



## The Challenge of Rising Student Debt

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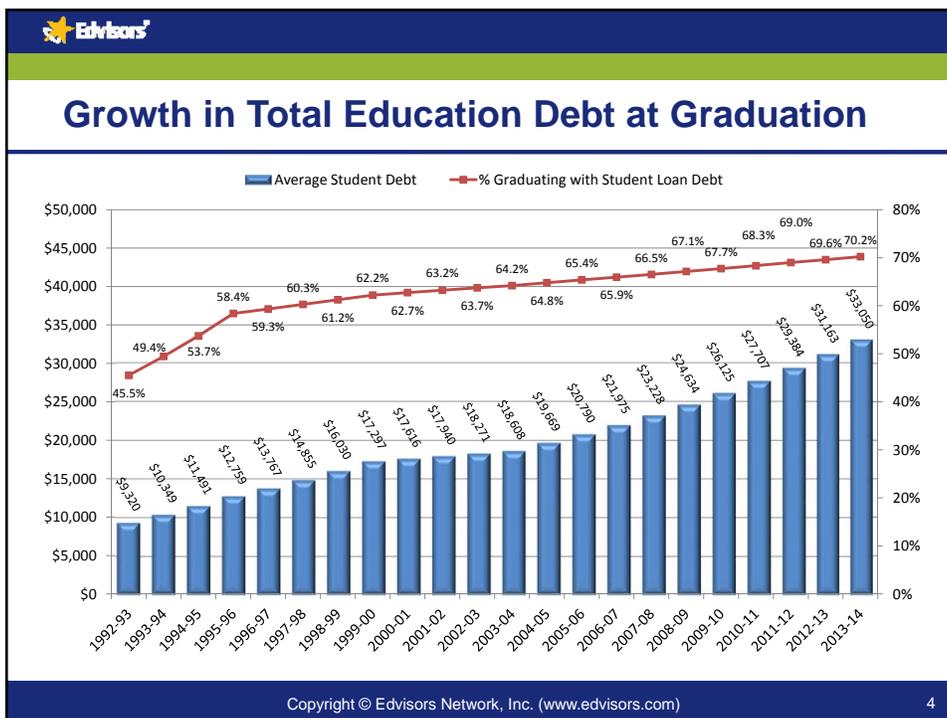
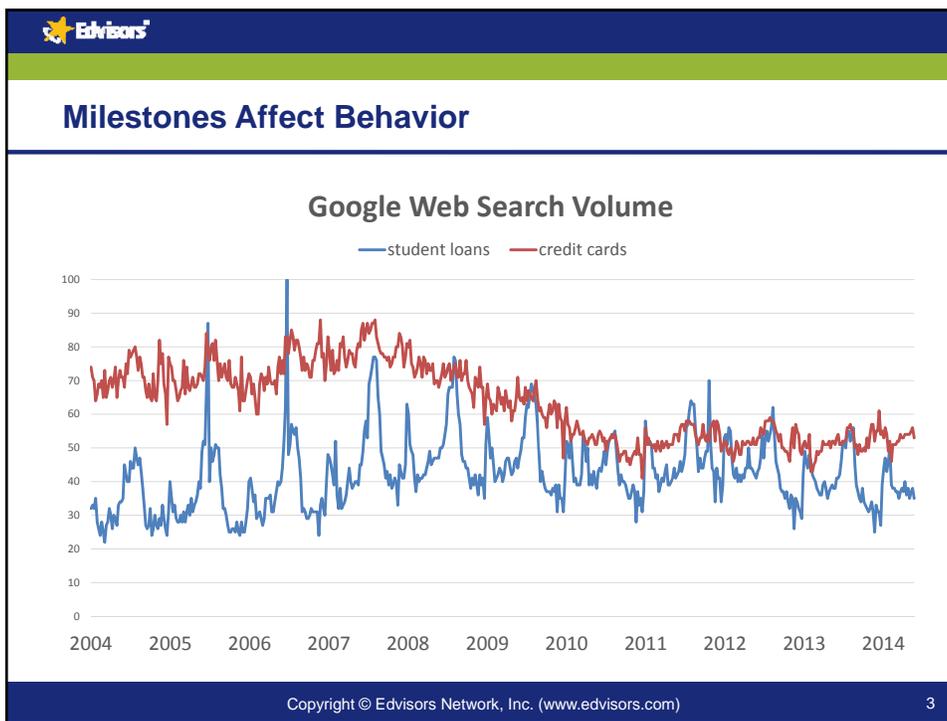


## Outstanding Student Loan Debt Milestones

- 2010
  - Federal and private student loan debt exceeds credit card debt
- 2011
  - Federal and private student loan debt exceeds auto loan debt
- 2012
  - Federal and private student loan debt reaches \$1 trillion
- 2013
  - Federal student loan debt reaches \$1 trillion on its own
  - Federal and private student loan debt reaches \$1.2 trillion
- 2014
  - Cohort default rates drop for the first time since the start of the economic downturn

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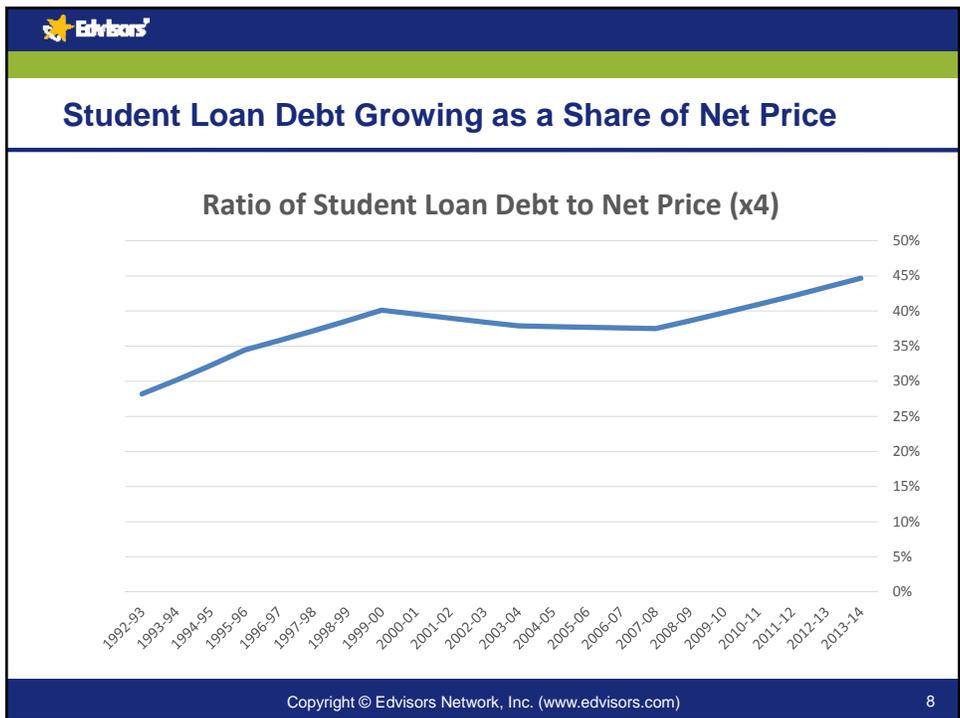
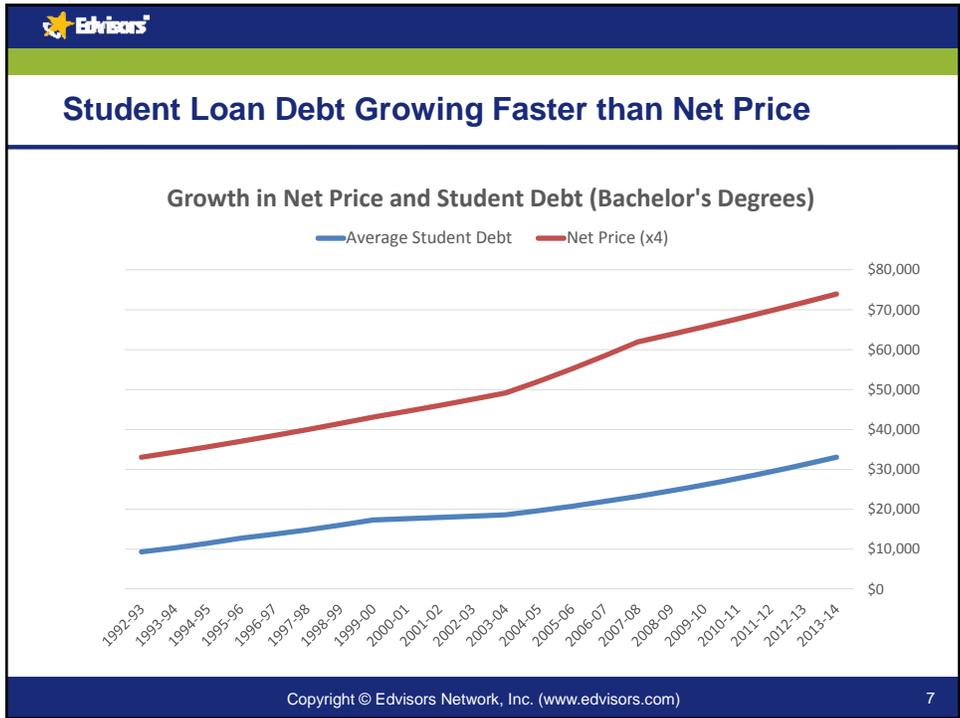


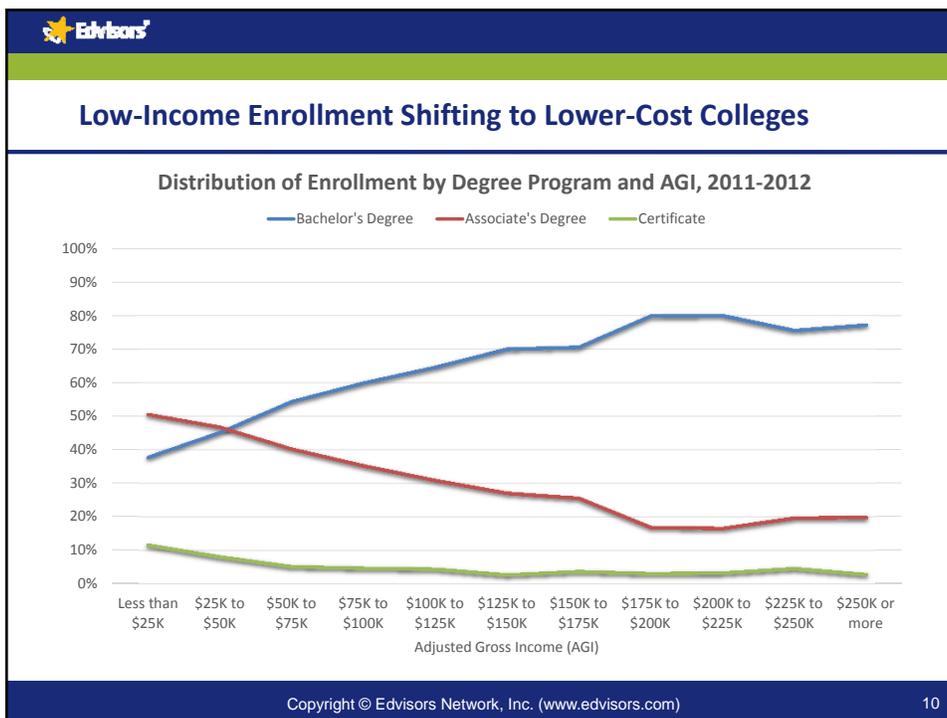
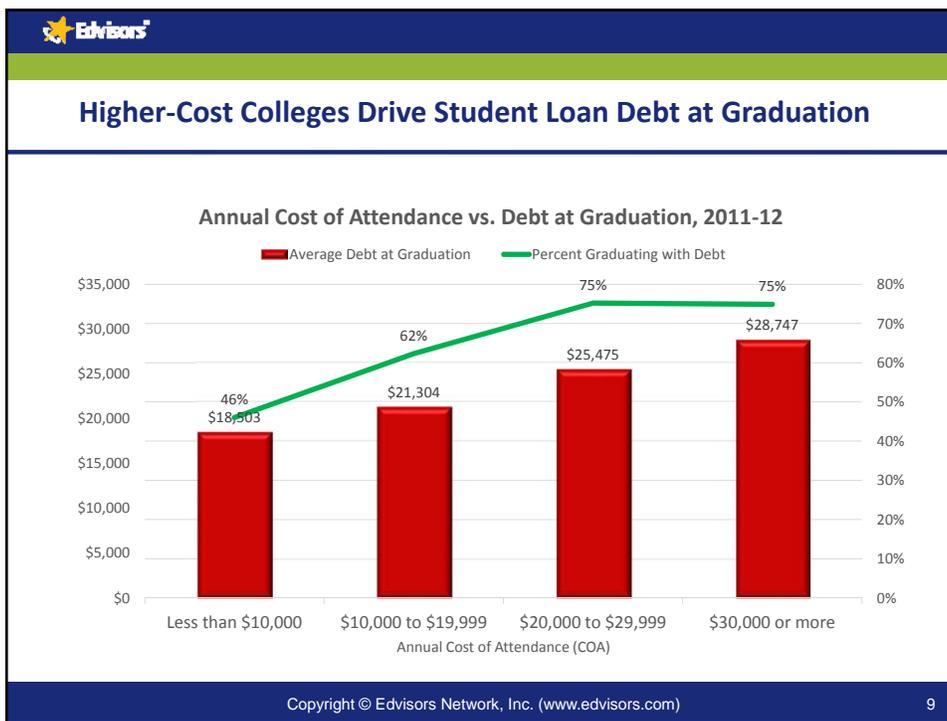
Average Student Loan Debt at Graduation		
Degree Level and Institutional Control	Average Student Loan Debt	
	2007-08	2011-12
<b>Bachelor's Degree</b>	<b>\$23,228</b>	<b>\$29,384</b>
Public	\$20,234	\$25,640
Non-Profit	\$27,700	\$32,308
For-Profit	\$31,416	\$40,038
<b>Associate's Degree</b>	<b>\$13,179</b>	<b>\$17,158</b>
Public	\$10,533	\$13,970
Non-Profit	\$19,130	\$25,313
For-Profit	\$18,924	\$24,684
<b>Certificate</b>	<b>\$11,077</b>	<b>\$13,280</b>
Public	\$9,731	\$12,418
Non-Profit	\$15,251	\$15,824
For-Profit	\$11,265	\$13,322

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California Student Loan Debt		
<ul style="list-style-type: none"> <li>California residents are less likely to borrow and have lower average debt at graduation for Bachelor's and Associate's degrees as compared with national averages</li> <li>Average debt at graduation is about 12% lower</li> <li>Mean debt at graduation is about 25% lower</li> <li>The difference is probably attributable to the Cal Grant</li> <li>Nationally, federal and state grants are failing to keep pace with increases in college costs, causing growth in student loan debt</li> </ul>		
2011-12 NPSAS	California	Nation
Bachelor's Degree	\$27,904 (64.0%)	\$29,384 (69.0%)
Associate's Degree	\$16,569 (34.1%)	\$17,158 (49.8%)
Certificate	\$11,959 (73.5%)	\$13,280 (66.3%)

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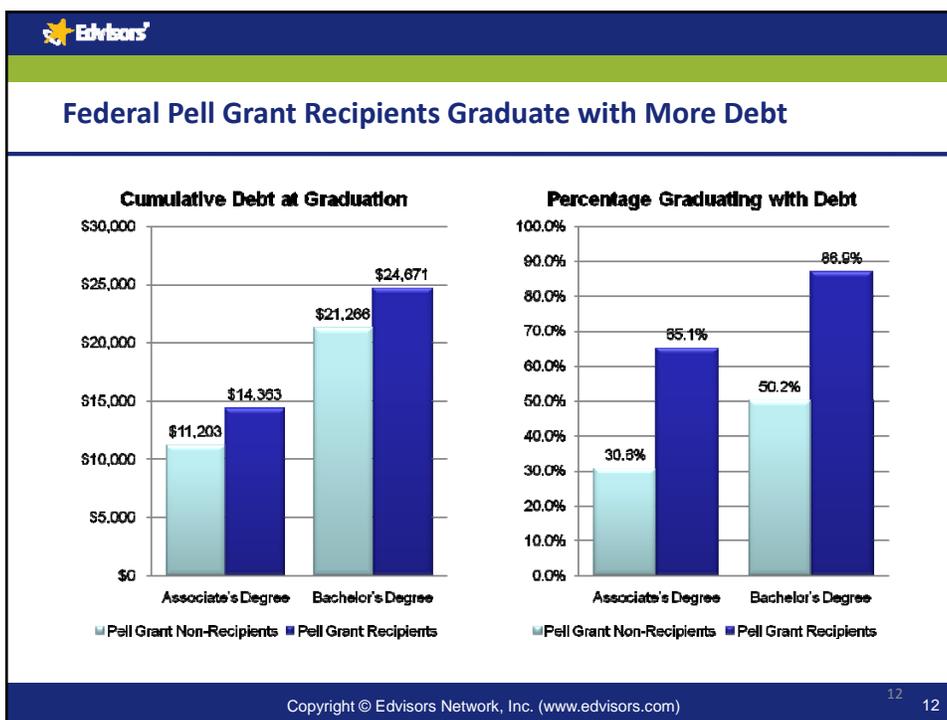
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### Ratio of Annual Net Price to Total Income, 2011-2012

Institution Type	< \$50,000	\$50,000 to \$100,000	> \$100,000
Public 2-Year	34.7%	10.8%	5.5%
Public 4-Year	57.2%	21.2%	11.9%
Non-Profit 4-Year	81.8%	31.1%	18.5%
For-Profit	100.8%	26.5%	14.7%

Source: Analysis of data from the 2011-2012 National Postsecondary Student Aid Study (NPSAS)  
 Net Price = College Costs – Gift Aid. Limited to families with positive net price. Net price is for one-year.

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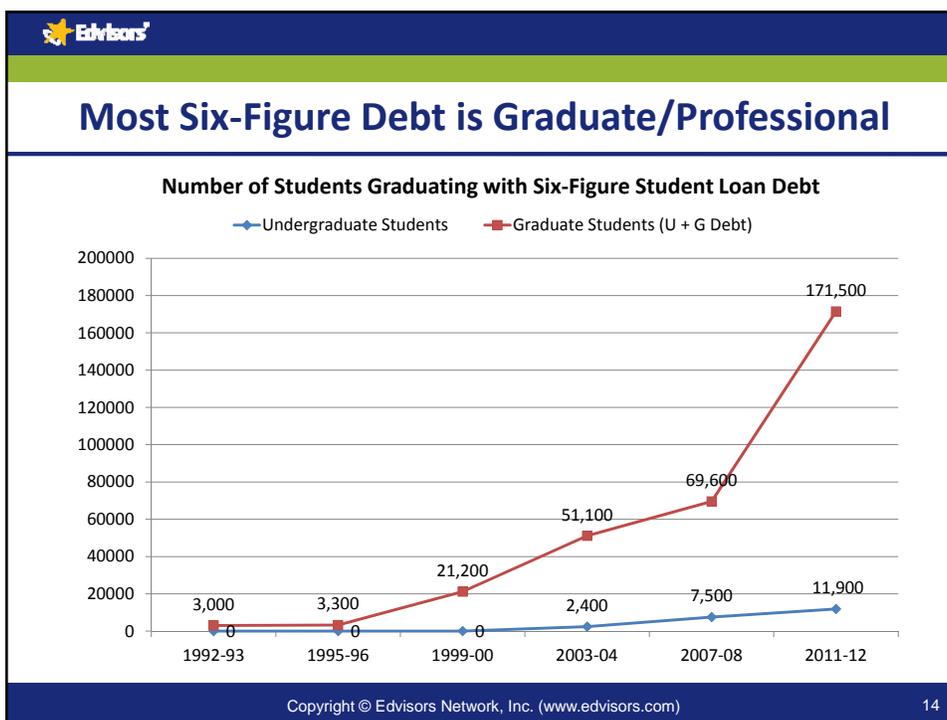


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## Six-Figure Student Loan Debt

Degree Level	% with Six-Figure Student Loan Debt	
	2007-2008	2011-2012
Undergraduate Students	0.2%	0.3%
Certificate	0.01%	0.05%
Associate's degree	0.02%	0.04%
Bachelor's degree	0.3%	0.5%
Graduate and Professional Students	6.3%	15.1%
Master's degree	2.5%	8.7%
MBA	2.6%	4.0%
MSW	3.2%	6.3%
Doctoral degree	9.6%	17.6%
PhD	4.7%	9.7%
EdD	4.9%	35.1%
Professional degree	39.2%	62.6%
Law (LLB or JD)	36.6%	58.9%
Medicine	49.1%	68.3%
Pharmacy (PharmD)	28.8%	68.2%

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## What is Good Debt?

- Student loan debt is often characterized as “good debt” because it is an investment in the student’s future
- Characteristics of good debt
  - Good debt is used to finance investments that are expected to appreciate in value and/or to produce income
  - Good debt is defined in terms of investments, not consumption
- Cost of debt matters
  - All debt increases the cost of a product or service
  - Some loans have higher interest rates or longer repayment terms
  - Every dollar you borrow in student loans will cost about two dollars by the time you repay the debt
- But, too much of a good thing can hurt you



## How Much Debt is Reasonable and Affordable?

- Students (and parents) need to keep their total student loan debt in sync with income.
- Total student loan debt at graduation should be less than the annual starting salary and, ideally, a lot less.
  - If total debt is less than annual income, the borrower should be able to repay his or her student loans in ten years or less.
  - If total debt exceeds annual income, the borrower will struggle to repay the debt and will need an alternate repayment plan, like extended repayment or income-based repayment, to afford the monthly loan payments.
- Parents should borrow no more for all their children than they can afford to repay in ten years or by the time they retire, whichever comes first.



## Predictions

- **College affordability will continue to decline due to a failure of grants to keep pace with increases in college costs**
  - Nationally, overall federal/state government support will continue to decrease on a per-student, constant-dollar basis
  - Burden of paying for college will continue to shift from government to families
- **Education debt will increase**
  - Family incomes have been flat, forcing increases in student loan debt or shift in enrollment to lower-cost colleges
  - Economic recovery will cause a slight drop in the number of students borrowing
  - Average debt per borrower will increase
- **Reauthorization might not make big waves**
  - Zero-sum game assumption → grant funding cuts, narrower eligibility
  - Worries about theoretical potential for moral hazard may lead to changes in Federal PLUS loan eligibility and limits, loan forgiveness programs
  - Focus on improved counseling and disclosures



## Practical Student Loan Tips for Students and Parents

- It is cheaper to save than to borrow
- Prefer gift aid over debt
- Use tuition installment plans to avoid long-term debt
- Before spending student loan money on anything, ask yourself if you'd still buy it at twice the price
- Borrow federal first
- Needing to borrow from the Parent PLUS or private student loan programs may be a sign of over-borrowing
- Accelerate repayment of the highest interest rate loan first
- Sign up for auto-debit discounts
- Claim the student loan interest deduction



## Policy Recommendations

- **Financial literacy training**
  - Build financial literacy training into the secondary school curriculum
  - Have a refresher course during college orientation and graduation
  - Provide financial literacy training to parents and educators, too
- **Provide clarity concerning college affordability**
  - Standardize financial aid award letters
  - Distinguish loans from grants on award letters and list the net price
  - Use lower suggested loan amounts on award letters
- **Budget before you borrow**
- **Provide aggressive counseling for high-debt students**
- **Establish peer counseling programs**
- **Track whether students are graduating with affordable debt**



## Thank You!

Mark Kantrowitz

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