

Is Student Loan Debt to Explode?
By Rebecca Sebek (aka Amandah Blackwell)
Halogen TV
September 5, 2011

To better understand 'how and why' student loan debt http://www.msnbc.msn.com/id/44123513/ns/business-school_inc/ has reached an unprecedented all time high, Halogen TV spoke with experts Brent Wilsey of Wilsey Asset Management <http://www.wilseyassetmanagement.com/new/wilseyassetmanagement/>, Howard Dvorkin, CPA and founder of Consolidated Credit Counseling Services, Inc. <http://www.consolidatedcredit.org/?t=t7dfbn>, Dr. Nicki Washington author of *Prepped for Success* <http://www.preppedforsuccess.com/>, Logan Abrams <http://www.debt-u.com/>, author of *Debt U: How Higher Education Breeds A Lifestyle of Debt*, and Guillermo Caraveo, MBA, JD, author, consultant and owner of GC Investments, LLC about student loan debt and what it means for the United States' economy.

How did the student loan debt swell to 511 percent? What changed in the last 25-30 years?

Brent Wilsey

The reason the student loan debt has swelled 511% over the last 25 years or so can be contributed to two factors. First a 67% increase in the number of students who are enrolled in college. Over the same times period average tuition costs have jumped 238%. Supply demand being what it is the higher demand has pushed up the cost of tuition at a rate greater than the salary of a graduate. *Still well worth the cost when comparing the salary for an advance degree at \$83,144 compared to a high school grad salary of 31,283.*

Howard Dvorkin

The factors leading to the outrageous student loan debt are a combination of: larger numbers of college enrollees; rising tuition rates; diminishing pools of grant aid; and sometimes extravagant and unnecessary spending by institutions of higher learning, who then pass those extra costs on to student borrowers. *Over the last 25-30 years federal aid for students has been steadily decreasing however the demand for a college degree remains.* To make up the difference many students seek out student loans thinking this is the only way. Recently we have noticed this becoming a more common theme with this tough economy.

Dr. Washington

A number of factors contributed to the rise in student loan debt. First, more students began pursuing a college education over the last 25-30 years. As a high-school diploma became obsolete, more students decided a college education was necessary to achieve the career and financial success they envisioned. Second, the cost of tuition at universities across the country has continued to increase. *According to the Congressional Budget Office's "Trends in College Tuition and Student Aid Since 1970," the average undergraduate tuition in 1986 was approximately \$2300. By 2008, it was \$6500.* As these numbers increased, the amount of

financial aid available for students did not increase with it. Third, many families are more willing to incur debt for an education. Before, many students would find the most cost-effective option for pursuing an education, including public, in-state universities, etc. to help minimize costs. Now, parents are more willing to take on financial burdens of loans to ensure students are able to attend the university of their choosing.

Two additional issues that many families don't admit until it's too late are that many students and families do not actively search for and apply to all financial aid options. This is due to reasons such as students not wanting to complete essays or applications. As a result, they don't exhaust all non-repayment forms of financial aid, before resorting to student loans. Many students or parents also begin the college admissions process too late, and are in a frantic hurry to complete everything. As a result, they either overlook, or choose not to apply to scholarships, grants, etc. All of these factors lead to students seeking and accepting more student loans to finance their education.

Logan Abrams

While it might surprise you, it came at absolutely no surprise to me that student loan debt has risen over 500% since 1999. *In my book, "Debt U: How Higher Education Breeds a Lifestyle of Debt" I explain exactly how that rise in student debt is affecting a generation.* Writing the book from my perspective in my 20's showed a unique look inside the culture that is living with this black cloud. But this problem didn't start in 1999, in fact, it started about 10 years prior to that with the government fueled growth of private lenders and a "play now, pay later" marketing pitch sold from everyone from schools to parents to lenders to students.

Guillermo Caraveo

Student loan debt swelled over the last 30 years due to a number of reasons. Among the key reasons include tuition increases, private college growth, rising capital costs, and accruing high debt loads.

How does this affect/influence the United States' economy?

Brent Wilsey

While the cost of education is becoming higher our country must continue to educate our children or else we will be left behind and no longer be the strong nation we once were. We are now in a global economy and competition is becoming greater as each year passes. *A good quality education is a must and students must not fall prey to the pay for the piece of paper degree that today is being sold to often.* Students must put the time in the classroom to be taught by educators who can convey their knowledge along with class discussions.

Howard Dvorkin

Student loan debt is rising by about \$100 billion a year and with it currently at around \$930 billion, student loan debt has most definitely become a macroeconomic issue. By this year's end

it is expected to reach \$1 trillion mark. The problem is this affects are nation as a whole because students graduating with excessive debt are much more likely to delay buying a house, car, getting married, having children, saving for retirement. *Because they are so focused on paying off their debt, they are spending less. Some \$5 to \$10 billion is being taken from the economy every month by students trying to pay their debt off even at a monthly rate of .5 to 1.0 percent of the overall amount they owe.* Then you have the tougher than ever job market leaving these recent graduates unemployed and under-employed which often times leads to delinquency and default.

Dr. Washington

The increasing amount of student loan debt equals the increasing obligation of students to repay them. Many students are finding it hard, in this economy, to find the careers that would help them significantly pay these loans. The economy runs the risk of large defaults, due to an influx of students who are unable to repay student loans.

The other possible effect is that there is less spending in the economy, due to individuals spending more on student loan repayment. *Finally, there is a serious risk of having less college-educated US citizens, due to fewer options to pursue a college degree, if student loan options become less available.* The country is no longer in the top 10 countries producing college graduates. This ranking will continue to decline, and the innovative and productive nature of the country will suffer.

Logan Abrams

In my book, “Debt U: How Higher Education Breeds a Lifestyle of Debt,” I discuss the impacts this mountain of debt will have on a generation and the overall economy. We are less than 1 generation away from college not being a worthwhile investment. Yet we live in a country where our only real asset is our educated class. See where this is headed? *If the rise in cost continues, a baby born today will see college at 3X current prices, which will bring the total of a 4 year education to well over \$200,000; a cost which most will never be able to repay.* If this country loses our educated workforce we lose our competitive advantage, that’s what is at stake here.

Guillermo Caraveo

Federal student loans is an item that is not dischargeable in bankruptcy court, which means that student debt will remain with a person until that person either repays the debt or the person dies. Over time, if the federal government wishes to collect on the debt, they can take measures to collect the proceeds such as withholding federal tax returns or placing liens against property.

Private student loans, on the other hand, may be dischargeable in bankruptcy court, but the long term effects against a person’s credit can be tremendous. The inability to repay back a student loan can affect a person’s ability to pay for a car or pay for a mortgage.

The reality is that the United States’ economy will continue to experience a downturn unless

people have the resources to repay back their debts. As people are forced with choices to repay loans or purchase houses and cars, the choice will slow down growth in the overall economy as some people will choose to repay their debts while other people will continue to spend money.

If defaults on student loans accrue over time, then the value of outstanding student debts will continue to grow and another credit crunch such as the one that occurred in 2008 will force financial institutions to be highly selective with who is able to borrow money for educational purposes.

How can future students avoid taking on many student loans?

Brent Wilsey

Unfortunately we are in the time where kids feel entitled to many things of a material nature. Thirty years ago it was ok not to have a car or shop at Abercrombie for the latest fashion if you were a starving student. *If a student can avoid the temptation, work hard and get a part time job and struggle for four years they can eliminate or at least reduce their debt burden.*

Howard Dvorkin

Tap into your resources. There are tons of scholarships out there and surprisingly many of those funds go completely untouched because students never bother to apply. Fastweb.com is a great source to help you tap into those funds. *Grants are another way to avoid taking out those loans. Grants are great because it is a gift of money so you don't have to worry about repayment.* If you still come up short and find a student loan absolutely necessary make sure to borrow only what you need and make sure the money is funding your education not your lifestyle.

Dr. Washington

First, students should have a realistic conversation with their parents, department advisors, and financial aid counselors at the university. Make sure you fully understand the current amount of debt incurred. Next, speak to your advisor and department chair, to identify any funding opportunities for current students. Many departments have part-time positions for students to work within the department, or scholarship opportunities for students. Speak to other faculty members in the department, to identify any opportunities to receive funding from them as a teacher's assistant, research assistant, tutor, or other positions. Next, you must aggressively apply to scholarship opportunities through the university. There are a number of scholarships for students from various organizations and companies. Pay attention to flyers, emails, and other opportunities highlighted. After speaking with faculty in your department, search for opportunities around the university through student services, to receive funding as a student intern or employee. The student services office may also have information on other scholarships for students attending your university. For any opportunities that pay you as a student (stipends, part time-employment, etc.), use as much of these funds as possible to begin paying down your student loans early.

For any scholarships you apply to, be sure that you are as competitive as possible. Secure

recommendations from faculty who will write favorably of you, and also be sure that you take time to develop a well-written personal statement, if required.

Finally, if you have the option to pursue summer internships, participate in these, and leverage as much of your funding to pay down your student loans early.

Many students can also take courses at community colleges through the summer or academic year. These colleges have a significantly lower tuition rate, and can also help you remain on track for graduation, with much less debt.

Logan Abrams

What can be done? Luckily there are many answers. Firstly, we must teach our children about personal finances by making mandatory high school and college courses. How can we expect them to make sound financial decisions if we haven't taught them how to do so. Secondly, the government now controls the student loan market, so they have the ability to make it more affordable, not just more available. Thirdly, the colleges and universities will soon see increased competition on a cost basis of which they have never seen before. Instead of building new buildings each year, schools will practice restraint and focus on education, not entertainment, and in turn reduce costs by 25% over the next 5-10 years. Sure some schools and universities will go bankrupt, and people will be up in arms, but it will benefit us all. And finally, but most importantly, we MUST change the spending habits of people in school. I say, BE POOR! No seriously...be poor. College was long regarded as a time for new experiences, good times, and little extravagance. *Yet over the past 15 years most college students have elevated their lifestyle to that of equal or higher standards than they had while living at home. It's simple - the easiest way to cut college costs is to revert back to the way college life was supposed to be.*

Guillermo Caraveo

Community college may not be the most popular option but if a student is unsure about what they want to study, it provides a less expensive alternative to either a traditional university or a private school and allows a student to gain an education that can transfer to many college universities. Also, students can pay for their classes while they are working. It may take a longer period of time to graduate from a college program, but in the long run students will have less college debt to worry about while attending school.

There are many college loan repayment programs that are available to students, including public service programs, teacher programs, military programs, and various law school programs. The basic tenet of these programs is that student college debt will be reduced in consideration for a certain amount of time served in a program. In my book, "Enlisting Out of Debt," I discuss my own personal experience about how I was able to reduce my student debt load over time while enlisting in the U.S. Navy.

How can a 'high' student loan debt be avoided in the future?

Brent Wilsey

Many snub their noses at going to a junior college first before attending a university; this can save students thousands if not tens of thousands of dollars. *There are also many scholarships and grants out there that do take a lot of research and time to complete, but it is free money that doesn't ever have to be paid back!*

Howard Dvorkin

Raising the federal student loan limits would be a start to avoiding future 'high' student loan debt. Currently, dependent undergraduates can borrow a maximum amount of \$31,000 and when you consider the average cost of college, it just doesn't make sense. But if we raise the limit to around maybe \$50,000 students would have a much better chance of staying afloat. Warning students about the dangers of borrowing too much is extremely important. If they are borrowing more in total than what they expect to make their first year out of school, they are in the danger zone. Maybe the most important avoidance tip is to make borrower's exhaust all their federal options first. Students need to avoid private lenders if at all possible and if institutions make it a requirement for students to show proof of federal option exhaustion or at least an explanation as to why they are turning to private lenders future 'high' student loan debt can definitely be deterred.

Dr. Washington

Students and families must make wise decisions, when identifying and choosing schools to attend. Identify universities that have higher financial aid packages for students, those with lower tuition rates (public, in-state universities), etc.

Next, identify majors that have more financial aid opportunities for students. For example, students interested in majoring in science, technology, engineering, and math (STEM) will find an abundance of scholarship opportunities for US students, due to the low number of students entering these areas and the high demand for graduates.

Start searching for scholarships and grants early and exhaust all opportunities. Most students and families wait until the student is a senior in high-school to begin the college admissions process. You can begin searching for financial aid before this time. The only way to be sure that it has been exhausted is to begin searching as early as 9th grade for financial aid opportunities for college.

Finally, many students and families are considering community college programs and transferring to 4-year institutions. These programs allow students to take most of their general education courses in the first two years at a community college for a significantly lower cost of tuition. After two years, students can transfer to a 4-year institution as a junior and complete their final two years. You can find more information on what programs are available by speaking to community colleges in your area and 4-year institutions of interest.

Logan Abrams

Live off campus in the cheapest house with as many people as possible. After freshman year there shouldn't be any excuse besides being a RA for living on campus. Off campus housing can be 30-40% cheaper when you add the cost savings gained by splitting utilities and essentials with roommates. Finding the biggest cheapest place can be a great experience. Decorate how you wish, throw parties, and meet friends you will have for life, all for much less than dealing with dorm room showering and fire alarms at 4:00 a.m. And, save even more by sharing everything with your roommates, from milk to toilet paper to beer to textbooks.

Guillermo Caraveo

Unfortunately, high student loan debt is a policy issue that many people must work towards so that entering college students understand the risks they face when choosing to finance their college education with loans. Much of these discussions will require that parents and students alike engage in a true due diligence about the investment that they will be embarking upon. It will require that college bound students consider taking advantage of advanced placement testing and also study the financial implications of attending a university, whether it is private or public.

At a federal policymaking issue, it may also require that college students take a financial literacy course either while in high school or before assuming a federal student loan so that they can truly understand basic financial terminology such as debt, assets, liabilities, and cash flow. It will also provide students with acknowledging that a federal student loan is not dischargeable by bankruptcy and that it can have longer term consequences on their credit as they move forward in life.