American Association of State Colleges and Universities

POLICY MATTERS

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Student Debt Burden

Context

College student enrollment across the United States has steadily increased over the past decade, with more than 17 million citizens participating in higher education today. The good news is that thousands of newly trained workers are moving our social and economic enterprises forward each year. The bad news is that tens of thousands more students are accumulating record levels of debt. As state and federal support for higher education continues to tighten, students are increasingly picking up the slack. This trend is not slowing down; in fact, student debt has risen significantly over the past decade.

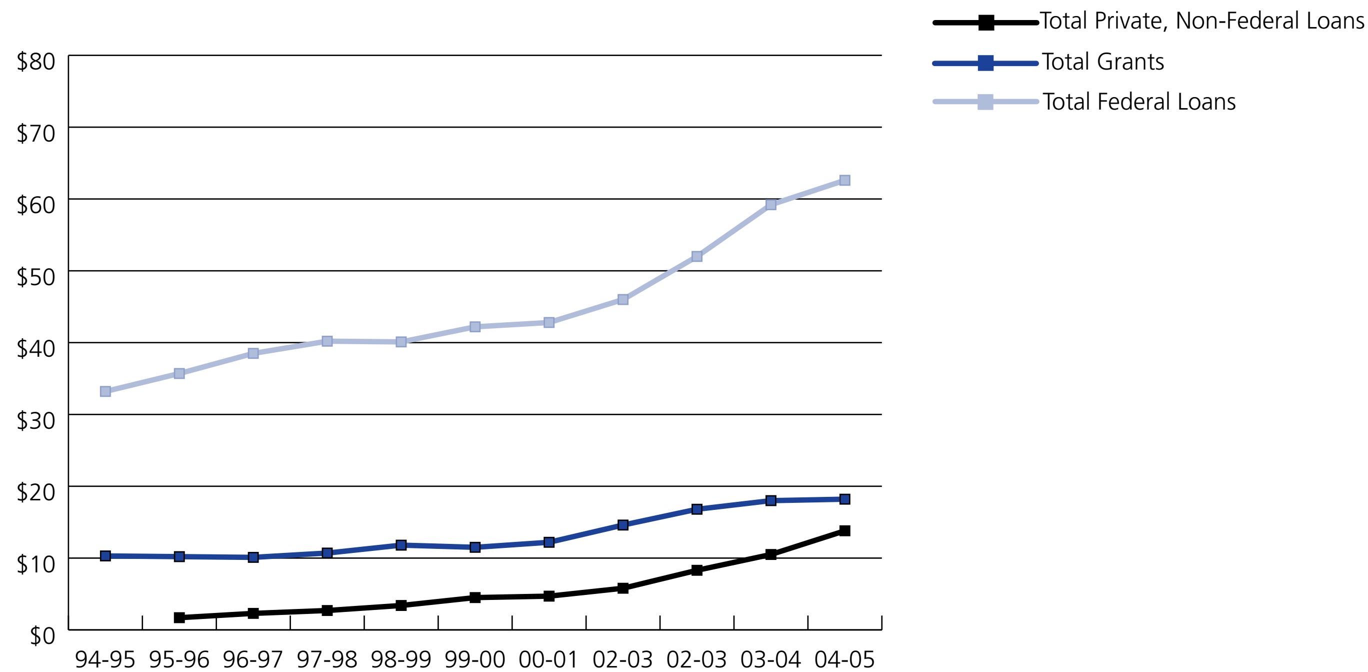
These rising debt levels present important policy implications related to access and affordability. To keep higher education as the primary means of upward mobility and to keep our economy competitive, colleges must remain affordable and accessible to all students. Higher education officials must be aware of the long-term impact borrowing has on students' futures and students need information to help them graduate with manageable debt levels.

Observations

Students are deeper in debt today than ever before. Two out of three college students graduate with debt and the average borrower who graduates from a public college owes $17,250 from student loans. Ten years ago, the average student borrower attending a public college or university graduated owing $8,000 from student loans (adjusted for inflation).

The trend of heavy debt burdens threatens to limit access to higher education, particularly for low-income and first-generation students, who tend to carry the heaviest debt burden. Federal student aid policy has steadily put resources into student loan programs rather than need-based grants (see graph), a trend that straps future generations with high debt burdens. Even students who receive federal grant aid are finding it more difficult to pay for college. In 2004, 88.5 percent of all Pell Grant recipients took out student loans averaging $20,735. Borrowers who were not Pell recipients took out smaller loans, averaging $18,420.

Total Student Aid Doillars



Source: The College Board, *Trends in Student Aid 2005.*

Even as loans have become the primary form of federal student aid, the federal loan programs fail to provide enough aid to all students. Private loans, often carrying higher interest rates and fewer borrower protections, have increased approximately seven-fold over the past ten years. Students are even paying for college on their credit cards, which have significantly higher interest rates than subsidized or unsubsidized federal student loans. A recent survey by the National Association of College and University Business Officers found that credit cards account for 18 percent of tuition payments.

Students' life choices will be impacted by debt burden. Students often see higher education as the primary path to upward mobility, but when they accumulate excessive debt this pathway quickly becomes riddled with pitfalls. Students who graduate with debt may put off life milestones such as buying a car, owning a home, getting married, or entering certain low-paying professions like teaching or social work. The latter subject was investigated in a recent State Public Interest Research Group report about careers in public service and student debt. Their research found that nearly one in four recent public college graduates who entered the teaching field had unmanageable levels of debt.

Social workers fared even worse—37 percent of public college social work graduates entered the field with unmanageable debt. Debt becomes "unmanageable" when student loans and other outstanding debts take up a significant portion of annual personal income. Students who earn incomes lower than the national average, yet have above-average levels of student debt, are likely to carry unmanageable debt. In the next ten years the country will need two million new teachers, but high student debt levels and low earning potential could discourage students from pursuing teaching or other public service careers.

Students are not only taking out more loans today than ever before, they are also living with record levels of unmanageable debt. Although the average borrower graduating from a public college owes $17,250 in debt, one in four finishes school owing at least $22,822.

Particularly worrisome is that the number of college graduates with at least $40,000 in student loan debt has increased 10–fold in the past decade. These numbers pose long-term threats to recent college graduates' lifelong decisions, but the financial future of borrowers who do not earn a degree is bleaker.

It is not uncommon for students, especially low-income students, to drop out of college only after accumulating thousands of dollars in student loan debt. Nearly one in five students who do not graduate from college leave with $20,000 in student loan debt. Borrowers who drop out earn lower incomes and face a high risk of accumulating unmanageable debt that is likely to result in forbearance, default, or even bankruptcy. When students face these financial hardships, they are more likely to require state services such as Medicaid if they are uninsured and unemployment benefits if they are out of work. The long-term impacts of debt not only affect individual borrowers' futures; taxpayers may find themselves providing additional resources to those who cannot keep up with their debt repayments. Living with unmanageable debt presents graduates with genuine fears about entering college, completing college, pursuing post-baccalaureate degrees, and choice of career. Living with unmanageable debt presents even greater fears to those who drop out of college.

Some states and colleges are proactively combating student debt. The implications of excessive student debt go beyond personal financial well being; rising debt levels have a direct impact on states and colleges. Many states face shortages of teachers, social workers, and other public services employees, so they must come up with creative solutions to attract more students into these fields. College graduates are aware that they need to find a high-paying career to afford their high monthly student loan repayments. Maryland and Florida, like many other states, offer loan forgiveness to students who stay in-state to teach science or math, or practice social work. While this helps alleviate the debt burden for some students, debt remains pervasive and this is only one measure that helps a small number of borrowers. A number of other states are approaching this through efforts to reduce time-to-degree and aligning transfer agreements between two-year and four-year institutions.

Colleges and universities recognize that students need more help paying for college, but they should continue to find ways to help students avoid debt. Campus administrators favor plans to increase the amount of federal and state need-based aid to address student debt. Students still are accumulating massive levels of debt, so colleges and universities must support efforts that help students understand the long-term implications of excessive borrowing. The University of Arizona has taken a proactive approach by designing a program that teaches students about the costs and benefits of taking out student loans and the long-term impact borrowing has on life decisions. States and their higher education institutions need to continue developing creative ways to help borrowers succeed during and after college to avoid the pitfalls associated with the record levels of debt students accumulate today.

Conclusion

More students are enrolling in colleges today than ever before, which means there are more students borrowing to pay for college. As college becomes more expensive and interest rates on student loans increase, college graduates find themselves strapped with high debt burdens that impact other life decisions. Higher education policymakers must be aware that this issue has serious implications for college access, affordability, and success, as well as workforce and other social outcomes. Low-income students face significant challenges in terms of accumulating unmanageable debt. Policies must take these students into account so that higher education remains an opportunity for all students, regardless of socioeconomic condition.

Minimizing the risks and adverse consequences of student loan borrowing is a shared responsibility. Lenders and the federal government must do a better job at providing clear, unambiguous, information about these risks so that borrowers can manage their loans accordingly and avoid defaulting. The federal government also needs to carefully examine borrowers terms and conditions to sufficiently protect all borrowers, particularly those from low-income families. States and institutions can do their part by awarding more need-based aid and helping students plan ways to manage their debt. Students and families must make "loan literacy" a priority, weighing their borrowing options carefully. The social and economic impacts of limiting college opportunity to those who can afford it will only hurt us all in the long run. Students who want to pursue public service careers should not be dissuaded by debt burden. The national economy depends on high skilled workers and when debt interferes leaders must step up and make a difference. Student debt relief is a critical piece of affordability to make college accessible for all students.

Resources

The Project on Student Debt. The Project works to increase public understanding of borrowing as a primary way to pay for higher education. *High Hopes, Big Debts* is a report that found a sharp increase in the number of borrowers facing high debt levels. **projectonstudentdebt.org**

U.S. Department of Education. *Digest of Education Statistics* is one of National Center for Education Statistics' primary resources for data on financial aid, enrollment trends, and student demographics. **nces.ed.gov**

The College Board. *Trends in Student Aid* presents annual data on the amount of financial assistance distributed to students to help them pay for college education. **collegeboard.com**

National Association of College and University Business Officers. *Paying with Plastic* is a survey of nearly 500 colleges in all 50 states that discusses trends in students using credit cards to pay for tuition and fees. **nacubo.org**

U.S. Senate. *The College Cost Crunch* is a report prepared by Senate staff members in 2006 that analyzes rising tuition and student debt levels in all 50 states. **democrats.senate.gov**

State Public Interest Research Goups (PIRG). State PIRG's Higher Education Project report *Paying Back, Not Giving Back* highlights the prospects that debt likely deters skilled workers from entering and staying in teaching and social service careers. **pirg.org**

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