Is Student Loan Debt The Next Financial Crisis?

Tim Parker, provided by San Francisco Chronicle – Wednesday, February 22, 2012

There's no doubt that we're all still a little sensitive when it comes to the economy. Although it's been nearly four years since the start of, what we now call, The Great Recession, the world still hasn't let down its guard. The new warning making its way through the financial media is the rising student loan burden. Some believe that this could bring down the economy in much the same way as the 2008 and 2009 mortgage crisis, but is that true?

Background
For generations, young people have heard that the only path to success is through a college education. College remains the accepted path for 68.1% of high school graduates, according to the Bureau of Labor Statistics.

For most students today, student loans are the way to pay the expenses of a higher education. The average student loan debt for a college student in 2010 was $25,250, up 5% from the previous year, according to a study by the Project on Student Debt. For the first time in history, total student-loan borrowing for one year surpassed the $100 billion mark in 2010, making the total outstanding debt more than $1 Trillion.

Some believe that the problem will continue to get worse. Over the past 50 years, the rate of college tuition inflation has ranged from about 6 to 9% annually, sometimes twice the normal rate of inflation. With college becoming more financially out of reach and the economy largely failing to put all of the college graduates to work, experts believe that more and more people will be unable to pay these loans.

Bankruptcy
The problem doesn't stop there. Current laws don't allow student loan debt to be written off by bankruptcy proceedings, regardless of how bad a person's financial situation becomes, so graduates who are bankrupt will likely continue to pay on their student loan debt. Some students with more than $100,000 in debt may pay the equivalent of house payment each month for sometimes more than twenty years.

Economists fear that as this problem continues to grow, traditional purchases like homes and other economy-stimulating activities could be largely stifled, impacting the growth of an already fragile economy.
This problem is much more than a theory. A recent survey found that around 50% of bankruptcy attorneys reported significant increases in clients who list student loan obligations as a significant financial burden. Another survey of the class of 2005 found that one out of every four became temporarily delinquent or haven't paid for a significant period of time.

The Fix
Bankruptcy attorneys believe that the only way to fix the problem is to allow for student loan debt to be discharged in the same way as credit card or other debt through bankruptcy proceedings. Some believe that this would be just another taxpayer bailout of the student loan

industry but since a large portion of debt is through government agencies, much of the debt is already held by taxpayers. Others believe that college tuition inflation needs to be brought under control, but there is little hope for that in the near future.

The Bottom Line

There's no doubt that the student loan system is in desperate need of reform but comparing it to the mortgage crisis may be inaccurate. Although the total amount of outstanding student loans now stands at about $1 trillion, that number is small compared to the roughly $13.5 trillion in outstanding mortgage debt.

College Student Debt Grows. Is It Worth It?

by NPR Staff May 16, 2011

Part of a series on young people and financial literacy

The amount of money Americans owe on student loans recently exceeded the nation's credit card debt. That may lead many to ask: Is it smart to borrow a lot of money to go to college? Student financial aid expert Mark Kantrowitz says that college debt is OK — if you're careful.

"It's smart if it's enabling you to invest in your future," Kantrowitz tells NPR's Steve Inskeep. "But if you borrow more than your expected starting salary after you graduate, you're going to struggle to pay your loans."

As an example, Kantrowitz says if you're going to borrow $10,000 a year for four years, you should hope that the field you've chosen has a starting salary of at least $40,000. If you are going to be borrowing more than that, he suggests looking for a less expensive school.

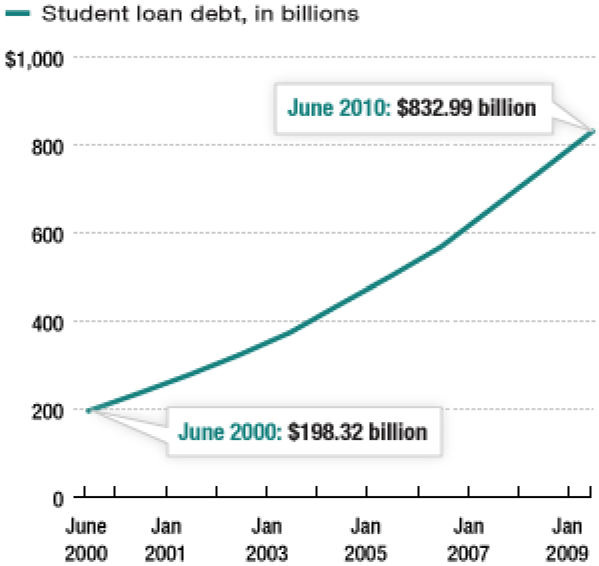
"I can see someone borrowing perhaps $10,000 a year if they're majoring in science, technology, engineering, mathematics, computer science or nursing," says Kantrowitz, the publisher of the FinAid and Fastweb websites.

"But I can't see borrowing that amount of money for a degree in art, or humanities, or sociology, because the jobs just don't pay as well for those fields of study," he says.

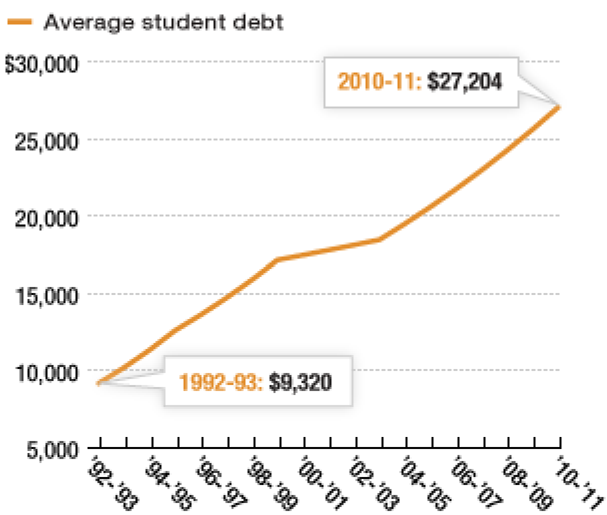
That might make some people wince — especially those who focused on liberal arts in college. Kantrowitz says it's not that those majors are worthless, but that students have to face the reality of how they're going to pay back the money they've borrowed for their education.

So what are the most worthless degrees or, at least, the hardest to monetize later on in life? Kantrowitz says he often hears from religious studies and theater majors who have a hard time paying back their loans.

Graduating With A Debt Burden



Source: Analysis by Mark Kantrowitz, publisher of Fastweb.com and FinAid.org



Notes

Debt at graduation for bachelor's degree recipients. Data for 2008-11 are projections.

Source: Analysis by Mark Kantrowitz, publisher of Fastweb.com and FinAid.org

Ethnomusicology is another example. Kantrowitz describes one student who was thinking of borrowing more than $100,000 to pay for that degree. "There are only two main occupations for a degree in ethnomusicology," he says. "One is being a music librarian, which doesn't pay very well. The other is being [on the] university faculty, teaching other students about ethnomusicology."

Kantrowitz suggests thinking about a double major in a field that will allow you to pay back that debt.

"I'd be the last person to tell a student not to follow their dreams," he says. "You just need to enter into it with a dose of reality, so that rather than trying to figure out how you repay your loans after you graduate, you have that conversation before you incur the debt."

Kantrowitz, who is also the author of *Secrets to Winning a Scholarship,* says that to a large extent, debt is unavoidable, and two-thirds of students graduate with some amount of it.

Kantrowitz tells students, "Before you spend student loan money on anything, ask yourself if you would still pay for it at twice the price. Because by the time you've paid back that student loan, it's probably going to cost you about $2 for every dollar you've borrowed."

And that money adds up to a tidy sum: For students graduating this year, Kantrowitz estimates that their debt will be about $27,000. And if you throw parents' loans into the mix, he says, the average is going to be more like $34,000.

Tips For Minimizing Student Debt

Advice from financial aid expert Mark Kantrowitz.

- Save before going to college.
- Apply for scholarships.
- Apply for federal loans before applying for private loans — they're cheaper.
- Think hard about your major. If you don't expect your starting salary after graduation to match what you borrowed, consider a less expensive college.
- Double major in a more lucrative field.
- Pay interest while you're in school.

Listen to the NPR interview on Morning Edition – May 16, 2011
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