follow, especially given that nearly 70 percent of college students leave school with student loans. However, it is worthwhile to keep this as a goal, even if it cannot be completely met. Students should exhaust all non-loan financial aid opportunities to the greatest extent possible. Scholarships, work study, grants and other forms of aid that do not require repayment should be actively pursued.

When considering one's choice of college, cost to the student should be a primary factor. Students should apply to multiple colleges and examine closely the financial packages of each. In many, if not most instances, students should not be overly swayed by a college's claim of being "the best" in a given field of study. Students should look at the school's graduation rates, average length of attendance (i.e. are students likely to graduate in 4 years or 5?), default rates for graduates and any other student data. Most schools have this information available on request.

In general, be very, very wary of new schools with no track record, or any for-profit schools — particularly those that advertise incessantly on television. Culinary schools, photography schools, chiropractic colleges, cosmetology schools, truck driving schools, flight schools and other specialized institutes have notoriously bad track records with those in the StudentLoanJustice community, and these schools can cost in the tens of thousands of dollars, if not far more.

Often these schools are non-accredited, and students applying for loans for them have no choice but to take out high interest, private loans. They have an alarming propensity toward closing, leaving students with the bill, but no degree or an education.

Live at Home, Work More Hours

***Anya Kamenetz**, a staff writer at Fast Company magazine, is the author of "Generation Debt" and blogs at The Huffington Post and elsewhere.* She is writing a book on the future of *higher education.*

A good rule of thumb for student borrowers is that your total graduating debt should be less than the expected starting salary in your likely field. That can range widely, of course, from $36,000 for liberal arts majors to more than $60,000 for engineers. It's also a good idea to stay to the low end of that scale if you plan on pursuing any kind of unpredictable creative field — journalism comes to mind — or if you want to go on to graduate school, which usually requires taking on more debt.

Don't be afraid to take some time off before starting college.

I think it's important for high school graduates to think long-term in this way about the connection between their degree and their eventual job. Lots of 18-year-olds have no idea what they want to do, of course; that's all the more reason to err on the cautious side in terms of debt.

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In fact, for young people who completely lack a sense of direction and, more important, zeal for their higher education, I would urge them to think about take some time off before going to college. Burn off steam, work, travel, volunteer, explore creative interests and tickle your academic fancy by browsing through free course material at sites like M.I.T.'s OpenCourseWare. If you need some time to find yourself, that's great; it doesn't have to cost you and your family thousands of dollars in tuition.

Once you are ready for class, there are several ways to limit borrowing without necessarily giving up your dream school. Plan diligently to finish that degree faster by supplementing your study with summer or online classes. Attend a two-year college at first and then transfer — this is an increasingly popular option. Live at home for a year. Work more hours (although more than 20 hours a week can be hard to balance with full-time learning.)

Most students I know who really let the loans pile up did so without planning it. These days, no one can afford to be without a plan.

What a College Is Really Worth

***Neal P. McCluskey** is the associate director of the Center for Educational Freedom at the Cato Institute.*

There are countless decisions to make, based entirely on what you want, when choosing a college. Is an institution too big or too small? Urban U. or Leafy Tech? The list goes on and on.

There is one crucial factor, however, that is heavily influenced by much more than your personal preferences: the cost. What you'll be willing and able to pay depends very much on what other people –- sometimes voluntarily, often against their will –- will pay for you. And that's the cause of the biggest problems in college selection: Rampant inflation that renders prices nearly worthless in judging any institution's real value.

According to inflation-adjusted College Board data, in the 1990-91 school year the average, full-time-equivalent undergraduate received $2,640 in grant aid and $1,548 in inexpensive federal loans. By 2007-08, the former had risen to $4,656 and the latter to $3,650.

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In light of that, it's no wonder that total, inflation-adjusted charges in that same period rose 63 percent at four-year public schools and 55 percent at four-year private colleges –- people other than the customers were handling ever-bigger chunks of the bill.

So is a college really worth the price? Who knows? You may only be willing to attend after taking into account the aid you'll receive. But then the college will soak someone else, often taxpayers, for the amount that you didn't think worth paying.

Ultimately, how you weigh the innumerable factors in choosing a college is entirely up to you. But the cost? You'd do well to consider how inflated college prices are, and who will be paying much of your bill.