American college students graduate with record levels of debt

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American college students are graduating with record levels of debt. According to two recent reports released by a research wing of the State Public Interest Research Group (PIRG), not only are student loans growing, they are becoming increasingly unmanageable for greater numbers of people. During their college careers, most students are unaware of the full impact that these financial obligations will have once they finish university and the repayment process begins.

During the 1999-2000 period, 64 percent of students borrowed money from the federal government in order to cover the costs of their education. This percentage has risen by over 50 percent compared to eight years ago. During this same period, the average total student loan has almost doubled, reaching approximately $16,928.

Children from low-income households are among the most dependent on federal loans, with 71 percent of students whose families make below $20,000 a year borrowing money to finance their schooling. The authors of the PIRG reports attribute the increasing number and size of loans among this group of students, in part, to the failure of federal tuition (PELL) grants to maintain their buying power over the last 25 years. Given to families with incomes of $20,000 or less, in 1975-76 these grants covered on average 84 percent of a college tuition. Today they amount to only 39 percent.

The study found there was a correlation between increased borrowing by low-income students and the cuts in funding for PELL grants instituted by Congress during the 1990s. In recent years, despite an increase in the allocation of resources for this program, a stabilization in the number of low-income students taking loans, and a slowing in the growth rate of average total debt, the collapse in the buying power of PELL grants has left a heavy mark on student indebtedness.

According to the PIRG report, a greater number of wealthier students are borrowing ever-larger amounts from the government. Over the last decade significant sections of the upper-middle class have not been able to cover the cost of higher education for their offspring by dipping into savings. Of those students whose parents earn $100,000 a year or more, 44 percent borrow money for college—a rate four times higher than in 1992-93. The number of students borrowing for college has doubled for families with incomes of $80,000-$100,000 a year.

The study states that the rising cost of college education is one of the primary reasons for growth of indebtedness among university students. During the last decade, tuition and fees alone (excluding room and board, books, transportation and living costs) at private and public universities grew by 40 percent and 33 percent, respectively. By comparison, the median family income increased by only 12 percent.

Data compiled for 2001-2002 by the College Board, a non-governmental for-profit educational organization, shows that the cost of attending a public university in the state where a person resides is on average $10,412 a year. Students attending public schools in a location other than their home state pay approximately $17,000 a year. Private schools have a price tag of around $25,000 a year. Harvard University, one of the most prestigious secondary institutions in the world, recently announced that it was increasing its total cost for the coming academic year to over $35,000.

Even many second tier public universities are hardly a steal. For example, residents of New Jersey can send their children to the state’s public university, Rutgers, for $12,723 a year, or over $50,000 for four years. Generally speaking, the lower one goes in the university rankings, the cheaper one will find the cost of tuition. Students from the most educationally disadvantaged backgrounds end up in lower-quality universities and all those wishing to secure a better education must borrow money.

The burden on college graduates has been exacerbated in recent years by the increasing size of unsubsidized, as opposed to subsidized, loans offered by the federal government. In the former, interest accrues while the student is still enrolled in university and is then “capitalized”—added to the principal—upon graduation. In the previously more common subsidized loan, the state pays the interest on the student’s behalf while he or she is attending school. When the student completes his or her studies, the graduate is only responsible for the initial amount borrowed. The PIRG study shows that most students do not have an adequate understanding of the degree to which interest accrued either during college or after will increase their overall debt load. For example, those students with loans between $15,000 and $29,000 underestimated their total debt by a little under $3,000, while those with loans in excess of $30,000 underestimated by over $7,000.

The ability of recent graduates to repay the borrowed money is becoming an increasingly serious problem for larger numbers of students. Based on the benchmark used by loan companies and the average income of recent college graduates, the PIRG report estimates that 39 percent of debt holders have loans that are unmanageable, exceeding 8 percent of their pre-tax yearly income. Debt manageability is an even bigger problem for African-American and Hispanic students, who tend to come from lower-income families and whose expected annual post-graduation income is below the national average. Among these students, 55 percent of African-American graduates and 57 percent of Hispanic graduates will struggle to pay back their loans.

For example, while most recipients of a Bachelor’s degree can anticipate making between $27,000 and $29,000 a year in their first years out of school, a graduate with a debt load of $17,350, just slightly above the national average, would need to make $50,735 annually in order to safely cover the cost of their monthly charges. The PIRG study also found that at the time that they accept the loans, students tend to have an unrealistic understanding of their future earning potential and what they can afford to pay in monthly charges. Most expected to earn $39,000 upon graduation and anticipated being able to dedicate over 10 percent of their income to loan payments. Students are generally unprepared psychologically as well as financially for their future circumstances.

Amy Hill, a resident of Washington DC and a graduate of Bates College and the Harvard Graduate School of Education, told this reporter that she currently spends approximately 25 percent of her after-tax monthly salary on her loan payments. After paying her rent, Hill has around $500 to live off for the entire month. Hill stated, “The real problem began when I took out around $40,000 to pay for graduate school. Prior to that I had some loans from undergrad but they were pretty manageable. Now it’s just impossible and I make $38,000 a year before taxes. When I made up a budget for myself, no matter what I did, I just couldn’t make it work. There just isn’t enough.”

When I asked her how she manages to make ends meet, she replied, “Credit cards. I have several thousand dollars worth of debt on my credit cards and only make the minimum monthly payments. My parents have also lent me some money, which I will eventually have to pay back. I’m very lucky. I don’t know how people whose families are not in a position to help them manage.”

Hill’s resort to credit cards to survive is not unusual, except in the respect that her debt problems began after receiving a Masters Degree. According to the PIRG report, 41 percent of college students graduate with credit card debts that average upwards of $3,000. The PIRG study states that these figures probably underestimate the real situation for many, because these statistics only refer to federal loans given directly to the students. In addition to the 6 percent of students who borrow from private lenders, 12 percent of families take out what is known as a PLUS loan from the government to cover the cost of their children’s education. In many cases, parents are simply borrowing on behalf of their offspring and the students will eventually absorb the cost of these loans.