Student Debt

Is the college-loan system fair?

As Congress tries to reduce the federal debt, it is forcing federal loan and grant programs for higher education to fight for scarce dollars. In negotiations this summer over the debt ceiling, lawmakers shifted money from loan programs for students who borrow for graduate and professional school and students who pay back loans on time to Pell Grants for low-income students. The government has implemented several new programs to make the loan system fairer, including making payments easier for lower-wage earners and providing federal loans directly to borrowers rather than through banks, to avoid subsidizing commercial institutions. However, some consumer advocates say unless education debt can be forgiven through bankruptcy proceedings, as most other debt can, the system will never be fair to student borrowers. Meanwhile, tuition continues to rise, and total higher-education debt has surpassed credit-card debt for the first time, rising to $830 billion in mid-2010 and continuing to climb.
THE ISSUES

• Are students incurring too much education debt?
• Is rising college debt limiting who attends and completes college?
• Has the increasing availability of education loans driven up college costs?

BACKGROUND

Private System
U.S. colleges started out relying on private tuition rather than tax-supported loans and grants.

Borrower, Beware?
Consumer safeguards for education loans shrank even as student loans increased.

Consumer Protections
New laws made direct government lending possible.

CURRENT SITUATION

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More Students, More Loans
More students are getting post-secondary training, increasing education debt.

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Explosive Debt?
Many policymakers advocate further expansion of post-secondary schooling, which would boost debt even higher.

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Students at For-Profit Schools Have Most Debt
More than half of bachelor-degree recipients at for-profit institutions borrowed at least $30,500 in 2007-2008.

Loans Make Up Half of Financial Aid
More than $129 billion in undergraduate financial aid was distributed in the 2007-2008 academic year, half in loans.

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Student Debt

THE ISSUES

New York City lawyer Robert Applebaum graduated from law school in 1998 with more than an impressive diploma. He also was saddled with $80,000 in student loans. Over the next five years, as Applebaum delayed repayment while working as an assistant district attorney, interest drove the balance to $100,000.

Still making payments 11 years after graduation, Applebaum had a brainstorm. Why, he wondered, shouldn't the federal government forgive student loans as a way to stimulate the economy?

"With the stroke of the President's pen, millions of Americans would suddenly have hundreds, or in some cases thousands, of extra dollars... every month... to spend," reads a petition Applebaum placed online at the liberal activist site Moveon.org. 1

Applebaum's proposal may be quixotic, but his story points to what many experts see as a growing crisis in higher education: As college and university enrollments mushroom and tuition soars, they say, college is fast becoming unaffordable to tens of thousands of current and prospective students.

Student debt surpassed credit-card debt in June 2010 for the first time in history, rising to about $830 billion — or nearly 6 percent of the nation's annual economic output. Meanwhile, new student loans surpassed $100 billion for the first time in the 2010-2011 academic year. 2 As loans have rocketed, so has tuition: It exploded 375 percent — nearly four times the inflation rate — between 1982 and 2005 and has been climbing 4 percent to 8 percent annually since. 3

"Student loans should help people," says Lauren Asher, president of the Institute for College Access and Success, a research and advocacy group in Oakland, Calif. That purpose is lost "when people face the prospect of debt they can never repay."

What's more, critics complain that many student borrowers face repayment requirements far more onerous than those for mortgage and car-loan borrowers. For example, it is exceedingly difficult, if not impossible, for students pleading hardship to delay repayment or have loans forgiven through bankruptcy — even though consumer borrowers can declare insolvency and wipe their debt slate clean.

And unlike consumer debtors who fall into arrears, college borrowers can have their Social Security and other federal benefits garnished — an especially frightening prospect for older students attending college to retrain for employment.

Some consumer advocates say recent legislative changes, such as easier payment options for lower-income students and loan forgiveness for those working in public-service jobs, should make borrowing less risky. However, college loans made by private lenders unaffiliated with federal loan programs lack such options. Thus, say critics, as tuitions continue rising, the sheer size of college debt, public and private, poses greater financial risk to students and their families.

Few argue that education borrowing is bad in itself. Indeed, boosting attendance and graduation have long been national goals. But college-loan experts debate whether students, on the whole, are borrowing too much.

Many students incur debt that will never pay dividends in higher wages or greater job satisfaction, argued Richard Vedder, an economics professor at Ohio University, in Athens, and director of the Center for College Affordability and Productivity, a think tank in Washington. About 45 percent

University of California students in Los Angeles protest the UC Board of Regents’ decision in November 2009 to raise undergraduate tuition 32 percent. More increases in the past 18 months have pushed up tuition by another 17.6 percent. For the first time in history, student debt for higher education is higher than the nation’s credit-card debt. Congress has passed some reforms aimed at making the loan system fairer for lower-income students, but critics say lawmakers need to do more.

By Marcia Clemmitt

Getty Images/David McNew
of those who go to a four-year college don’t complete a bachelor’s degree in six years, so “their investment isn’t particularly good” because they spend years earning less than college graduates, Vedder said.

Ross Rubenstein, an associate professor of public administration at Syracuse University’s Maxwell School, calls student loans “a human-capital investment” that, for most, will likely pay lifetime dividends of higher wages and better quality of life. Still, he says, “beyond the big-picture theoretical idea is the question of what’s the appropriate level of debt.”

Donald Heller, a professor of education at Pennsylvania State University, has a more optimistic view. He acknowledges “heightened concern” that high unemployment and lagging wages make it difficult for students to see a return on their education investment. “But,” he says, “we have to remember that the vast majority of people getting bachelor’s degrees are getting jobs” and have better employment odds than people without degrees.

“When people question whether degrees are worth their cost, I ask, what’s the alternative?” Heller says. Furthermore, he says, earnings data “show that having some college is better than no college.”

Government grants and other aid often can help low-income students reduce their borrowing. Families with annual earnings of about $75,000 typically are the first to seek loans because they aren’t eligible for need-based aid. But it is not always the middle class that suffers most. In a bid to induce their best students to attend in-state schools, Georgia and Missouri, among others, handed out education grants based on good grades rather than student need.

And although the switch to merit-based state aid has slowed in the economic downturn, the trend has forced many low-income students — many of whom are the first in their families to attend college — to borrow more, divide their time between work and classes or quit school altogether when they run out of money.

On balance, says Heller, lower-income students still “bear more of the brunt” of paying for school. And, he says, because “many of these students are reluctant to borrow,” many of them “go part time and work while enrolled.” But research shows that working beyond a minimal number of hours greatly increases the risk of dropping out.

Even when financially struggling students don’t drop out, they often take far longer than four years to complete their degrees — adding to the cost of their education, experts note.

Sandy Baum, a professor emerita of economics at Skidmore College, in Saratoga Springs, N.Y., and a longtime college-funding analyst for the College Board, says that while declining four-year completion rates are a problem, “it’s hard to know” whether they stem from rising tuition costs. But, she adds, “we know that we can’t continue this trend of tuition increases that are rapid and huge forever” because the steep increases make it impossible for families to plan and save for school.

While many economists say soaring tuition fuels college debt, some argue the opposite is true: that the growing availability of government-subsidized college loans has induced schools to hike tuition in a drive to increase revenue. That prospect “flows quite logically” from an understanding

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**Students at For-Profit Schools Have Most Debt**

More than half of bachelor-degree recipients at four-year for-profit institutions carried education debt of $30,500 or more during the 2007-2008 academic year, compared with 24 percent of those at private four-year institutions and 12 percent at public four-year schools. Only 4 percent of degree recipients at the for-profit schools were debt-free, compared with 28 percent at the private schools and 38 percent at the public institutions.

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*S Percentages do not total 100 because of rounding.

of how colleges operate, wrote Andrew Gillen, research director for the Center on College Affordability and Productivity.

“First,” he wrote, “any additional resources obtained by a school will be spent” at least partly on services and amenities aimed at enhancing the school’s reputation and competing for the best students. That might mean shelling out big money to attract famous professors or to build well-equipped gymnasiums for students’ use, he wrote.

Then, Gillen argued, a vicious cycle begins. As improvements are added, tuition climbs, and the higher tuition qualifies students to obtain still larger subsidized loans to pay the growing bill. As the school takes in more tuition dollars, it spends them the next year on more improvements. Ultimately, Gillen argued, this “arms race in spending . . . reduces access and affordability — the exact opposite of what [grant and loan programs] intend.”

But not all experts agree. The argument that college prices rise mainly in response to students’ ability to pay is “way too simple-minded,” says Robert B. Archibald, an economics professor at the College of William and Mary, in Williamsburg, Va. “I don’t think the link between price and the availability of loans holds up at all.”

Manufacturers have used technology to increase productivity, but industries like higher education rely on highly skilled workers — college professors — who can’t be replaced by machines, Archibald says. No wonder, then, he says, that the cost of college has climbed at a far faster rate than for goods like clothing and cars.

“It’s no coincidence that the price of services” such as higher education “has increased more rapidly than the price of goods,” Archibald says.

As students and policymakers mull a future of rising debt, here are some of the questions being asked:

### Loans Make Up Half of Financial Aid

More than $129 billion in undergraduate financial aid was distributed in the 2007-2008 academic year, half in loans from the federal government and private sources. Grants, work-study payments and tax breaks that helped families pay for higher education made up the other half of the total.

#### Sources of Financial Aid for U.S. Undergraduates

(in $ billions, 2007-2008)

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### Are students incurring too much education debt?

Many analysts call current education-debt levels truly alarming, arguing that college loans saddle students with long-term burdens that can affect their choice of jobs and ability to shoulder other responsibilities such as mortgages. Others, however, contend that while total debt is high by historical standards, the average student’s debt is reasonable in light of potential higher lifetime wages that education offers.

A growing number of students find their debt unmanageable, reported the finance website Smart Money. Nearly 10 percent of federal student-loan borrowers defaulted during the two years ending Sept. 30, 2010, “meaning they failed to make a payment on their loans for more than 270 days.” That was a leap from a 7 percent default rate in 2008. Much of the increase came at for-profit colleges, where 15 percent of borrowers defaulted, up from 11.6 percent two years earlier.

A substantial number of college graduates “end up taking jobs for which college education is not really a prerequisite,” making any debt they incurred to get the education essentially a waste, argued Ohio University’s Vedder. “Twelve percent of the mail carriers in the United States today have college degrees.”

But others warn against dismissing the value of student loans.
“Lately, a lot of the public discussion is geared towards panic,” some of which results from focusing on the wrong statistics about debt, says Baum of Skidmore College. Many recent news stories “have focused on the total amount of debt that’s out there,” but that number inevitably has risen steeply in recent years because of climbing enrollments, she says.

Furthermore, Baum says, while it makes sense to be concerned about the minority of students who rack up very high debts, “the typical bachelor’s student is borrowing $25,000 or less” — about $5,000 less than the average car loan in 2009.

Jennifer Delaney, an assistant professor of educational organization and leadership at the University of Illinois at Urbana-Champaign, argues that a shift has occurred in people’s thinking about how college should be funded, with many now seeing students’ future income as the most important funding source. “Our student-aid system is based on the idea that parents will help, but the volume of loans and the debt levels tell us that there’s a greater and greater reliance on students and their future employment” to pay for school by borrowing against future income, she says.

That approach can make sense, although the size of the college “wage premium” is often overstated, especially by public officials, says Robert K. Toutkoushian, a University of Georgia professor of higher education.

“The returns of going to college are still high enough to justify” some debt, Toutkoushian says. But, he adds, an oft-cited statistic that puts the “wage premium” for a bachelor’s degree at $1 million is too high. The $1 million figure compares bachelor’s-degree holders with people who have a high-school diploma — leaving out those who have some college but no degree, he says. A more accurate number is about $500,000, still “worth the debt” most graduates incur, Toutkoushian says.

Still, while student loans may pay off in the long run, many analysts say the tandem trends of rising debt and rising tuitions are highly worrisome. “College sticker prices are too high, and debt will continue to rise,” says Penn State’s Heller.

“Borrowing really works for a lot of people, but there’s a growing segment for whom it becomes problematic,” especially those who don’t obtain their degrees or certificates, adds Laura W. Perna, a professor at the University of Pennsylvania’s Graduate School of Education, in Philadelphia.

Increasingly, student loans are the fallback source for college financing, as taxpayer dollars and parental contributions pay less of the bill, many say.

“The need-based aid available isn’t keeping up with rising costs, and the country’s anti-tax attitude” is limiting public subsidies at the same time that many government officials are demanding higher rates of college attendance and completion, says Edward St. John, a professor at the University of Michigan’s School of Education, in Ann Arbor.

Furthermore, many families, by necessity or choice, are picking up a smaller portion of the tab. Says Baum, “When the grandparents of today’s college students went to college, you just assumed that you worked hard and paid for it. In the interim, people started to assume that the government would pay for it.”
Does rising college debt limit who attends and completes college?

Increasing the number of Americans who graduate from college or other post-secondary training programs has been deemed a national goal for decades, but many experts worry that rising college debt is undermining that aim.

History suggests that when people worry about their ability to pay for college, it deters them from applying, says Donald Hossler, a professor at Indiana University’s School of Education, in Bloomington, and director of the research center at the National Student Clearinghouse, an organization founded by the nation’s colleges and universities to collect national student data.

Hossler recalls that in the 1980s, when false rumors circulated that Congress was about to cut federal Pell Grants for low-income students, “some low-income people didn’t even apply” for college.

Data from the 1970s through the 1990s show that financial concerns play a major role in college decisions, especially for students from low- and middle-income families earning less than about $70,000 a year, says Michael Lovenheim, an assistant professor of public finance at Cornell University in Ithaca, N.Y. Families’ financial resources affect “where and whether” students attend college and “whether they complete” degrees, he says. What’s more, evidence suggests that this effect “is growing over time,” Lovenheim says.

Among the 2007-08 graduating class at four-year public colleges, about 62 percent of families carried loans, according to FinAid, a consumer-assistance website. The average cumulative debt per student, including so-called federal PLUS loans borrowed by parents to help foot their children’s college costs, was $23,227. 10

At a public four-year university today, students from low-income families typically face an annual net cost of $11,700 after need-based grants are factored in, according to the Advisory Committee on Student Financial Assistance, an independent panel jointly appointed by Congress and the secretary of Education. Students from lower-middle-income families earning just above the federal Pell Grants cutoff incur annual net college costs of $18,450. As a result, families with moderate incomes, which don’t qualify for need-based aid, typically borrow about 75 percent more than low-income families do, the panel calculated. 11

The figures “are staggering and have a profound effect on the decision-making of qualified high-school graduates” as to whether and where to attend college, the panel said. 12

Yet some analysts worry that an outsized focus on debt — not debt itself — will discourage some students from applying. News stories about student debt “often make it seem that borrowing for education ruins your life, as if it’s the same as running up a big bill on a trip to the Caribbean,” says Skidmore College’s Baum.

Numerous studies have found that so-called debt aversion can push students to take on such excessive working hours that they drop out or avoid college altogether. The problem is especially acute in some minority communities. 13

St. John at the University of Michigan says the picture is changing somewhat, so that debt aversion is “not quite the problem it used to be.” By and large, African-American students are no longer as reluctant to borrow as in the past, he says. However, he adds, “Latinos still have more debt aversion” than others, with college-completion rates likely suffering for it.
A new report from the College Board finds that only 19.2 percent of Latino students ages 24-35 who begin college complete it, far below the national average of just over 40 percent.14

So far, however, researchers are still seeing a higher number of people going to college and finishing than in the past, says the University of Georgia’s Toutkoushian.

Indeed, the number of bachelor’s and associate’s degrees and the portion of the workforce that attains them both have risen continually, says Arthur M. Hauptman, an independent public-policy analyst in Arlington, Va., who has advised the World Bank, several federal agencies and more than two dozen national governments on higher-education finance. In 1970, about 10 percent of Americans over age 25 had attended four years of college, compared with about 30 percent today, he says.15

While debt may not deter many people from enrolling, it is subtly changing the way a college education is viewed, says Burton A. Weisbrod, an economics professor at Northwestern University in Evanston, Ill. “It was always true there were college majors that were not going to open doors to high incomes,” he says, pointing as examples to sociology and art history. Yet, in the past, such studies were widely viewed as worthwhile because they were seen as vital to American culture and helped create “better voters,” he says.

As education debt rises, however, students who are struggling financially will increasingly seek to major in subjects that lead to high-wage professions, Weisbrod argues. “That’ll work against” the humanities, potentially putting them out of reach for many, he says. “We need to have a discussion about that.”

Has the increasing availability of education loans driven up college costs?

In 1987, William J. Bennett, President Ronald Reagan’s Education secretary, wrote that while making federal college grants and subsidized loans more available did “not cause college price inflation, . . . there is little doubt” that it helps “make it possible.”16 Today, as college costs and student debt rise, debate over that proposition grows louder.

Some economists argue that increasing access to college funding — especially loans, which are available to rich and poor students alike — creates a vicious cycle: As more money flows to students, colleges are induced to raise their prices, which in turn causes the government to increase its limits on subsidized loans, and so on.

“Without anybody intending this, the subsidized student-loan programs actually incentivize states to raise tuition,” says Northwestern’s Weisbrod. “Anything that makes it less expensive for a student to attend makes it easier for a school to raise the tuition.”

When Bennett’s piece was published, “I disagreed with it, but I changed my mind,” says Hauptman, the policy consultant. “I don’t see grants” pushing school-spending increases “because they aren’t big enough,” but “there is a correlation between loans and pricing.” Just as the increased availability of mortgage loans helped drive up home prices in recent years, Hauptman argues, increased availability of subsidized loans can help boost college prices.

Early results of a study of for-profit schools suggest that institutions with students eligible for federal grants and subsidized loans have higher tuition than comparable schools where students aren’t eligible, says Stephanie R.
Cellini, an assistant professor of public policy and public administration at George Washington University in Washington. However, the research, which she is conducting with Claudia Goldin, a Harvard University economics professor, doesn’t reveal whether the pricier institutions are “just better schools” using the funds to provide students with superior training or are simply “capturing more money for themselves,” Cellini says.

While some economists see a connection between loan and grant availability and rising tuition, others debunk the idea of a link. All high-skill service industries — including not only higher education but also health care and legal services — have raised their prices in recent decades for reasons that have little or nothing to do with rising demand or availability of funds, they argue.

“When you purchase a personal service like a haircut, you are purchasing the time of the barber, and there are limited things he or she can do to shorten the experience that will not be perceived as a reduction in the quality of the haircut,” wrote William and Mary’s Archibald and fellow economics professor David H. Feldman. The same is true of college teaching and other professions with highly educated workforces, such as law, they argued. 17

In addition, says Archibald, colleges must constantly upgrade expensive technology to prepare students adequately for tomorrow’s workplaces. “Take chemistry, for example,” he says. “These students are going to go to [the pharmaceutical giant] Pfizer and try to get a job,” but they won’t get the work “if to save money the college said, ‘We’ll do chemistry using nothing but [old-fashioned] beakers and test tubes.’ ”

The unpredictability of technology trends also is driving up costs, Archibald says. At William and Mary, for example, “we spent a whole lot of money wiring every dorm room” to link to the Internet just before technological change meant “we had to put wireless hubs everywhere” instead. While that double spending could be perceived as wasteful, it’s not clear how schools could avoid it, he says.

Still, Archibald says, while loans aren’t driving up costs, “a financial-aid arms race” among some colleges might be.

“If you’re a school that’s not Ivy League but close, you offer big financial aid to nab a potential Yalie who may end up being a Rhodes Scholar” and boost your school’s reputation, he says. To lure students from more prestigious schools, a college will raise its own stated “full sticker price,” then offer prized students discounts that appear to be deals too good to pass up. These new, inflated sticker prices are then published as the schools’ base tuition rates, even though only a handful of people actually pay them, he says.

**BACKGROUND**

**Private System**

Unlike most other countries, the United States built a higher-education system that is supported more by private money — much of it in the form of tuition — than public dollars. But as more and more low-income students enroll, efforts to maintain that private support have made education loans increasingly prevalent in the college-finance equation. 18

U.S. “colleges started out as private entities,” says William and Mary’s Archibald. Indeed, William and Mary, founded in 1693 and now part of Virginia’s system of state colleges and universities, “was private until 1906,” he says, and just before World War II half of U.S. students attended private colleges.

A century or more ago, when college attendance was confined mainly to the very well-off, reliance on private tuition rather than tax-supported loans and grants may have been the world’s fairest system, Archibald suggests. England, by contrast, required taxpayers to subsidize university costs for a tiny elite — mostly students from upper-class families, he notes.

In the United States, tax-supported efforts to expand the college system
— and therefore the number of graduates — began, albeit slowly, in the mid-19th century. In 1862, for example, the federal government granted states federal land to establish technical colleges, forerunners of many today's state colleges and universities.

Public support for college attendance expanded sharply after U.S. involvement in World War II (1941-1945). The so-called G.I. Bill, which provided tuition subsidies to military veterans, was the largest public initiative to date.

Beginning in the late 1950s, other tax-funded higher education initiatives burgeoned.

In 1957, the Soviet Union launched Sputnik, the first manmade Earth-orbiting satellite, and the following year Congress passed and President Dwight D. Eisenhower signed into law the National Defense Education Act. It contained programs to improve math, science and language training and post-secondary education, plus the National Defense Student Loan Program for low-income students.

The program, precursor of today’s low-interest Perkins loans through which post-secondary institutions disburse federal loans to needy students, was the first explicitly aimed at helping students from poor families attend college. It provided for direct loans from a designated tax-supported fund.

Lawmakers expanded college lending in 1965 with a new program under which private banks made loans that were guaranteed by the federal Treasury.

Robert Shireman, chief consultant for California Competes, a group in San Francisco that advocates for increased public support for higher education, says one reason for enlisting banks was to help keep student loans off the government’s books. Under federal budget rules, a direct loan counted as “a total loss” to the Treasury “in the year it was made, even though most of it would be paid back with interest,” Shireman wrote. By contrast, so-called guaranteed loans from private banks, which the government agreed to reimburse if students defaulted, did not count as immediate government costs.

In 1965, Congress established the Guaranteed Student Loan Program, which subsidized low-income students by paying the interest on their loans from government funds while they were attending school or otherwise deferring repayment. Moderate-income students also could get loans, but without the interest subsidies. In 1978 students at all income levels became eligible for nonsubsidized loans, and in 1980 the government agreed to guarantee private lenders against borrower defaults in a new loan program — PLUS, Parent Loans for Undergraduates.

The programs came to represent an attempt to leverage both public and private funding to expand post-secondary education, says Baum of Skidmore College. The principle behind this split responsibility, in which the government pays upfront and students pay more down the road, is that college-educated adults “will make more money than others, so you can argue that they should pay for [their education] rather than taxpayers.”

Several federal need-based college-grant programs also target lower-income students. They include the Educational Opportunity Grant, enacted in 1965, and the Basic Educational Opportunity Grant — forerunner of today’s Pell Grants — in 1972.

But with college costs and enrollments rising steeply, loans have gained ground on grants as the main source of funding. And that, says St. John of the University of Michigan, gradually has turned a college education into an individual “debt burden for average Americans” rather than a shared public responsibility. That’s emblematic of “how the conception of the public role in education has changed” over the six-plus decades since the federal government began subsidizing college attendance, he says.

Both the percentage of students borrowing and the amounts they borrow have swollen recently. At for-profit colleges, for example, 92 percent of students borrowed in the 2007-2008 academic year, up from 61.5 percent in 1995-1996. In 1996, 23,000 students owed at least $40,000 in college loans, but by 2008, more than 200,000 did.

The United States, Canada and South Korea are the only countries that commit 2 percent or more of annual gross domestic product to higher education. The United States tops the list, at 2.9 percent, of which 1.9 percent consists of private resources, including tuition payments and charitable donations, a higher private share than any other country.

The bulk of enrollment, however, has shifted from private to public colleges and universities in recent decades, says Hauptman, the policy consultant. In 1950, half of college students attended private colleges, while only a fifth do today.

The growth of tuition and fees as a proportion of total revenues at public colleges and universities is “one of the most marked trends in post-secondary finance in recent decades in the U.S. as well as in many other countries,” Hauptman wrote. Tuition payments now fund more than a third of the educational activities of public institutions in the United States, up from a tenth 30 years ago, he said. Proportions vary widely among states, from 13 percent in New Mexico to 77 percent in Vermont, Hauptman wrote.

A state-university president is said to have quipped that “once we were a state university, then we were a state-supported university, now we’re state-located,” observes Philip G. Altbach, director of the Center for International Higher Education at Boston College.

Nevertheless, “I don’t think the public side is quite as privatized as some
### Chronology

#### 1940s-1970s

**Federal-aid programs improve access to higher education, which previously has been funded mainly by private dollars.**

- **1944**
  First major federal college-aid program, the G.I. Bill, offers tuition payment to veterans.

- **1950**
  Fifty percent of students attend private colleges.

- **1958**
  National Defense Education Act creates the first federal college-loan program, for low-income students.

- **1965**
  Expanded federal loan program provides nonsubsidized loans to middle-income students and covers some interest payments for low-income student borrowers. New private-lender college loans are launched, with banks protected by the government from losses if students default.

- **1970**
  About 10 percent of Americans over age 25 have attended four years of college.

- **1972**
  Student Loan Marketing Association (Salle Mae) established as a government-sponsored enterprise to buy student loans from private lenders to free up banks to make more loans.

- **1976**
  Congress bars student loans from being written off through bankruptcy for five years after graduation.

- **1978**
  Congress makes students of any income eligible for federal loans.

#### 1980s-1990s

**Controversies grow over whether federal loan programs harm students while enriching lenders and driving up college costs. New for-profit colleges spring up.**

- **1980**
  Government protects private lenders against loss in new Parent Loans for Undergraduate Students program.

- **1986**
  Federal Loan Consolidation Program permits consolidation of college loans into one debt with lower monthly payments, longer repayment period.

- **1987**

- **1993**
  New direct government-loan program to compete with federally guaranteed bank loans.

- **1996**
  Congress permits Sallie Mae to become a private company.

- **1998**
  Colleges with high default rates are barred from federal loan programs.

#### 2000s

**College debt and tuition soar.**

- **2005**
  Tough, new law bans virtually all discharge of college debt through bankruptcy proceedings.

- **2007**
  New York Attorney General Andrew Cuomo alleges private-lender kickbacks to universities and financial-aid officers; accused universities and banks reach financial settlement, agree to new conduct code.

- **2010**
  Total college debt rises to $830 billion, surpasses total credit-card debt.

- **2011**
  To free up money for Pell grants for low-income students, congressional and White House debt-ceiling negotiators end loan-interest subsidies for graduate- and professional-school students and eliminate incentives for on-time repayment.

- **2010-2011**
  Volume of new federal college loans tops $100 billion for first time in 2010-2011 school year.

- **2007**
  New York Attorney General Andrew Cuomo alleges private-lender kickbacks to universities and financial-aid officers; accused universities and banks reach financial settlement, agree to new conduct code.

- **2007**
  Congress adds new income-based repayment option for direct loans.

- **2008**
  More than 61 percent of students at four-year public colleges carry education debt (including borrowing by parents).

- **2010**
  Total college debt rises to $830 billion, surpasses total credit-card debt.

- **2011**
  Congress replaces federally guaranteed private-lender loan program with direct federal loans, effective July 1, 2010, and, starting in July 2014, eases terms of income-based repayment.

- **2011**
  Twenty percent of nation’s students attend private colleges.

- **2011**
  Loan defaults by students who attended for-profit colleges soar 30 percent over previous two-year period.

- **2011**
  Congress replaces federally guaranteed private-lender loan program with direct federal loans, effective July 1, 2010, and, starting in July 2014, eases terms of income-based repayment.

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  Congress replaces federally guaranteed private-lender loan program with direct federal loans, effective July 1, 2010, and, starting in July 2014, eases terms of income-based repayment.
Colleges Challenged to Give Students More Value

Rising student debt fuels call for tuition cuts, better education.

With a growing number of students facing big debts when they leave college, calls are increasing for educational institutions to do more to provide value for tuition dollars.

“Public-college tuitions just can’t keep going up at the rate they have,” even though “the net prices that people actually pay haven’t gone up as rapidly,” says Sandy Baum, a professor emerita of economics at Skidmore College, in Saratoga Springs, N.Y., and a longtime college-funding analyst for the College Board.

There’s little doubt that many colleges are overspending and could cut costs, say many education-policy experts.

“When some people on a faculty are teaching only one course a semester, one obvious answer is to get them teaching more,” says Arthur M. Hauptman, an independent public-policy consultant in Arlington, Va.

Others argue, however, that cutting costs can be easier said than done.

“I’m skeptical about ideas for things that can reduce costs dramatically,” such as increasing online education, says Donald Hossler, a professor at the Indiana University School of Education, in Bloomington. For one thing, much online instruction would likely take place in introductory courses and at community colleges, where lower-income, less-prepared and younger students likely need “more personal intervention” to succeed, not less, Hossler says. “I think we will see pretty high dropout rates if that’s all we can offer them.”

Recently, institutional spending has risen faster in a relatively small cost category dubbed “student services” than for the biggest-ticket spending items, such as teaching, says Douglas A. Webber, a doctoral student in economics at Cornell University and a researcher at Cornell’s Higher Education Research Institute.

Webber defines student services as “anything outside of the classroom that encourages student engagement” with school, such as counseling, tutoring, clubs and student publications.

While many see such services as potential sources of cost cuts, Webber says a solution that looks good in theory may be more complicated in practice. At current spending levels, extra dollars spent on student services pay off better in improved student retention and achievement than equivalent investments in teaching, especially at schools with many lower-income students, he says.

In the current system, states award funding to public colleges and universities based on cost lists that schools submit. But with prices skyrocketing, more discriminating judgment is required, says Hauptman. Lawmakers themselves wouldn’t necessarily make the judgment calls but might instead assemble panels of academic experts to set reasonable compensation for different sorts of college investments, he suggests.

The rates would be based on how much those investments furthered such public goals as increasing the proportion of entering freshmen who complete their degrees, Hauptman says. Expensive institutions should also be required to make financial contributions, given the fact that taxpayers must pony up money in advance for loans and students must pay back those debts for years afterward, Hauptman argues.

Under current rules, a school’s “sticker price,” which only a handful of the very richest students actually pay, determines how big a federal loan students may obtain, Hauptman says. Basically, a loan is capped at the difference between the school’s sticker price and a student’s estimated family contribution, calculated according to the government’s Free Application for Student Aid (FAFSA).

A student with $30,000 in resources who attends a school with a $50,000 sticker price is authorized to borrow $20,000.

Continued from p. 886

say,” says Hauptman. The University of Virginia, for example, claims that only about 8 percent of its funding comes from the state. But when funding for educational activities only — rather than research and a UVA-affiliated hospital — is counted, “a third to a half” consists of state dollars, he estimates.

Borrower, Beware?

Even as the students’ loan burden grew, consumer protections for education loans shrank.

The strict repayment conditions facing today’s student borrowers are a far cry from the gentler atmosphere previous generations remember, wrote New York Times business columnist Joe Nocera.

Nocera graduated in 1974 with about $8,000 in debt and a journalism degree, and in 2007 he recalled “constantly falling behind on my payments. The bank . . . would send a stern notice whenever I got too far behind, which would prompt me to cobbled together a few payments by skipping some other bill.” However, “it never raised my interest rate as punishment, nor did I ever have to pay any late fees. My chronic tardiness didn’t even affect my credit rating. And had I defaulted, I would not have had my wages garnished, or been stuck with the debt if I had filed for bankruptcy. All of which can happen today.” 24

To keep private lenders’ cash flowing and to reimburse the Treasury in cases when the government must pay a bank after a borrower defaults on a guaranteed loan, Congress has enacted stricter rules for education loans than for most other lending.

In 1976, Congress barred writing off education loans through bankruptcy...
from the government, for example. To pressure colleges to think twice before pushing sticker prices sky high, students might instead be permitted to borrow half the difference — $10,000 — with the school required to discount its sticker price by the other $10,000, Hauptman suggests.

Furthermore, when colleges see the need to spend more to provide their services, “Why do they raise tuitions rather than increasing enrollments” to pay for it? Hauptman asks. Adding more tuition-paying students is just as valid a means to increase revenue as increasing individual tuitions, he says. But while community colleges and some other lower-tier public colleges are required to follow that course, higher-priced schools seldom do, he says. “The focus of faculty members is to keep enrollment down, but I think we need a more fundamental discussion” of how rising costs are funded.

School accountability “is really important,” says Deanne Loonin, staff attorney at the Student Loan Borrower Assistance Project at the National Consumer Law Center in Boston. With students accumulating ever-greater debt to attend college, “schools should care about their completion rates” and take more responsibility for ensuring that students who enter get what they’re paying for, she says.

Higher-education groups say that figuring out exactly what colleges should be held accountable for, and how to measure that performance, isn’t easy. “Effective assessment of student learning is complex and multifaceted,” said Christine M. Keller, executive director of Voluntary System of Accountability, a membership group of public colleges and universities. “A top-down approach that imposes a one-size-fits-all . . . method” of judging schools’ educational accomplishments would be “counterproductive.”

And while colleges are accused of engaging in a pricey institutional “arms race” in their quest for prestige and better students, more than just the institutions may be to blame.

“It would be nice to think that students are making their decisions about school on the basis of pedagogy,” but, in fact, many are not, says Robert K. Toutkoushian, an education professor at the University of Georgia. Instead, decisions about which school to attend often are influenced by factors that are costly for schools to accommodate. For students, it may be, “I have my own bathroom,” he says. And for parents: “The grounds are kept well.”

— Marcia Clemmitt

10 to 15 years, loan policies have “become much more liberal at the front end about who can get how much money” as loan limits and eligibility restrictions have been lifted. “But at the same time,” she says, “we’ve steadily increased the government’s collection power.”

Loonin points out that the government can even seize money from a low-income student borrower’s Social Security benefits and Earned Income Tax Credit, a federal program designed to help needy families. Garnishing that money “contradicts another policy goal” — reducing poverty, she says. “There should also be more due process, to give people the opportunity to challenge” rulings about their qualification for hardship exemptions, Loonin says. And she wants “more relief for people affected by abusive practices such as fraud” by schools that, for example, make false claims about the value of their degrees.

Alan Collinge became a student-loan reform advocate after penalties and interest pushed $38,000 in college debt to $50,000 and then $95,000 following temporary payment deferments while he finished degree requirements in aerospace engineering and then was unemployed, he said in a 2010 book, The Student Loan Scam.

A bureaucracy that seemed hostile to borrowers compounded his difficulties, he wrote. The big loan-originating and collections company Sallie Mae mistakenly billed him multiple times for what should have been a one-time late-payment fee and apparently lost his request for an economic-hardship suspension, Collinge wrote. 28

“The analogy to subprime [mortgage] loans is a good one” for student loans, Collinge says. Just as easy-seeming mortgage terms drove up home prices, he said, the availability of education loans fuels consumer demand that helps drive up the price of college. And in both situations, Collinge says, “people got involved in a form of debt that they don’t understand,” with multiple loan provisions “that run up the total that must be paid.” College loans don’t represent a price bubble that can pop, but borrowers “experience a complete loss of faith in a government lending system” supposedly intended to help people, he said.

Furthermore, Collinge complained that when a student defaults and the Department of Education must reimburse the lending bank, the government can easily recoup the money and then some by pursuing the student all the way into retirement. The government has no incentive to help students and lenders work out a payment plan, he argues.

### Consumer Protections

Education lending has “been an extraordinarily profitable business,” wrote Fortune magazine reporter Bethany McLean in 2007. Sallie Mae, for example, had had one of the highest rates of return on shareholder investments of any American company and compensated its executives handsomely, paying CEO Albert Lord more than $200 million between 1999 and 2004, McLean wrote. 29

But consumer concerns that the loan industry put profits above students have led to several changes over the past 20 years, notably instituting income-related repayment plans and limiting private banks’ role in college lending.

In the early 1990s the Clinton administration argued that direct loans from the federal government, rather than banks, were safer for students and cheaper for taxpayers because they eliminated subsidies to commercial lenders. That view prevailed, and in 1993 Congress passed the Student Loan Reform Act, giving universities the option of offering direct federal loans rather than loans offered through banks. The law also introduced a program for lower-
Tips on Taming the College-Debt Monster

Track costs and pay high-interest loans first, experts say.

Soaring college tuition is translating into bigger education loans, so college-bound students must mull their higher-education choices more carefully than ever. Here are some tips from experts:

• **Consider alternatives.** Deciding between a four-year college and a cheaper two-year community college should be based on more than just money. If you know you’re going for a bachelor’s degree, starting at a four-year school may be the better choice, says Douglas A. Webber, a doctoral student in economics at Cornell University and a researcher at Cornell’s Higher Education Research Institute. But for professional fields that don’t necessarily require four years, such as nursing, he says, community college certificate programs are “often under-valued.” They cost less than comparable programs at four-year schools, “so they’re well worth considering,” Webber says.

Shopping around among two-year colleges also is important, says Stephanie R. Cellini, an assistant professor of public policy at George Washington University in Washington. For example, if a for-profit college in your area advertises a certificate you want, such as in auto mechanics, it’s worth checking to see if a community college near you offers it, too, because community colleges are the lowest-cost option, Cellini says.

• **Find out whether you qualify for aid,** such as need-based federal Pell grants, so you don’t foreclose the option of attending a favorite school too early. “Students simply don’t know what aid is available” and may simply write off the possibility of attending some schools because they don’t think they can afford their advertised “sticker prices,” says Donald Heller, an education economist at Pennsylvania State University in State College.

Very few students pay those sticker prices, however, and low-income students never do because need-based grants are available, Heller says. Starting this October, all colleges must post so-called “net-price calculators” on their websites to help students figure out their bottom-line cost. The calculators factor in grants, loans and upfront costs, and the figures are adjusted to reflect discounts based on the financial status of students’ families. Although the calculators aren’t perfect, they can provide a much better sense of actual costs than the estimates available in the past. 1

Too often overlooked in the financial-planning stage is the question of “how are you going to live?” says Sandy Baum, a Chicago-based independent education consultant and longtime College Board analyst. Living expenses run about $12,000 to $15,000 a year, “which can give you a lot of added debt,” she says.

• **Borrow your permitted maximum through federal loan programs before considering private loans,** which have much higher interest rates and don’t allow the deferred or income-related payments or loan-forgiveness programs that apply to most federal loans.

• **Keep careful records of your borrowing.** People are making these huge financial decisions, and a lot of times they don’t even realize how big, because loans are so easy to get,” says Webber.

Track the lender, balance and repayment status of each loan. These details will determine your options for repayment schedules and loan forgiveness down the line, advises the Oakland, Calif.-based Project on Student Debt. Details matter. For example, different loans have different “grace periods” — the amount of time you can wait after leaving school before you must make your first payment. The federal website http://studentaid.ed.gov/PORTALSWebApp/students/english/index.jsp provides information about federal aid and loan programs and allows you to track and manage your personal financial-aid application process, loans and more.

• **Make savvy choices about repayment,** suggests financial analyst Mark Kantrowitz, publisher of the college-aid website FinAid. Paying off your debt as soon as possible will save on interest, and the best way to cut interest costs is to pay off the loan with the highest after-tax interest rate first. If you have both federally guaranteed and private loans or have used a credit card to pay some college expenses, the highest-interest loan — and thus your first target for repayment — should be the credit-card or private-lender loan, Kantrowitz said. 2

—— Marcia Clemmitt


wage borrowers that pegged payments on direct loans to income.

But many in the financial industry, along with many political conservatives, opposed direct loans. The government is not as well positioned as banks to “manage risk, market student loans or service ongoing lending,” wrote Douglas Holtz-Eakin, a former chief of the Congressional Budget Office who served as economic adviser to Presidents George H. W. and George W. Bush and to the Consumer Bankers Association. Budget estimates pegging direct government loans as cheaper for taxpayers failed to capture their true costs, including lost income-tax revenues from private lenders, he wrote. 30

For more than a decade, the student-loan industry fought hard to induce col-
leges to stick with federally guaranteed bank loans. But those efforts backfired in 2007, when then-New York Attorney General Andrew Cuomo revealed what he called an “unholy alliance” in which colleges and college officials accepted kickbacks for naming “preferred lenders.”

Financial-aid officers at universities including Columbia, in New York City, Johns Hopkins, in Baltimore, and the University of Texas, at Austin, resigned. Some universities and lenders, including banking giant Citibank, agreed to settlements that included financial penalties and pledges to submit to a new industry conduct code. 31

Over the past few years, Congress has changed the federal education-loan programs in ways that many analysts say should make them less onerous, at least for future borrowers and some past ones eligible to opt into the new repayment plans.

In 2007, Congress created a loan-forgiveness program for some student debtors who go into public-service jobs and added an income-based repayment option for direct loans to the one it had passed in 1993. It allowed borrowers to opt into a repayment plan that caps payments at 15 percent of discretionary income and forgives any remaining debt after 25 years. Then last year Congress lowered the cap to 10 percent of income and shortened the pay period to 20 years, beginning July 1, 2014. 32

Many higher-education analysts welcome the plans that offer lower-income people smaller monthly payments but say they wish they covered more people. “It’s good, but not as good as it could be,” says Skidmore’s Baum.

Delaney of the University of Illinois complains that the programs require students to opt in rather than being automatically enrolled — a problem she says guarantees that relatively few students will be covered.

Another 2010 provision fulfilled a longtime Democratic goal — replacing federally guaranteed bank loans with direct federal loans. The provision, which applies to loans made in July 2010 or later, will work better for consumers and taxpayers because it cuts out fees charged by private institutions acting as middlemen, supporters argue. Private lenders can still

Student-loan programs continue to play a role in heated debates over federal spending. In negotiations between Congress and the White House this summer over raising the federal debt ceiling — the amount Congress authorizes the government to borrow — college-loan programs took a hit as negotiators struggled to find money to shore up the Pell Grant program for low-income students.

On Aug. 2, lawmakers passed and President Obama signed the Budget Control Act of 2011, raising the debt ceiling to forestall a government default. 33 Negotiators authorized a temporary $17 billion boost in Pell Grant funds for 2012 and 2013, in part to replace expiring increases passed in 2009 and 2010 as part of economic-stimulus and health-care reform bills.

The Pell increase isn’t a done deal, however. Congress ultimately must make additional spending cuts elsewhere before it can appropriate the funds. An appropriations bill recently approved in the Republican-led House, for example, would trim $44 billion from Pell over 10 years by limiting eligibility, according to the advocacy group Institute for College Access and Success. 34

What’s more, in passing the Budget Control Act, Congress eliminated programs offering loan-interest subsidies

Continued on p. 894
Are students borrowing more than their educations are worth?

President Obama made it clear in his State of the Union address that two areas of focus going forward will be education and “fixing what is broken” in the federal government. The most meaningful way for the president to demonstrate this — on both fronts — lies in the federal student-loan system.

Like subprime lending, the student-lending system has been corrupted deeply, enabling college prices to rise faster than both housing and health care over the past three decades. Today, we owe an astounding $1 trillion in student debt, and instead of decreasing in the slow economy, borrowing has accelerated massively to keep pace with record-breaking tuition increases.

Unlike loans for housing, student loans were stripped of bankruptcy protections and nearly every other consumer protection Americans assume is there when they borrow. At the same time, Congress gave the student-lending system collection powers so draconian that big lenders, guarantors and likely even the Department of Education have made far more money on defaults than healthy loans. This is not tolerable in this or any other country. On this there is no debate.

As Harvard Law Professor Elizabeth Warren, who established the government’s new Consumer Finance Protection Bureau, put it: “It’s impossible to buy a toaster that has a one-in-five chance of exploding, but similar standards aren’t imposed on financial products. Indeed, education-loan defaults have been greater than one in four for many years and are probably between 30 percent and 40 percent today, yet the Department of Education has not warned the public. Congress, too, needed to know this as they debated whether to raise loan limits time and again. But they were shown only misleading cohort rates that reflected a small fraction of the true default rate. As a result, students now borrow far more than their educations are worth, and they (and often their co-signing relatives) are being decimated financially.

Ultimately, the removal of bankruptcy protections is the root of this mess, and their immediate return is the solution to both the exploitation of borrowers and the prices being charged to all students, rich and poor. Economists and true conservatives everywhere should agree with this assertion. Student debt is a top issue in the protests going on around the country this fall, demonstrating that the public is unlikely to tolerate for much longer the political and administrative games that perpetuate this harm.

Looking at the basic facts, college students are not absorbing more debt than their educations are worth. But that doesn’t mean debt shouldn’t be much smaller.

While methodologies for calculating it are hotly debated, the college-earnings premium is generally considered to be substantial. On the high end, the Census Bureau estimates expected lifetime earnings to be $1.1 million greater with a bachelor’s degree than just a high-school diploma. Low-end estimates — between $100,000 and $300,000 — also suggest that debt pays off. Why? Because the average debt for graduates is only $24,000, so most are paying only a modest price for the return in additional wages — at least $100,000, even by the most conservative estimates. Those, though, are just basic averages. There is much that they miss.

First, many students enroll in college, incur debt, but never finish their studies, failing to obtain the degree that is crucial to increased earnings. Indeed, the six-year graduation rate for first-time, full-time students enrolled in four-year institutions is just around 57 percent, and most who do not finish in six years probably never will.

Then there’s what a degree does. Rather than indicating mastery of valuable skills, it often signals to employers only that the possessor has some basic positive traits, such as threshold levels of intelligence or perseverance. The extent to which that is the case varies greatly by major — as do earnings — but generally speaking, paying for college is a very expensive way just to indicate that you’ll show up at work on time.

Proving this, to be fair, is tough, because we have no comprehensive measures of what students actually learn in college. What we do have, though, is discouraging. The National Assessment of Adult Literacy shows markedly decreasing literacy rates for college grads between 1992 and 2003. Meanwhile, research by academics Richard Arum and Josipa Roksa, authors of Academically Adrift: Limited Learning on College Campuses, suggests that 45 percent of four-year college students learn little in their first two years, and 36 percent nearly nothing in four years.

Finally, there’s price inflation: Going into debt might be worthwhile, but the levels shouldn’t be nearly as high as they are. College prices have inflated at astronomical rates over the last several decades, at least in part because student aid, including grants and cheap federal loans, enable it. Give students an extra dollar, and schools raise tuition by a buck.

So does a degree pay off handsomely? Generally, yes. Does that mean debt levels are just right? No way.
for graduate- and professional-school enrollees and interest reductions on loans that students pay on time. 35

Student-loan programs have long been part of Washington debt-reduction debates, but with new loans all using government rather than private funds, many may see the matter in a new light.

In the past, observed the online magazine Inside Higher Ed, “because significant proportions of the programs’ profits flowed to banks and other lenders, slashing [the programs] — to increase spending on grants to students or even to pay down the federal deficit — was often portrayed as taking money from ‘fat cat’ companies” and using it for students or other public purposes. Today, however, with commercial lenders removed from the picture, “it is clearer than ever before” that cutting loan programs actually means taking money from cash-strapped “borrowers themselves.” 36

Meanwhile, taxpayer funding for public colleges in at least some states is drying up. And as the economic downturn lingers and federal stimulus funds wind down, state lawmakers are resisting tax hikes to shore up higher education. 37 That means tuitions at public colleges will likely rise, fueling further increases in student debt.

In the University of California system, for example, 2011-2012 tuition will rise 18 percent from 2010-2011 and more than 80 percent from 2007-2008, according to Equal Justice Works, a Washington-based advocacy group that promotes access to education. 38

**More Students, More Loans**

The biggest higher-education trend, in the United States and elsewhere, is the ever-growing number of students who get post-secondary training. But as costs outpace public funding, the trend sets education debt on a permanent upward path, worldwide.

“We are in a new era where resources don’t seem endless, and nobody’s found a cheap way to pay for a college education,” says Indiana University’s Hossler.

As a result, “lots of countries,” both developing and industrialized, “are looking into loans,” including countries such as the United Kingdom that formerly relied on tax revenues rather than students’ tuition loans, says Boston College’s Altbach.

Countries looking to expand the use of student debt are unlikely to use the U.S. system as a model, though, says independent analyst Hauptman. More likely models are Australia and New Zealand, where student borrowers are automatically enrolled in plans that are administered through the tax system and base repayment amounts on students’ post-graduate incomes. While those nations face their own struggles over how heavily government should subsidize higher education and how much individual debt is acceptable, their systems are far preferable to the U.S. approach, Hauptman contends.

But others criticize schemes that base loan repayment on income, arguing that they are merely stealth methods of shifting more college costs from society at large to individual students. Low earners end up paying more in interest than high earners who can pay off their loan relatively quickly, said the Canadian Federation of Students, a student-advocacy group in Ottawa that has opposed income-contingent repayment plans in Canada. Many women, in particular, might end up with a “lifelong debt sentence” because women earn less on average than men, the group said. 39

**OUTLOOK**

**Explosive Debt?**

Even as college costs rise, many policymakers are calling for expansion of post-secondary schooling to create a better-prepared pool of workers to build tomorrow’s economy. But college-price increases, coupled with policies encouraging more people to complete post-secondary training, will continue to raise questions about how heavily taxpayers are willing to subsidize higher education and how much debt students can be expected to shoulder.

The nation faces a huge dilemma, says the University of Pennsylvania’s Perna. “How do we balance these budgets and achieve our goals” for improving college-completion rates “in the face of declining revenues? You can become paralyzed by the magnitude of the problem.”

Experts say some states that have been basing student aid on recipients’ grades rather than financial need may be starting to back away from that policy, concerned that it isn’t expanding access to college. But, says Penn State’s Weisbrod, “in the nation as a whole I don’t expect to see merit-based aid back off” — a trend that could continue to bode ill for cash-strapped students lacking top-tier grades but who nonetheless seek a college degree.

Even as students pay more to attend college, look for the nature of higher education to change. Huge class sizes, reflecting colleges’ struggles to accommodate enrollment surges, will be one manifestation, says Northwestern’s Weisbrod. “In a class with 500 students rather than a class of 20, you’ll be less likely to assign papers,” for example, “so there is a quality issue,” he says. “The nature of education is changing as we try to make it available to everybody.”

In such a climate, requiring individuals to take on more and more debt for schooling will eventually lose political support, Weisbrod argues. “Leaders will come to realize that you can’t have a successful program” of encouraging college graduation “if you are saddling people with unworkable debt” to do it.
St. John of the University of Michigan says “loans have become very important” because “they enable the working class” to get post-secondary training. Still, he says, “there are ways to work within a problematic system to move toward something that’s fairer.”

But student debtor and activist Collinge thinks it may take a near-revolution to get there. Congress seems unlikely to take a serious step, such as restoring bankruptcy protection, he says. On Capitol Hill, “they’re scared of the power” of the higher-education establishment, including colleges, private lenders and even the Department of Education, Collinge asserts. All have vested interests in opposing such large-scale changes, he says.

As debt burdens become untenable for more students, the federal programs supposedly intended to help people pay for college “will become a national joke,” Collinge predicts. “Nobody will pay. There could be a national strike. It could get very dodgy at that point,” as Americans suffer “a loss of faith in a major government-lending system.”

Notes
7 Quoted in Coleman, op. cit.
12 Ibid.
20 “Web Tables” for “Trends in Student Financing of Undergraduate Education: Selected years, 1995-96 to 2007-08,” National Cen...
25 Ibid.
38 Bowers, op. cit.

Cohen, a professor emeritus of higher education at the University of California, Los Angeles, and education-policy consultant Kisker put the development of the U.S. higher-education system from the early 1600s to the 21st century into its social and economic context, focusing on the continued push to expand access and examining the recent privatization trend.


A student-debt activist chronicles the growth of the education-loan business and accompanying federal bureaucracy, which he argues have profited on the backs of student debtors.


Weisbrod, a professor of economics at Northwestern University, and his coauthors describe how colleges fund their academic activities with a complicated revenue mix that includes tuition, private donations, taxpayer dollars and proceeds from commercial-type activities, such as research and intercollegiate sports.

**Articles**


At the University of Pennsylvania’s Wharton School, members of the MBA class of 2013 will be the first to owe more than $100 million in education debt, including interest, when they complete their degrees.


Students who become disabled after taking out loans can be excused from repayment, but the Education Department hesitates to adopt a simplified disability-certification process.


The revenues flowing to banks and the Department of Education as students repay their loans far exceed the loans’ cost, making student-loan programs a hot business.

**Reports and Studies**


Too few need-based grants are available to ensure that qualified low- and moderate-income students can complete college, says a federal advisory panel.


For-profit career colleges have the highest proportion of students with debt, says the vice president of a student-debt research and advocacy group.


As tuitions soar, more students are taking on the riskiest kind of education debt — non-federally guaranteed private-lender loans, write analysts at an independent think tank.


Analysts for a nonprofit group say policymakers remain unaware of the seriousness of student-debt problems because federal statistics don’t reveal that many borrowers temporarily fall behind in their payments.


The combination of rising tuitions, rising debt and pressure for more Americans to complete college may soon force colleges to demonstrate that they provide value for the dollar, says the founder of a nonprofit group that advocates for accountability in higher education.

*From the CQ Researcher Archive:*

College Costs


There are few signs that the rising cost of college will abate anytime soon as states continue to contend with budget shortfalls and the lingering recession, according to education experts.


Congress has ordered almost all post-secondary schools to post a “net price calculator” on their websites so potential students can know the full price of attending college after financial-aid awards are given.


Financial-aid award letters that follow admission offers suggest to students that they will be able to afford a specific school, but they actually offer little insight into the actual cost of attendance.


The rapidly rising cost of college is forcing many Massachusetts parents to adjust expectations and approaches to financing their children’s education.


Tuition and fees at Arkansas public colleges and universities rose faster than inflation in the past five years at all but six institutions, according to legislative auditors.


Students fortunate enough to get accepted into state universities will face annual tuition hikes, according to a University of Washington student.

Debt Levels


Rising student-debt levels coupled with dismal employment prospects have left many students wondering whether they will be able to repay their loans.


The average student-loan debt in Arizona rose in 2011 to more than $28,000, or about $1,500 more than the 2010 level. The increase was slightly less than the national average hike.


Student-loan debt is expected to surpass $1 trillion in 2011 as more students go to college and a growing share of them borrow money to do so.


Today’s graduates are having to pay back larger student loan amounts despite the dim prospects of landing employment after graduation.


Rising student-debt levels mean that many of today’s graduates will be making payments when their kids are taking loans out for college.


More than three-quarters of students who graduated from South Dakota colleges in 2009 had debt, the highest level in the nation, according to the Project on Student Debt.

Loan Defaults


Recent graduates are more likely than past graduates to default on their loans within three years because the poor economy is providing fewer jobs.

Dozens of Tennessee nurses have had their licenses suspended for ignoring their student loans under new enforcement of a decade-old statute.


The White House budget indicates that the government expects to make 17 cents on every dollar of guaranteed student loans that default, but the figure doesn’t account for the time it takes the government to collect the loans.


The 10.8 percent federal student-loan default rate at Nevada’s four-year universities has lagged behind the nearly 14 percent nationwide default rate since 2008.


Default rates on federal student loans for higher education are now at their highest since 1997, according to the U.S. Department of Education.


About a quarter of student-loan borrowers in financial difficulty keep default and delinquency at bay by postponing repayment.


More than 40 percent of student-loan borrowers are delinquent at least once in their first five years of repayment, according to the Institute for Higher Education Policy.

Repayment


The best way to avoid the negative consequences of student-loan default is to take charge of repayment right away.


Many students become complacent about student loans because repayments don’t begin until after a six-month grace period following graduation.


Missing just one student loan payment can ruin a credit score, and a bad credit score can lead to higher costs for other loans.


Unlike most consumer loans, student loans cannot be discharged in bankruptcy, and the government and private lenders can sue to collect.


Student-loan consolidation used to be more advantageous when rates were variable, but with most loan rates now fixed, consolidation could raise monthly payments for many college students with outstanding loans.


One of the first steps in paying back student loans is adopting good financial habits that will last.

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