US: Student loan debt bearing down on graduates

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By a number of measures, university graduates in the US are finishing school with unmanageable levels of debt. Owing tens of thousands of dollars on average and just entering the workforce, young people increasingly face the prospect of paying exorbitant monthly loan repayments well into middle age.

The burden of student loan debt is part of widespread economic crisis confronting working people, which has been defined by the collapse of the housing market and subsequent tightening of the credit market over the past year.

College tuition and fees have skyrocketed in the last decade, while the real worth of both wages and student grant aid has stagnated. Working class students have no choice but to take on employment, debt, and additional time to complete their degrees.

After college, payments kick in. Overall, average workers between the ages of 25 to 34 must spend 25 cents on every dollar earned on debt repayments, according to Tamara Draut, whose 2006 book *Strapped: Why America's 20-and-30-Somethings Can't Get Ahead* detailed the growth in credit card use among young Americans. The average college senior carries thousands of dollars in credit card debt, often for the most elementary expenses, including gas, food and books.

According to new data from the Project on Student Debt, in 2006 alone, student debt loads for graduating seniors grew by 8 percent. Wages, meanwhile, grew by only 4 percent. The National Center for Education Statistics reports that two thirds of undergraduate students are carrying loan debt with them upon graduation, on average $19,237. The median debt load is $17,120; a quarter of undergrads borrow more than $25,000, and a tenth borrow more than $35,000.

The figures are sharply higher for those pursuing higher degrees. Graduate students add tens of thousands of dollars more to their debt loads. Depending on the degree, average cumulative debts range from more than $42,000 to nearly $126,000.

Loans from the for-profit private loan industry have especially increased as share of the total student loan volume over the past few years, as students max out their borrowing limits on federal loans. Increased private borrowing is also related to the collapse in family home equity and tightened alternative avenues for credit. Last year, students borrowed $18.5 billion from private lenders, up 6 percent from the 2005-2006 school year to fully a quarter of all borrowing.

By comparison, private lending accounted for only 7 percent of all student loans a decade ago. In 1993, less than half of four-year graduates carried any student loans; the current loan volume represents a tenfold increase over a decade ago. According to the Institute for College Access & Success, the average debt load today is 50 percent higher than in 1993, after accounting for inflation.

Private loans, which frequently have no guaranteed limit on interest rates and fees, can present the hardest financial burdens for graduates entering a slow job market. Private loans are often designed so that getting out from under them is impossible. Unlike other forms of debt, student loans are not dischargeable in bankruptcy.

In addition, many loans have no payment deferrals for exceptional circumstances. Packages that do offer deferrals for unemployment, disability or other hardships do not include a deferral on interest, which continues to accrue and compound, and the time limits on deferrals are usually very strict. Assets held by spouses can be seized by private loan companies. Even in the event that the borrower dies, the balance on private loans is non-dischargeable. Instead, the remaining balance is passed on to next of kin.

While the for-profit loan industry is particularly onerous, several not-for-profit, public loan corporations have recently come under investigation for steering students into high-interest loan packages. The *New York Times* reported December 9 that in Iowa the volume of private loans has grown five times greater than the already enormous national average.

The Iowa Student Loan Liquidity Corporation, a nonprofit state entity, is the dominant student lender in the state, holding some $3.3 billion in outstanding loans. According to the *Times*, the agency oversaw more than 90 percent of the student loan borrowing at Iowa State and 80 percent at the University of Northern Iowa.

Yet despite its non-for-profit status, for years the agency was being run in the interests of profit and at the expense of students. Email messages between officials quoted by the *Times* stressed the need for “continued ‘hypergrowth’” in student lending and the rewards of “an aggressive, offensive strategy to bring in new loan volume.”

Not surprisingly, at Iowa’s public universities, 27 percent more freshmen students took on loans than the national average, and 44 percent higher loan amounts. At private colleges in the state, freshmen borrowed at rates a third higher. Community college students, typically the lowest-income section of the student population, took out loans in Iowa at three times the national rate as freshmen, with loan amounts averaging 19 percent higher. Federal borrowing in the state followed a similar pattern.

Other state-administered agencies are being found to have similar operating schemes, including in Missouri and Pennsylvania. Top officials at the Pennsylvania Higher Education Assistance Agency, the *Times* article notes, have awarded themselves $7 million in bonuses over the past three years. The federal Education Department’s inspector general found that the agency “improperly exploited a federal subsidy program to rake in $34 million,” according to the paper.

Ongoing investigations spearheaded by New York Attorney General Andrew Cuomo into the student loan industry have established that such conflict of interest is also rampant in relations between lenders and university financial aid offices. Dozens of administrators and universities have been implicated in kickback schemes, euphemistically called “revenue sharing” arrangements, in which lenders bestowed money, travel and other gifts in exchange for signing students onto loan deals. These deals often turned out to be far from the best financial options available to students.

A recent study by economists from the College Board and the Project on Student Debt, based on the most recent Census data, found that even among full-time workers with bachelor’s degrees and debts of only $10,000 (using the 6.8 percent federal Stafford loan interest rate), about 1 in 10 would face “unmanageable” payments. At $20,000, near the median debt load, 18 percent would be unable to make payments. At $30,000, 1 in 3 would be confronted with unmanageable payments, and at $40,000, more than half would find themselves unable to cope with the monthly bills.

For students who drop out before completing school, loan debt plus lower wages create the conditions for loan default rates at 10 times the average. In addition, graduates entering social service fields including teaching and nursing may carry substantial debt, yet receive low wages. In addition to students themselves, parents may take on loans or mortgage their homes to pay for college.

When borrowers default on their student loans, according to Department of Education statistics, lenders slap on “collection costs” as high as 40 percent of the total loan balance.

Virtually every sector of the US economy is showing signs of the financial duress of working class households. The auto loan industry recorded significantly higher rates of default in September, according to a December 6 report in the *Wall Street Journal*.

Auto loans originated in 2006 jumped from a 2.9 percent default rate in August to 4.5 percent in September, the largest one-month rise in eight years, according to the paper. Delinquencies made up a full 12 percent of subprime policies—those whose rates and terms were poorer, generally because of borrowers’ lower credit ratings.

“The numbers will get worse for auto loans,” Dan Castro of the debt-related investment firm GSC Group told the *Wall Street Journal*. “We’re starting to see signs of rising losses, and delinquencies are creeping up.”

As the paper explained, defaults in the auto loan industry are an indicator of economic crisis, since this sector has not been exposed to wild speculation, as has been the case in the housing market. “The typical delinquent borrower in a car loan isn’t a speculator,” the *Journal* noted, “but someone who became unable to make what previously seemed like a manageable payment.”

Credit card companies have also registered higher default rates. Capital One Financial, in reporting third-quarter losses of nearly $82 million, revealed that cardholder delinquency rate in October was 4.46 percent, up from 3.53 percent a year ago, with fourth-quarter delinquencies projected to rise to 5.25 percent. These figures only prefigure the trajectory of the credit market in the coming months and years.