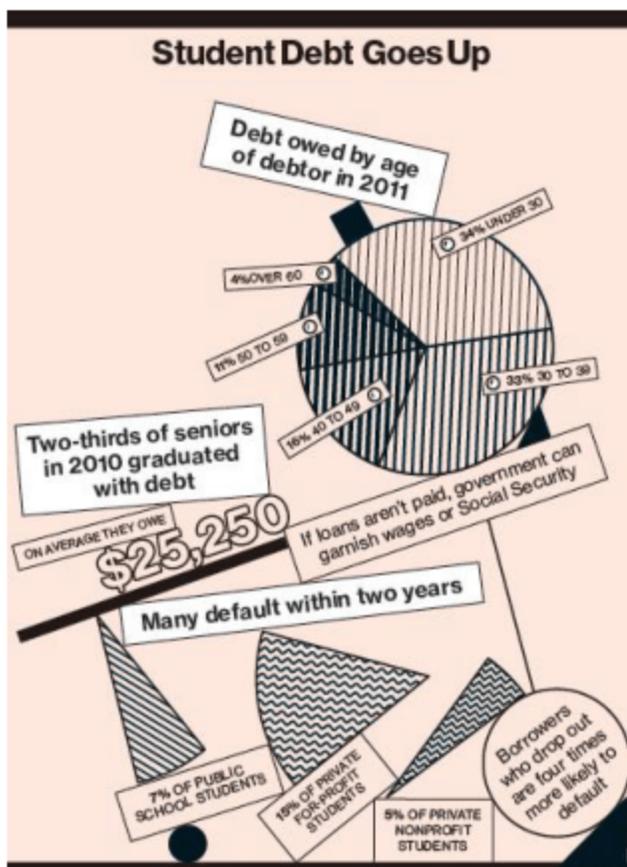


Student Loans: Debt for Life

By Peter Coy

This much we know: College pays. You can lose your house to foreclosure, but never your education. Four-year college graduates' pay advantage over high school grads has doubled over the past 30 years. If money for tuition is tight, the advice goes, borrow what you need. Students have been listening. In 2010 student debt exceeded credit-card debt for the first time. In 2011 it surpassed auto loans. In March, the Consumer Financial Protection Bureau announced that student debt had passed \$1 trillion. It grew by \$300 billion from the third quarter of 2008 even as other forms of debt shrank by \$1.6 trillion, according to a separate tabulation by the Federal Reserve Bank of New York. In a press briefing at the White House in April, Education Secretary Arne Duncan said, "Obviously if you have no debt that's maybe the best situation, but this is not bad debt to have. In fact, it's very good debt to have."



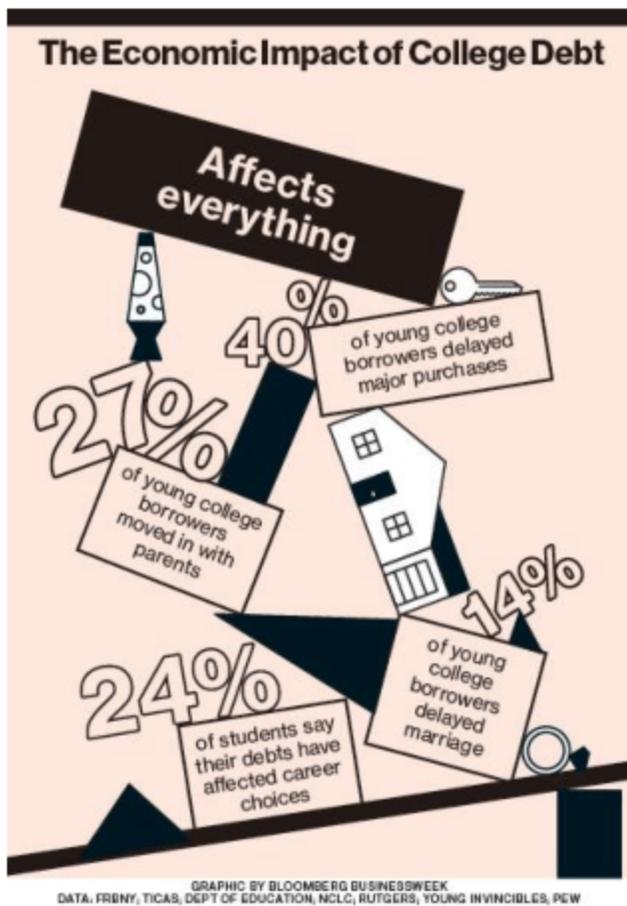
GRAPHIC BY BLOOMBERG BUSINESSWEEK
DATA: FRBNY; TICAS; DEPT OF EDUCATION; NCLC; RUTGERS; YOUNG INVINCIBLES; FEW

If student loans are good debt, how do you account for the reaction of Christina Mills, 30, of Minneapolis, when she found out her payment on college and law school loans would be \$1,400 a month? "I just went into the car and started sobbing," says Mills, who works for a nonprofit. "It was more than my paycheck at the time." Medical student Thomas Smith, 25, of Hamilton, N.Y., is \$310,000 in debt and is struggling to make ends meet even before beginning to repay his loans. "I don't even know what I eat," he says. "I just go to the supermarket and buy the cheapest thing I can and buy as much of it as I can." Then there's Michael DiPietro, 25, of Brooklyn, who accumulated about \$100,000 in debt while getting a bachelor's degree in fashion, sculpture, and performance, and spent the next two years waiting tables. He has since landed a fundraising job in the arts but still has no idea how he will pay back all that money. "I've come to the conclusion that it's an obsolete idea that a college education is like your golden ticket,"

DiPietro says. "It's an idea that an older generation holds on to."

Even if you buy into the notion that education debt is good debt, at what point does it become too much of a good thing? Mark Kantrowitz, publisher of FinAid.org, which researches financial aid, estimates that student debt, compounded by rising enrollments, is growing by nearly \$3,000 a second.

“The question isn’t the debt per se. It’s what the students are getting in return,” says Richard Arum, a New York University sociologist who specializes in education. Many students are incurring heavy debts for an education (ethnomusicology, theater arts) that just isn’t worth it from a strictly financial viewpoint. (Money isn’t everything, but try telling that to the collection agency.) Education benefits society by creating a workforce that creates wealth, pays taxes, and stays off welfare. But state governments—whose schools educate 7 in 10 students—have raised tuition abruptly because of their own financial problems. So far the federal government has offset the state cutbacks by boosting financial aid, but Education Under Secretary Martha Kanter testified to Congress earlier this year that “this path is not fiscally sustainable.”



There’s a lot of speculation that college debt is the next bubble after housing, the latest sector in which prices leap above real value. American colleges may not be turning out the kind of graduates that employers want. In *Academically Adrift: Limited Learning on College Campuses*, NYU’s Arum and sociologist Josipa Roksa of the University of Virginia write that employers are being forced to turn to foreigners or graduate and professional schools to fill jobs that they once filled with homegrown college graduates.

That’s the value side. The cost side is ugly, too. The economic slump that began in 2007 has forced people to pay more for college even as it has driven more of them into it as a refuge from an unfriendly job market. The National Center for Education Statistics projects that college attendance this fall will be up 19 percent from the fall of 2007. Meanwhile, state and local support for higher education last year was the lowest in 25 years of measurement, in inflation-adjusted dollars per student, according to the

State Higher Education Executive Officers Association. Two-thirds of college seniors graduated with loans in 2010, and those who did had an average of about \$25,000, according to the Institute for College Access & Success.

Photograph by Charlie Engman; Data: Sallie MaeZain Alam, 21: A senior at Wesleyan University, Alam works 10 to 25 hours a week to limit his loans, which he still expects could reach \$23,000 by the time he

graduates. “It becomes really apparent how absurd the price tag is when you go abroad and everyone’s jaw drops,” he says. “Of course, most of them say █████ do absolutely anything to get an education in America—but at what price?”



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clear how much is from their own studies and how much because they co-signed on their children’s loans, but whatever the case it’s no way to head into retirement.

There are solutions, but each is bound to be resisted by at least some powerful constituency—students, professors, administrators, lenders, or governments.

One huge step would be to allow bankruptcy judges to wipe out education debt, as they could until Congress began to tighten restrictions in 1976. Under today’s punitive statute, judges can discharge student loans only in cases of undue hardship, which in many jurisdictions requires proof of “certainty of hopelessness.” (Congratulations, pal, you’re hopeless!) “The law is much too harsh,” says U.S. Bankruptcy Judge A. Jay Cristol in Miami.

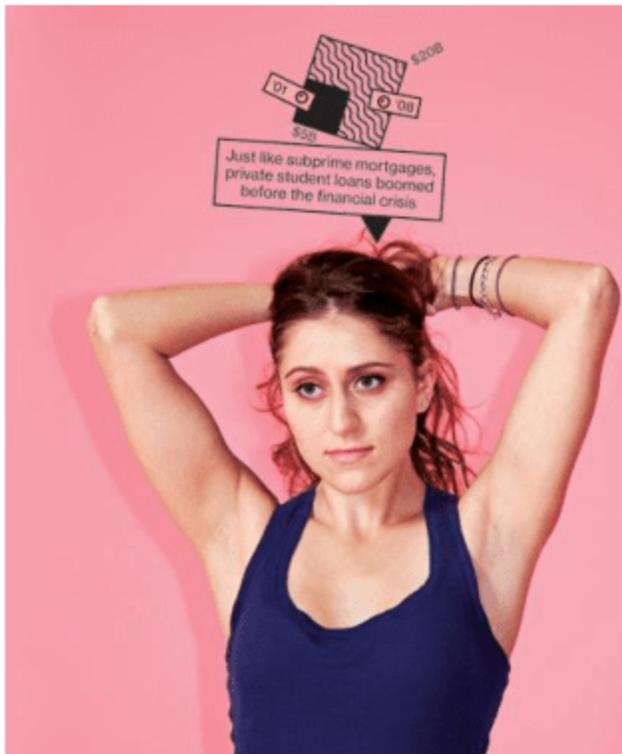
Current law gives lenders no incentive to come to terms with over-indebted borrowers. The National Consumer Law Center, in a July report, said “pursuing the most vulnerable borrowers until they die” is inefficient and imposes “significant costs to taxpayers.” To help debtors avoid defaulting in the first place, the center advocates placing them automatically in repayment plans that make the payment a

The poor, who need the boost that a college education can provide, are suffering the most. Strapped colleges know that they can bring in more revenue from one student paying close to the full load than from a dozen low-income students. So some are bribing rich kids to attend with \$10,000 a year they don’t need—grant money that otherwise might have gone to the truly needy. That’s just one of the reasons the lowest-income students are more than three times as likely as the highest-income students to be studying for a certificate or an associate’s degree rather than a four-year degree, according to an analysis of data compiled by FinAid’s Kantrowitz. That leads to lower-paying jobs. Equal opportunity in higher education remains more an ideal than a reality.

Ten years is considered a reasonable period to repay one’s student loans, but many students take 20 or 25 years under extended repayment plans. The New York Fed found that people over 60 years old are responsible for \$36 billion in student loans. It’s not

percentage of the borrower's income rather than a certain dollar amount. Under this "income-based repayment," which the Obama administration has pushed, any outstanding debt is forgiven after 20 or 25 years.

Photograph by Charlie Engman; Data: CFPB Jianna Lieberman, 21: A senior majoring in graphic design, Lieberman expects to owe \$72,263 when she graduates from the Maryland Institute College of Art in May. She works part time, and the debt is shaping her plans after graduation. "I can't imagine settling down, traveling, pretty much anything but working until I get rid of this burden."



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Colleges should suffer more pain when federal loans go bad, argues Alex Pollock, a resident fellow at the American Enterprise Institute. That would make them more careful about raising prices and encouraging students to take out government loans.

Better disclosure would help, too. Some financial aid offer letters don't even clearly identify loan components of aid packages as debt. Others abbreviate "loan" as L or LN. "Sometimes they have the excuse that they're limited in the number of characters," Kantrowitz says, "but they created the form." The Education Department is developing a form that colleges can use to give prospective students standardized information about how much they will owe upon graduation, what the school's loan-default and graduation rates are, and so on. In May, Senator Al Franken (D-Minn.) introduced a bill to make a standard form mandatory. The National Association of Student Financial Aid Administrators is opposed.

School-provided financial aid, far from being charity, is a tool for legal price discrimination—i.e., charging different customers different amounts right up to the limit of their willingness or ability to pay. Most schools dole out grants based on how much they need to discount the sticker price to lure a given student to attend. Financial aid allows them to collect more revenue than if they had to charge every student the same amount. If oranges were sold the same way, a bag of them might cost one family \$40 and another \$5.

Some of the nation's wealthiest universities—and some smaller schools such as North Carolina's Davidson College—have eased the burden on students by replacing all loans with grants in financial-aid packages. That's noble, but not a realistic solution for all of higher education. "Most colleges are not awash in money. It would be very difficult to dial back the competitive game" of doling out aid to

maximize revenue, says Douglas White, a business consultant and higher-education expert in Richmond, Va.

Republican presidential nominee Mitt Romney says President Barack Obama encourages students to take on more debt, “sending them the bill tomorrow.” But Romney is still living down advice he gave to college students in April, telling them to “borrow from your parents” if they need money for school or to start a business. (Parents’ contributions are already figured into financial-aid packages.) Romney also favors reversing a 2010 decision under which the Education Department has tried to save \$60 billion over 10 years by making all new federal loans directly, eliminating middlemen.

Photograph by Charlie Engman; Data: FRBNY Rakhi Agrawal, 19: Agrawal, a junior at Barnard College, studies philosophy and is also pre-med. Outside scholarships and grants from her school covered most of the costs for her first two years, but she just took on \$9,940 in loans. “If I had to pay full price at my university for the next two years, I’d be almost \$225,000 in debt—that’s a quarter of a million dollars that I might never have.”



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The most straightforward way to deal with the student debt problem is to bring down the unreasonably high cost of higher education, which forces students to go into debt in the first place. “We can’t just keep shoveling money into a system that consumes resources at an ever-faster clip,” Kevin Carey, then policy director of a nonprofit called Education Sector, told the Senate Committee on Health, Education, Labor and Pensions last winter. Carey, who now directs education policy at the New America Foundation, told the senators about cost-saving initiatives such as those at Virginia Tech, where students learn intro math courses in computer labs rather than watching professors at chalkboards, and the University of Minnesota’s new Rochester campus, whose classrooms and labs are in the former food court and movie theater of a mall. The Minnesota school collaborates with IBM (IBM) and the Mayo Clinic for advanced courses such as computational biology.

Removing the campus altogether is even cheaper. Online operations such as EdX, Coursera, Khan

Academy, and Udacity, among others, offer high-quality instruction at no cost to the student—but don’t yet award degrees. Accrediting agencies, dominated by incumbent schools, are skeptical. A survey

published in June by Babson Survey Research Group and Inside Higher Ed found that 58 percent of professors surveyed have “more fear than excitement” about online learning.

Someday, low-cost online education that requires zero student borrowing may displace a big chunk of today’s entrenched establishment. The fact that it hasn’t yet says a lot about the durability of colleges and universities, several of which predate the country’s founding. Rather than places of learning, colleges have become expensive screening mechanisms. It’s not what you learn in four years at Harvard University that impresses potential employers; it’s the fact that you got into Harvard in the first place.

So maybe the real problem is that credentialism has trumped learning. That drives people to get degrees simply to displace others who don’t have degrees, says Richard Vedder, who directs the Center for College Affordability and Productivity. He notes that the U.S. has more than 100,000 janitors with college degrees and 16,000 degree-holding parking lot attendants.

Political scientist Charles Murray would get rid of the bachelor’s degree altogether. In an Intelligence Squared U.S. debate last October in Chicago, he said education is or at least ought to be a lifelong process for everyone, diploma holders or not. “We are all engaged in the same process,” Murray argued. “We are not divided into professionals and service workers or blue-collar workers. We all start out as apprentices. We become journeymen, and we all strive to become master craftsmen.”



Jean Pierre Salendres, 20: Salendres, a junior at Columbia University, hopes the \$40,000 he calculates he’ll owe by graduation won’t limit his career choices. He wants to pursue a graduate degree to go into international diplomacy. “My question becomes, is studying in a liberal arts college a bad choice? Maybe something more practical lands you a job.”

To tell the truth, though, many students are not exactly striving, if Arum and Roksa’s Academically Adrift is correct. Five-year colleges would be a better label for schools, since that’s the average amount of time it’s taking students to get through them. Financial aid is part of the problem: Students equipped with big loan packages can play schools against one another—and what students seem to want is good grades for light work, according to Arum’s research. To combat grade inflation, which has made college transcripts virtually useless to potential employers, Arum recommends that transcripts include the average grade given in a class next to the student’s letter grade. That would be like grading on a curve without having to grade on a curve. Students will presumably study harder, he says, if they know that their grades contain real information for employers and grad schools.

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As for paying it all back, it would be going too far to direct students away from, say, ethnomusicology just because it's less lucrative than nursing or petroleum engineering. Princeton University economist Cecilia Rouse points out that the liberal arts provide benefits to society beyond those that loan officers pay attention to. It's hard, though, to argue against a standard disclosure form that would tell students about the debt load, unemployment rate, and average first-year income for graduates of the school and the major they're thinking of committing their lives to.

It may be a while before it's all solved. In 1939, the New Yorker published a short story called "Ah, the University!" about a well-to-do man who orders his only son to become a professional poker player because he doesn't want to pay for him to go to college. "Certainly nothing in the world is more delightful than being at the university," the father says. "The springtime of life! Pleasure after pleasure! ... However, ■ not going to send you there." Perhaps the gentleman was just ahead of his time.
