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Making College Aspirations Affordable

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I Owe U

By Kristina Dell

Like many of the protesters at Occupy Wall Street in New York City, Amanda Vodola is young, underemployed and loaded with student debt. She spends her days running around, helping organize the movement, and her evenings bussing tables at a dine-in movie theater in Brooklyn. Last spring, Vodola, 22, graduated from Fordham University with a degree in English. "I grew up with this narrative that to get a good job I need to go to school," she says. But the job she has "is not enough to pay the bills." And the bills she's dreading most are the ones tied to that narrative: the $30,000 she owes in college loans.

In November, when their six-month grace period runs out, Vodola and millions of other students who graduated in May have to start repaying their loans. Repayment requirements for private loans kick in regardless of whether borrowers have found jobs. Since employment rates for recent college grads have plummeted in the past two years, as have starting salaries, the possibility of a sharp rise in student-loan delinquencies has led some analysts to predict that this could be the next subprime-mortgage crisis, rippling into the wider economy. Total U.S. student-loan debt, which exceeded credit-card debt for the first time last year, is on track to hit $1 trillion this year.

The members of the class of 2011 have a frightening footnote on their diplomas: Most Indebted Class Ever--and this year's seniors are on track to surpass them. Average student-loan debt for new graduates has reached $27,300, according to Mark Kantrowitz, publisher of FinAid.org and FastWeb.com sites that help students plan and pay for college. Add the loans parents took out for their children's education, which students frequently pay back themselves, and the number rises to $34,400. That's a nearly 8% increase over last year and a 36% hike (adjusted for inflation) from 10 years ago. And with student loans, unlike real estate or business debts, you can't walk away through bankruptcy as General Motors did.

But neither these statistics nor the voices of students, crushed by debt, at protests in cities and on campuses throughout the nation are likely to keep the families of high school seniors from seeing a brand-name education as a ticket to a better life. They've long been told that higher education, much like buying a house, is an investment in the future--even as the cost of college has soared 538% over the past 30 years. That's more than four times the growth of consumer prices and almost twice the increase in health care costs. Meanwhile, says Lawrence Mishel, president of the nonpartisan Economic Policy Institute, "the wages of those with a college degree have been roughly flat for 10 years, and it's not really improving relative to those with less education." In other words, all those tuition hikes aren't necessarily leading graduates to better paychecks. That letdown, coupled with rising debt loads, could stunt economic growth in the long term if today's grads end up being too poor to start a business or buy a house or send their own children to university.

What's Your Major?

Two years ago, president Obama challenged Americans to increase the number of college graduates from 40% of young working adults (ages 25 to 34) to 60% by 2020, which would be the highest proportion in the world. The goal is to help the U.S. compete globally. The problem is that the country doesn't have jobs for all its recent college grads--many of whom are now back home living with Mom and Dad--let alone the additional 5.5 million bachelor's-degree holders that Obama's plan calls for. There's also the problem of what those graduates studied. The U.S. isn't producing enough science and math majors, so high-paying positions in related fields are going either unfilled or to foreign applicants. A liberal-arts education, the pride of the American undergraduate system, increasingly looks like a road to financial distress.

Although the U.S. Bureau of Labor Statistics doesn't parse its data by graduating class, it does show that the unemployment rate for 16-to-24-year-olds with a B.A. or higher who are no longer enrolled in school was a whopping 13.2% in July--the highest to date for this cohort and almost double the rate from five years ago, before the Great Recession hit.

A faster growing economy could absorb more of those graduates, but the fear is that too many students are spending too much on degrees that may never generate the expected return on investment. A Harvard diploma is still going to open doors. But what about a degree from a less well endowed school, like Bates or Sarah Lawrence, that doesn't offer the generous grants the elite ones do? "These colleges are expensive," Kantrowitz says, "and that's where you hear kids going $100,000 in debt to graduate with religious-studies or theater majors."

Some students' debt burdens are so big, you wonder what bank would approve the loans or what parent would be willing to cosign them. Lyndsey P. (who did not want Time to include her full name) amassed an astounding $169,934 in debt while studying documentary filmmaking at New York University. Like many teenagers, she was so excited about getting into a top-tier school that the cost didn't keep her from enrolling. "You can't imagine the emotional darkness that descended when I started to understand the full extent of the debt situation I was going to be in," says Lyndsey, who graduated from NYU with honors in 2007.

To keep up with her $1,269 monthly payments, she spent the past two years working 9 a.m. to 5 p.m. as a lab technician and then rushing home to do phone support for a software company from 7 p.m. to 10:30 p.m. She got so burned out from the long hours that she quit the lab job this fall and doesn't know how she's going to fulfill the loan terms, which require her over the next 26 years to pay a total of $350,000, including accrued interest. "It feels absolutely hopeless. I don't know what I will do in the future if I want to get married or have kids," she says. "It's a huge burden to bring to a relationship. I am basically coming with a house on my back that we can't live in."

It's these costs, both personal and societal, that worry economists. More than two-thirds of all college students borrow to pay for school, and 10% to 20% borrow excessively, which is defined as having monthly loan payments that exceed 10% of a person's gross income. According to a study published in March by the Institute for Higher Education Policy, 41% of borrowers who began repayment in 2005 became delinquent or defaulted within five years. Repayments--and the often severe penalties that accumulate if borrowers fall behind--kick in regardless of whether students leave school with a degree, which points to another big problem: the connection between college dropouts and crippling debt. Barely half the students who start college get a degree within six years, and graduation rates at less selective colleges often hover at 25% or less.

More Toxic than Mortgages

It's nearly impossible to discharge federal or private student-loan debt in bankruptcy, unless you meet the incredibly harsh "undue hardship" standard. In 2008, for example, only 0.04% of student-loan recipients who filed for bankruptcy succeeded in getting their college loans dismissed. Meanwhile, the government can garnish up to 15% of your take-home pay, dock your disability benefits and even deny you a security clearance, all in the name of student-loan payback. Defaulting will torpedo your credit rating to the point where for years to come you'll have a tough time getting a credit card, let alone a car or home loan. "Student debt is more toxic than mortgages," says Mark C. Taylor, a religion professor at Columbia University and the author of the higher-education critique Crisis on Campus, "because you can't walk away from it."

Given the dire consequences of defaulting, the government recently created an income-based repayment plan for federal-student-loan borrowers whose debt at graduation exceeds their starting salary. Monthly payments will be lower than they would be under the standard 10-year repayment plan, and although users may end up paying more interest over the life of their loans, anything still owed after 25 years will be written off. Another new program forgives federal loans for borrowers who spend 10 years working full time in public service.

But these options apply only to federal loans. To try to help people like Lyndsey who took out massive private loans, Fordham law-school grad Robert Applebaum started ForgiveStudentLoanDebt.com which champions erasing student debt to stimulate the economy. (This is not an unheard-of strategy even on a national scale. Bono has been promoting the same idea for sub-Saharan African countries for years.) Applebaum has already secured the more than 25,000 signatures needed to deliver his petition to the President through the White House's We the People program. He has also amassed many followers on Facebook and at least one fan in the House of Representatives. This summer Michigan Democrat Hansen Clarke introduced a bill that includes a provision about forgiving student loans.

Getting the latter provision passed is a long shot, which helps explain why many higher-education advocates are encouraging the next generation of students to borrow less money in the first place. To help prospective applicants compare the costs of attending different schools, all colleges as of Oct. 29 must include a net-price calculator on their websites. The calculator asks families for detailed financial information and then provides customized estimates of what they will likely pay out of pocket. Industry experts are also focusing on improving the information applicants receive once they are accepted. Kantrowitz testified before a congressional advisory committee that in an online survey last year of some 580,000 students and parents, 61% of respondents said the financial-aid-award letters they received did not include basic information about loan terms like interest rates or monthly payments. Some didn't even use the word loan, referring instead to a "subsidized Stafford," which families might confuse with a grant. (It's actually a loan whose interest is paid by the federal government while the student is in school.) Hence the Department of Education's current push to standardize financial-aid-award letters so people won't get lulled into overborrowing.

At the same time, more financial-aid offices are trying to help families maximize their use of federal loans, which have fixed interest rates, unlike private loans, which can have uncapped, variable rates that often go up after the first year. Lenders reel in families by advertising low rates, but usually only people with stellar credit qualify. Private loans--which make up 20% of outstanding education loans--also lack certain consumer protections, like the ability to write off the balance if the borrower dies. In 2006, Alison Rabil, then director of financial aid at Barnard College, started a policy of contacting families whenever she received requests from lenders to certify private loans. After one year of explaining why federal loans were the better option, Barnard saw the school's private-student-loan volume drop from $1.6 million in 2005--06 to $400,000 in 2006--07. Many other schools both big and small have since adopted similar procedures. Last year San Diego State started requiring students to go through an online counseling process before it would certify private loans.

Nina Marks, president of Collegiate Directions, a nonprofit that provides college counseling for low-income students, recommends that families drill deeper and ask financial-aid officers such questions as, If a college's cost of attendance increases each year, will financial aid go up too? What percentage of students graduate in four years? A fifth or sixth year could significantly increase debt load.

Early Decisions

Some high school guidance counselors encourage students to start at a more affordable state school or community college and then transfer to a more impressive (read: higher priced) institution to get their diploma.

Other counselors suggest smaller ways to skimp. "You can lower the price of the second year by adjusting the meal plan," says John Boshoven, a counselor at Community High School in Ann Arbor, Mich. "A lot of kids don't eat breakfast or can save money by eating cereal in their rooms."

Every little bit helps. But it's the bigger issues of which school students should attend and what they should major in that are much more difficult to address. Nanette DiLauro, who succeeded Rabil as Barnard's director of financial aid, recalls one student who wanted to go to Barnard--where the sticker price, including fees and housing, is $55,566 per year--so much that she begged the school to certify her private loans. The student, whose parents weren't willing to contribute, would have had to borrow $140,000. "That was a crazy amount," says DiLauro, who gave counsel with a candor that is perhaps all too rare. "I advised the daughter not to do it." The student ultimately chose to go somewhere else.

It's hard to tell teenagers to pass up their dream school and harder still to get them to make a serious effort to map out their future. Bob Giannino-Racine, CEO of ACCESS, a Massachusetts-based nonprofit that gives free financial-aid advice to students, counsels high schoolers to think about the long term. "If you have $50,000 or more in debt from undergrad, you will have a hard time paying for graduate school," he says. That might be helpful for aspiring bankers and lawyers to know. But what about the kids who can't see that far down the road?

Kantrowitz advises setting an undergraduate debt ceiling of $45,000 as a safe burden for someone who plans to earn a degree in engineering, computer science or business. He suggests lowering that cap to $35,000 for a student likely to choose a liberal-arts major. But he and other experts warn that the lesson is not to forgo college. It's, Don't go overboard. College grads still have roughly half the unemployment rate of those without degrees, and their median earnings are about $21,900 more per year, which translates into almost $1 million more over a lifetime.

Students also need to make smarter choices. Too many are committing to expensive schools or completing lengthier programs than they need to. Bill Symonds, director of the Harvard-based Pathways to Prosperity Project, worries that many policy advisers are fanning the college-for-all flames when vocational training or a two-year associate's degree would be a better fit. "If you go to a four-year college and get a degree and can't use it in the labor market, you're not getting much of a return on that investment," he says.

It's advice current debt holders wish they had heard earlier. Jeri Leigh McDowell graduated third in her high school class in 2006 and passed up a free ride to the University of Texas to accept a spot at New Orleans' more illustrious Tulane University, which offered her a $22,000 scholarship. How she would come up with the rest of the $53,000-a-year tab for tuition and living expenses was a problem for another day. The anthropology and history major skated through Tulane in 3 years, but she now struggles to pay back the $90,000 she owes.

The teaching job she thought she had found last October never materialized. Today McDowell lives with her mother in Burleson, Texas, while dodging calls from a collection agency. She works a $9.50-an-hour job at a hotel. "I wish to God I had gone to the state school," she says. "Everyone at my high school was super impressed when I got into Tulane, and I thought it would open doors. I was an idiot."