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Students Borrow More Than Ever for College

Heavy Debt Loads Mean Many Young People Can't Live Life They Expected

By ANNE MARIE CHAKER

Students are borrowing dramatically more to pay for college, accelerating a trend that has wide-ranging implications for a generation of young people.

New numbers from the U.S. Education Department show that federal student-loan disbursements—the total amount borrowed by students and received by schools—in the 2008-09 academic year grew about 25% over the previous year, to \$75.1 billion. The amount of money students borrow has long been on the rise. But last year far surpassed past increases, which ranged from as low as 1.7% in the 1998-99 school year to almost 17% in 1994-95, according to figures used in President Barack Obama's proposed 2010 budget.

The sharp growth is "definitely above expectations," says Robert Shireman, deputy undersecretary of the Education Department. "But we're also in an economic situation that nobody predicted." The eye-opening increase in borrowing is largely due to the dire economic environment, which is causing more people to seek federal loans, he says.

The new numbers highlight how debt has become commonplace in paying for higher education. Today, two-thirds of college students borrow to pay for college, and their average debt load is \$23,186 by the time they graduate, according to an analysis of the government's National Postsecondary Student Aid Study, conducted by financial-aid expert Mark Kantrowitz. Only a dozen years earlier, according to the study, 58% of students borrowed to pay for college, and the average amount borrowed was \$13,172.

The ripple effects for today's heavily indebted young people are becoming palpable. A growing body of research suggests that tough loan payments are affecting major life decisions by recent graduates, forcing them to put off traditional milestones—from buying a first home to even marriage and having children.

Also, the rising levels of borrowing may ironically be contributing to the accelerating cost of college, say some college-finance experts. Loans can give colleges an artificial sense of a family's ability to pay tuition. To some extent, that false sense of security gets built into the assumptions schools make when setting prices, say experts. The idea is that as prices rise, families borrow more and more, spurring prices to rise further, which in turn requires more borrowing. Barmak Nassirian, associate executive director of the American Association of Collegiate Registrars and Admissions Officers, says this phenomenon is playing a role in why tuition grows at about twice the rate of inflation. "Instead of imposing tougher choices" on college costs, he says, it's "easier to raise prices...because this additional loan amount is made available."

These and other impacts are likely to continue to spiral for future generations of tuition payers, college finance experts say. It is unclear whether we have seen the worst of it. Mr. Kantrowitz predicts the rate of increase will slow to 12% for the 2009-10 school year due mainly to what he expects to be a rebounding economy. On the other hand, Mark Zandi, chief economist for Moody's Economy.com, says he thinks unemployment rates will be at least as high as they are now, and housing prices will fall further, making it difficult for families to borrow against home equity.

"Growth in student lending can remain very strong, at least through the next school year," Mr. Zandi predicts.

The total borrowing limit for dependent undergraduates who take out federal Stafford loans—the most popular federal aid program—grew to \$31,000 this past school year from \$23,000. Raised limits in federal loans may have siphoned some borrowing away from riskier—and costlier—private loans, which are now harder to get due to the retrenchment of that business. The move away from these risky loans may be one bright spot in an otherwise frenzied student credit environment, Mr. Kantrowitz says.

Still, students cringe when they think of what they will owe by the time they graduate. Kordi Solo, a senior majoring in journalism at Central Michigan University, expects to owe about \$60,000 in student loans by the time she graduates in the spring. She had hoped to owe much less, but her father, a construction worker, has been out of work since last fall. She worries about the ramifications that debt will have on her future—whether it is being able to afford health insurance or qualifying for future loans.

Zack Leshetz, a 30-year-old lawyer in Fort Lauderdale, Fla., has \$175,000 in student loans from his seven years in college and law school. Lately he has had his eye on the real-estate market. "Everyone says that it's a great time to buy a house," he says. But that is not an option right now, he says, thanks to \$800 a month in payments—and another chunk of student loans in forbearance, which means payments are halted while interest accrues. "I find myself living paycheck to paycheck," he says.

He has also been engaged since March, but has held off on marriage. "There's no way I can pay for a dream wedding, or even just a regular wedding," Mr. Leshetz says. "I feel like I'm putting my entire life on hold."

"There are no guarantees about how easily you'll be able to pay off your student loans," says Lauren Asher, president of the Institute for College Access and Success.

These students' experiences are mirrored in research by Mathew Greenwald & Associates Inc. for investment-management firm AllianceBernstein LP. In a 2006 survey of 1,508 graduates under age 35, 39% of college graduates say it will take them more than 10 years to pay off their household's education-related debt. The survey says that this has caused a delay in certain key "rites of passage" associated with adulthood. Forty-four percent of respondents said they delayed buying a house because of their student loans, while 28% delayed having children.

"Loans have gone from being the exception to being the norm for most students," says Mr. Nassirian. He laments that, rather than fixing the problem of sticker price, policy makers typically tweak student-aid programs to make it easier for students and families to continue to borrow more.

Attacking the problem of cost is thorny because it is politically difficult to get all the interested parties -- which include federal and state governments, foundations and private institutions—to agree. "There are so many stakeholders, different explanations at different schools as to what's happening with cost, that it becomes politically dicey," says Christine Lindstrom, higher-education program director for U.S. Public Interest Research Group, which advocates for consumers. Also, colleges can be big employers in congressional districts, making it challenging for politicians who represent them to also take them on.

"You're not going to win friends if you're alienating them," she says.

Some Republicans made attempts at controlling tuition increases when they held the majority in Congress. Rep. Howard P. "Buck" McKeon of California championed legislation in 2003 that would have penalized colleges for raising tuition too much by taking away federal subsidies. Though the bill died, he plans to continue pursuing the issue in the upcoming Congress, a spokeswoman says.

Some recent graduates say they wish they had known more about the consequences of debt before taking it on. Lillian Russell graduated from law school at the University of Pittsburgh last year with \$181,000 in debt from her seven years in school. She has spent much of the past year looking for work. In recent weeks, she found a job clerking at a small law office. While she settles into her job, she has deferred payments on most of her federal loans, though interest continues to accrue.

"I wish I had considered the long-term impacts of what I was getting into," Ms. Russell says. When she entered school, "the idea was I'd take out the loans, get a job, and pay it back," she says.

It seemed straightforward. But as the economy has soured, "I feel like it's shifted a lot of my life goals," says Ms. Russell, from buying a house to starting a family. "I'm really concerned about handling this obligation while taking on new ones."

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