San Antonio Area Foundation
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THE STUDENT LOAN DEBT BURDEN

A college education is an important investment, but it is increasingly accompanied with student debt burden. Today, almost 40 million Americans hold education debt. The outstanding student loan debt in the U.S. is approaching $1 trillion dollars – surpassing the total credit card and auto loan debt and second only to home mortgages. Moreover, according to national and statewide data from the Student Debt and the Class of 2012:

- 71% of college seniors who graduated last year had student loan debt, and the average amount of student loan debt was $29,400 per borrower.
- The number of borrowers and the average student loan debt balance per borrower increased 70% from 2004 to 2012.
- 56% of students in Texas who graduated in 2012 held loan debt, and the average amount was $24,030 per student.

FACTORS CONTRIBUTING TO THE INCREASE IN STUDENT LOAN DEBT

Multiple factors contribute to the rise in student loan debt. The shift in federal student aid from grants to loans, the rising costs of postsecondary education and a difficult economy that has limited family savings for education are among these factors. At the same time, more students are enrolling in college, taking longer to graduate and using student loans to finance their education.

While two-thirds of the student loan debt is held by borrowers under 40, older borrowers make-up the fastest growing age group holding education debt. Since 2005, the number of Americans with student loans in their 50s has doubled to 4.6 million, and the number of borrowers in their 60s and up has tripled to 2.2 million.

Loans from private lending institutions contribute to the rise in student loan debt, as well. Nationally, about 20% of the debt held by graduates is from private lenders. These loans have higher, often variable, interest rates and fewer consumer credit protection options than federal loans. Students often take out higher-interest, private loans before borrowing the maximum allowable in federal student loans.

Lastly, students attending two and four-year for-profit institutions (proprietary schools operated by private, profit-seeking businesses) are more likely to borrow, to borrow heavily and to borrow from private lenders. These institutions enrolled only 9% of all college students, yet for-profit institutions contributed to a substantial amount of the overall increase in borrowing from 2001 to 2009. Moreover, students are more likely to drop out from these institutions than those attending nonprofit colleges and universities, making it difficult for these borrowers to repay loans. Only 22% earn degrees within six years. By comparison, the six-year graduation rate at public and private nonprofit institutions is two to three times higher.

IMPACT OF STUDENT LOAN DEBT

Graduates with significant student loan debt find it difficult to raise a family, establish an emergency fund or save for the future. Moreover, student debt limits buying power. Faced with student debt and weak labor markets, young borrowers may be reluctant to purchase cars and other big-ticket items. Lenders, at the same time, have tightened access to credit as a result of the recession. Borrowers with substantial student debt may not qualify for home mortgages under these more restrictive underwriting standards.

Likewise, borrowers with significant debt may be postponing major life decisions that require a financial investment. One study found that almost 30% of young Americans delayed getting married and another 43% delayed having children as a result of student loans. In some cases, student debt dictates career choice. Borrowers may be drawn to higher-paying jobs in the private sector rather than employment in the public service and education fields.

Even those without student loan debt feel the effects created by young borrowers' career and life choices. Traditionally, skilled, educated young workers have created an influx of consumers for the housing and auto industry. Young borrowers with student debt loans have retreated from these purchases, which may have broader implications for the ongoing recovery of the auto and housing markets and U.S. consumer spending in general. In the same way, the public depends on qualified employees to keep our government running and to teach our children. When bright young minds choose higher paying jobs over public sector employment to meet student loan payments, the public loses out.

Student Loan Default and Delinquency

Most borrowers make a good faith effort to repay student loans. For some, payments become unmanageable, and they may stop paying altogether. About 6.8 million federal student loan borrowers, holding $85 billion in debt, are now in default. Those finding it most difficult to repay students loans, include:

- Recent college graduates facing a weak labor market who are unemployed or underemployed. For those who find jobs, student debt at graduation has increased significantly, while salaries for graduates have not kept pace.
- Students who leave college without a credential to enhance their career prospects are more likely to be unemployed or to be employed in lower-paying jobs. They are four times more likely to default on student loans than those who graduate.
- Students who attend for-profit institutions. Almost 20% of students who attend for-profit institutions default within three years of beginning repayment – a rate almost twice that of students attending public or private nonprofit institutions.

Borrowers who default on student loans face serious consequences. The unpaid balance and interest become due immediately, and the loan may be reported to credit bureaus. Borrowers become ineligible for repayment options and additional student aid. Interest and penalties increase the balance of the debt. Tax refunds and wages, including social security payments, moreover, may be garnished to reclaim student loans. Unlike other loans or credit card debt, student loans are not dischargeable in bankruptcy. Student debt follows a borrower for a lifetime.

Much of the debate around student loan repayment overlooks the substantial numbers of students who are delinquent (60 to 90 days in arrears) but who do not default. Yet, for every borrower who defaults, at least two become delinquent. Even delinquent borrowers can have their credit reports tarnished for up to seven years.

To help borrowers avoid default or delinquency, the federal government offers nine loan repayment options, including two loan forgiveness programs. Unfortunately, borrowers are not taking full advantage of these options. Many are unaware they exist. Others find the range of options confusing or find it difficult to navigate complex enrollment processes. While borrowers receive counseling about payment obligations and repayment options while still in college, the information may not be timely or well-understood. Community-based agencies provide online tools, publications and even on-site help, but the type and extent of these resources varies widely. Traditionally, loan servicers offer guidance to borrowers only after a problem arises.

Programs Working to Address Student Loan Debt Challenges

The Consumer Financial Protection Bureau and the Department of Education (DOE) created a "Financial Aid Shopping Sheet" to increase transparency and enable students to make informed decisions about affordability and financial aid. Almost 2000 colleges and universities have agreed to use the tool. http://www.consumerfinance.gov/students/knowbeforeyouowe/.

The DOE's Financial Aid Toolkit has information and outreach tools to help colleges and universities educate families about financial aid -- http://financialaidtoolkit.ed.gov/tk/training.jsp. The Repayment Estimator compares monthly payment options under the available repayment plans, and a College Scorecard allows students to search for college affordability information -- http://collegecost.ed.gov/catc/.

RECOMMENDATIONS FOR BORROWERS AND POLICYMAKERS

Experts recommend that parents and students start the education planning process early. By 6th or 7th grade, parents should talk to their child about college, start a savings plan and learn about the admissions process. When students begin to seek financial aid, they should apply for grants and scholarships before taking out loans.

Many students will still need education loans to pay for college expenses. Parents and students should be informed borrowers. The following recommendations can help:

- Conduct research - Identify colleges that fit within the budget. Study starting salaries in the student's chosen field to determine how much they can afford to repay after graduation
- Understand loan responsibilities – Know the loan terms, monthly payment amounts and implications of delinquency or default. Keep copies of loan documents and maintain contact with the loan servicer.
- Borrow wisely – Borrow only what is needed. Know the difference between federal and private loans and exhaust federal student loan dollars before turning to private loans.

Finally, addressing the student loan debt burden is the collective responsibility of the public and private sectors, lenders and higher education institutions. These groups should work together to control higher education costs, increase funding for grants, support college savings plans, keep loan interest rates low, create repayment options for private loans and commit resources for scholarships. These may be long term solutions. Some groups propose a shorter-term policy solution – the creation of a proactive debt management program to offer timely, neutral advice to help borrowers make sound decisions at the onset and throughout the life of the loan.

ADDITIONAL RESOURCES

American Student Assistance - http://www.asa.org/

Consumer Financial Protection Bureau - http://www.consumerfinance.gov/

The Institute for College Access and Success - http://www.ticas.org/

U.S. Department of Education College Affordability and Transparency Center - http://collegecost.ed.gov/catc/

ADDITIONAL READING

"Take Control of Your Future: Guide to Managing Your Student Debt" - http://www.equaljusticeworks.org/ed-debt/ebook.

"Top 10 Student Loan Tips for Recent Graduates" - http://projectonstudentdebt.org/recent_grads.vp.html

"Student Debt and the Class of 2012" - http://projectonstudentdebt.org/files/pub/classof2012.pdf.

LOCAL AGENCIES PROVIDING SCHOLARSHIPS AND/OR STUDENT LOAN EDUCATION PROGRAMS

Café College – www.cafecollege.org

Consumer Credit Counseling Service of Greater San Antonio - http://www.cccssa.org/

San Antonio Area Foundation – http://www.saafdn.org/

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