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New Report on Student-Loan Data Finds Debt Loads Burdensome for Many Graduates

By ALEX P. KELLOGG

Many college students are graduating with a burdensome amount of student-loan debt, according to a report released on Thursday by an alliance of state-based citizens' groups. The report is based on similar data that led a higher-education lobbying group to conclude in its own report, released in November, that the median student-loan debt does not exceed a manageable amount.

The new report, titled "The Burden of Borrowing," was published by the Higher Education Project of the State Public Interest Research Groups. It found that an estimated 39 percent of student borrowers are graduating with "unmanageable levels of student loan debt." The report also found that, in the past eight years, the average debt among student borrowers has nearly doubled, to \$16,928.

The report's authors defined unmanageable debt as payments in excess of 8 percent of an individual borrower's monthly income, the same measure used by the American Council on Education, which issued its report on the same subject in November. The measure is based on a loan-industry recommendation that monthly student-loan payments should not exceed that amount.

Furthermore, according to the public-interest groups' report, student-debt burden is not evenly divided among all recent college graduates. Students from low-income families and certain minority groups are more likely to face a heavier debt burden, it says. For instance, the report's authors note that while 71 percent of students from families with incomes under \$20,000 graduated with debt, only 44 percent of students from families with incomes exceeding \$100,000 did. Students from low-income families may also experience more-serious financial hardships because of the debt they carry, the report's authors say, given that those students could expect less financial support from -- and might face higher financial obligations to -- their families after graduation.

Similarly, black and Hispanic students carry a disproportionate amount of the debt burden, with 55 percent of black and 58 percent of Hispanic student borrowers graduating with an unmanageable loan burden.

"Too often debt burden becomes a ball and chain for student borrowers after graduation," Tracey L. King, a spokeswoman for the public-interest research groups, said in a written statement released with the report. "Congress should take immediate action to protect these students from dangerous debt burden by increasing grant aid funding and making student loans more affordable."

The report also suggests that Pell Grant financing has a significant impact on borrowing trends among low-income students in particular. When the maximum Pell Grant award was cut from \$2,400 in 1992-93 to \$2,340 in 1995-96, the percentage of low-income students who borrowed and the average debt

among those students increased. In more-recent years, by contrast, as Congressional support for Pell Grants increased, and the maximum award amount jumped to \$3,125 in 1999-2000, the percentage of low-income students who borrowed stabilized, while growth in the average debt among these students slowed.

Data for the report were culled from the Department of Education's National Postsecondary Student Aid Study, as well as 2001 U.S. Census data, which pegged at \$32,101 the average income of 18- to 24-year-olds with bachelor's degrees who worked full-time and year-round in 2000. These two sources are similar to those used by the American Council on Education in its report, "Student Borrowing in the 1990s," which concluded that, on average, student debt remained reasonable throughout the decade, despite increases in student borrowing. The only difference is that the ACE used 2000 Census data.

The authors of the public-interest groups' report said they believe that the 39-percent estimate for students who graduate with unmanageable debt burdens is a conservative one, given that it does not factor in other types of debt, such as private loans and credit-card debt. The estimate also doesn't take into account the fact that half of all student borrowers face higher payments because of interest capitalization on unsubsidized loans, according to the report.

Jacqueline E. King, director of the Center for Policy Analysis at ACE, said she believes that there are not enough data currently available to draw the conclusions that the public-interest groups' report does.

"The report we did focused primarily on what are the debt levels," she said. "I don't think that we have the right information yet to say as much as I think they want to say about debt burden." The ACE's report concluded, based on its slightly different methodology, that the median student-loan payment fell on average below the 8-percent monthly limit.

Ms. King said the public-interest groups' report goes a step further by attempting to estimate the percentage of student borrowers who would have to spend more than 8 percent of their monthly income to repay loan debt. That proportion can only be approximated from Census data on the average income of particular age groups, because the actual income of student borrowers for the time period studied is not yet available. The absence of that data affects the ACE's estimations as well, however.

"We don't really know yet who is experiencing difficulty or how much difficulty they are experiencing," said Jacqueline King, of ACE. She also said she felt that other factors in addition to changes in Pell Grant financing could have affected student borrowing, including the reauthorization of the Higher Education Act in 1992, which led to the creation of the Stafford Unsubsidized Loan Program. That program created a new loan source and increased the annual amount that students could borrow.

In follow-up data from the Department of Education's National Postsecondary Student Aid Study, expected to be released this year, student borrowers' actual incomes will become available. Those data could then be measured against those borrowers' average debt. A positive correlation between income and debt levels would, for example, lead to different findings altogether.

In the meantime, Tracey King, of the public-interest groups, said her organization is "basically pointing out that there is still probably a significant chunk of students for whom student loans are still not affordable."

March 7, 2002

College Grads Face 'Unmanageable' Student Loan Debt-Study

By DAWN KOPECKI

OF DOW JONES NEWSWIRES

WASHINGTON -- College students across all ethnicities and income groups are graduating with increasingly "unmanageable" levels of student loan debt as federal grant programs decrease, tuition hikes outpace inflation and wealthy families increasingly rely on financing, rather than savings, to pay for education, according to a study released Thursday.

For the study, a leading consumer group analyzed newly released data from the Department of Education's Postsecondary Student Aid Study, finding an estimated 39% of all students graduating with unaffordable student loan payments.

Lenders typically define unmanageable student loan debt as when monthly payments exceed 8% of a borrower's monthly income, according to the study compiled by State PIRGs' Higher Education Project.

The problem is more severe for low-income and minority students. African-American students tend to take on more loans to finance their education while also earning nearly \$3,000 less after graduation than white borrowers.

As a result, 55% of African-American graduates have student loan payments that exceed 8% of their income. Hispanic students tend to take on less loan debt than white or African-American students, but their graduating incomes are substantially lower than either group, according to statistics analyzed by the State PIRGs.

Hispanic graduates earn, on average, \$22,452, while African-American students earn \$29,808 and white students make \$32,751 upon graduation, according to statistics culled from U.S. Census data.

The income disparity for Hispanic students leaves 58% of those graduates with student loan payments that most lenders would deem as excessive, according to the study.

Debt levels are also increasing for wealthy student borrowers, defined as dependents of families with annual incomes of at least \$100,000. The percentage of those borrowers quadrupled from the 1992-1993 academic year to the 1999-2000 cycle, the most recent data available from the Education Department.

The average student loan debt for a full-time student graduating from a four-year public school has dramatically increased, from \$9,188 in the 1992-1993 academic year to \$16,928 for 2000

graduates, according to the study.

The State PIRGs attribute much of the increased debt burden to two key factors: rising tuition and decreasing federal aid. Funding for the Pell grant program for low-income students has failed to keep pace with inflation, let alone skyrocketing tuition costs, the study said.

In 1976 the maximum Pell grant award covered 84% of the tuition costs at a public institution. Congress tried to restore some of the grant's original buying power by increasing the maximum grant from \$2,340 in 1995-1996 to \$3,125 in the 1999-2000 school year. But at today's prices, that only covers 39% of a four-year public institution's tuition costs.

"While Congress has increased funding in recent years, the Pell grant maximum has not been able to keep up with inflation and rising tuition costs. As a result, low-income students are forced to borrow to cover that unmet need," the study reads. "As tuition increases faster than inflation and median income, students overall are facing increasing levels of need."

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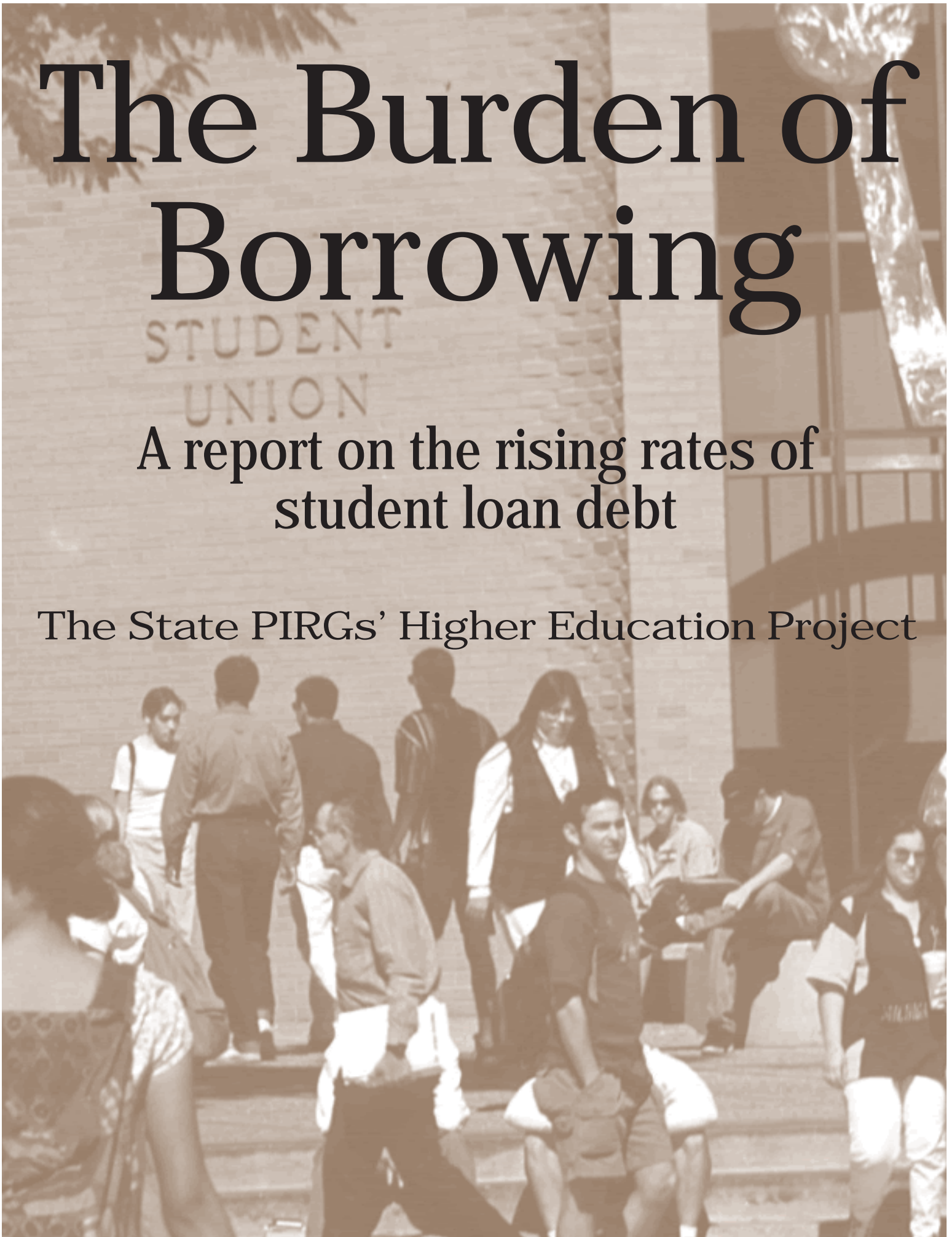
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The Burden of Borrowing

A report on the rising rates of student loan debt

The State PIRGs' Higher Education Project



The Burden of Borrowing:

A Report on the Rising Rates of Student Debt

March 2002

By Tracey King and Ellyne Bannon

Special thanks to Alison Cassady, Ivan Frishberg, Lavinia Sharp and Jon Oberg.

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The State PIRG's are non-profit, non-partisan public interest advocacy groups. The Higher Education Project was established in 1994 to secure more aid for students, with a focus on additional grants, lowering the cost of borrowing, and better service to students in the federal financial aid system.

State PIRGs' Higher Education Project: <http://www.pirg.org/highered>
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Executive Summary

Higher education is critical to the future success of Americans. In addition to the inherent benefits of a higher education, a college degree is worth 75% more than a high school diploma or more than \$1,000,000 over a lifetime in the workforce. However, as college costs continue to swell, students are increasingly shouldering high levels of debt to pay for a college education.

Thirty-nine percent (39%) of student borrowers now graduate with unmanageable levels of debt, meaning that their monthly payments are more than 8% of their monthly incomes. According to new data from the Department of Education's National Postsecondary Student Aid Study (NPSAS), not only are the majority of students turning to loans to finance college, but debt levels are also escalating. In 1999-2000, 64% of students graduated with student loan debt, and the average student loan debt has nearly doubled over the past eight years to \$16,928.

Often the students who are most likely to graduate with debt are the same students who experience financial hardship after graduation. In 1999-2000, 71% of students from families with incomes less than \$20,000 graduated with debt, compared to 44% of students from families with incomes more than \$100,000. In all likelihood, students from low-income backgrounds receive limited financial assistance from and may have financial obligations to their families after graduation.

In addition, some groups of students are more likely to face unmanageable debt burden after graduation. Fifty-five percent (55%) of African-American student borrowers and 58% of Hispanic student borrowers graduated with unmanageable debt burden.

Data also suggest that Pell grant funding impacts borrowing trends among low-income students. Over the past decade, when Pell grant funding was cut, the percentage of low-income students who borrowed and the average debt among these students increased. In contrast, in recent years, when Congress increased Pell grant funding, the percentage of low-income students who borrowed stabilized, while growth in the average debt among these students slowed.

There are several possible explanations for increases in student borrowing. First, the strength of the Pell grant has declined from covering 84% of tuition at a four-year public institution in 1975-76 to 39% today.¹ While Congress has increased funding in recent years, the Pell grant maximum has not been able to keep up with inflation and rising tuition costs. As a result, low-income students are forced to borrow to cover that unmet need. Second, wealthy families may be shifting more of the cost of college from savings to student loans. Also, as tuition increases faster than inflation and median income, students overall are facing increasing levels of need.

We need to look for solutions that make college more affordable and protect students from unmanageable debt burden. Congress should increase grant aid funding, reduce the cost of student loans, and provide flexibility within the student loan program to help make college more affordable for all Americans.

The Burden of Borrowing

Student debt levels are skyrocketing, and as a result, many students find themselves saddled with unmanageable levels of federal student loan debt and experience difficulty repaying their loans. New data from the 1999-2000 National Postsecondary Student Aid Study (NPSAS), a survey conducted by the U.S. Department of Education's National Center for Education Statistics, shows that the average federal student loan debt has nearly doubled to \$16,928 in the last eight years. Key findings:

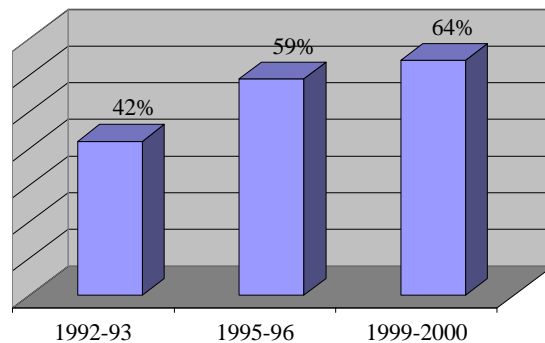
- ◆ 39% of student borrowers graduate with unmanageable levels of federal student loan debt.
- ◆ Early in the decade, when Pell grant funding declined, the average debt among low-income students increased by 44%, and in recent years, when Congress was increasing Pell grant funding, average debt increased by only 24%.
- ◆ 71% of low-income students graduate with debt, compared to 44% of wealthy students.
- ◆ 55% of African-American and 58% of Hispanic student borrowers graduate with unmanageable levels of debt.

Student Loan Debt

The majority of students are graduating with student loan debt. In 1999-2000, 64% of students borrowed federal student loans, compared to 42% in 1992-93. In addition, the number of seniors who graduate with more than \$20,000 in debt increased from 5% in 1992-93 to 33% in 1999-2000.

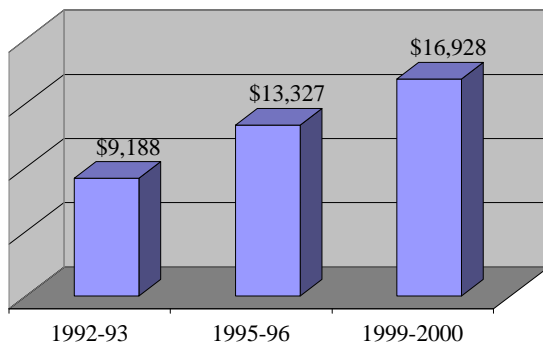
Not only are more students borrowing, debt levels are skyrocketing. Over the past eight years, the average cumulative federal student loan debt has almost doubled. In 1999-2000, the average student loan debt for a full-time student at

Percentage of Students Who Borrow Federal Student Loans, 1992-93, 1995-96, 1999-2000



The percentage of students who borrow has increased by more than 50% in the last eight years.

Average Cumulative Federal Student Loan Debt, 1992-93, 1995-96, 1999-2000



The average debt has nearly doubled in the last eight years.

a four-year institution was \$16,928, up from \$9,188 in 1992-93. The average loan debt at four-year public institutions was \$16,243 and that at four-year private institutions was \$17,613.

Debt Burden

Debt burden can be defined as the level of difficulty a graduate experiences repaying his or her loans. Although many factors influence debt burden, one way to look at it is the monthly

payment as a percentage of monthly income. The loan industry suggests that monthly student loan payments should not exceed 8% of monthly income before taxes. Although a current average income among recent graduates with student loan debt is not available, the closest approximation is the average earnings among 18 to 24 year olds with Bachelor's degrees working full-time and year-round. According to the Annual Demographic Survey of the Bureau of Labor Statistics and the Bureau of the Census, the average income of these recent graduates in 2000 was \$32,101.

Based on this figure, an estimated 39% of all student borrowers graduate with unmanageable student loan debt; meaning, these students pay more than 8% of their monthly income on student loan payments.

This estimate may actually be higher as many students take out unsubsidized loans and face even higher monthly payments. The federal student loan program offers both subsidized and unsubsidized loans. Subsidized loans are need-based, and the federal government pays interest on the loan while the student is in college. Unsubsidized loans are available to all students, and interest capitalizes after graduation, making these loans substantially more expensive. Students who have unsubsidized loans pay higher monthly payments on the same debt amount, and more than half of student borrowers take out unsubsidized loans. Many students take out a combination of subsidized and unsubsidized loans, making it impossible to estimate the exact monthly payments that students face. This analysis assumes that all loans are subsidized; however, for at least half of student borrowers, actual monthly payments are likely higher, and even more students face high monthly payments as a percentage of their income.

Borrowing trends among student sub-populations

Family Income

Low-Income Students: Seventy-one percent (71%) of all dependent student borrowers from families with incomes less than \$20,000 graduated with student loan debt, compared to 44% of students from families with incomes more than \$100,000. Not only are low-income students more likely to take on debt, but they may often face more difficulty repaying their loans after graduation due to familial financial responsibilities.

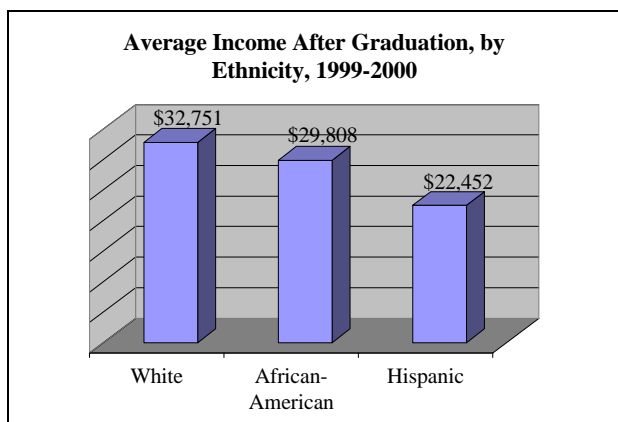
Independent Students: Low-income independent students borrow significantly more than students in any other income category. Seventy-seven percent (77%) of independent students with incomes less than \$10,000 graduated with student loan debt, compared to 57% of independent students with incomes over \$50,000. Independent students earning more than \$50,000 borrowed an average of \$17,583, while those with incomes less than \$10,000 borrowed an average of \$20,447.

Wealthy Students: Over the last eight years, there has been a rapid increase in the percentage of wealthier students who borrow. The percentage of dependent students with incomes of \$100,000 or more who borrowed student loans quadrupled from 1992-93 to 1999-2000, and the percentage of those with incomes between \$80,000 and \$99,999 who borrowed more than doubled over the same time period.

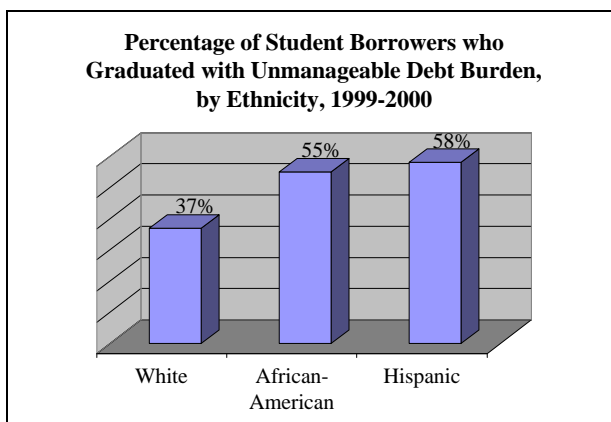
Ethnicity

African-American Students: In 1999-2000, 84% of all African-American students graduated with student loan debt and borrowed \$2,000 more on average than the typical borrower. According to the U.S. Census, they also earned less after graduation,² and, as a result, 55% of African-American student borrowers graduated with unmanageable debt.

Hispanic Students: Although Hispanic students graduate with lower than average student loan debt levels, they earn nearly \$10,000 less than their peers, based on U.S. Census data.³ As a result, 58% percent of Hispanic borrowers graduated with debt burden that exceeds 8% of their monthly income.

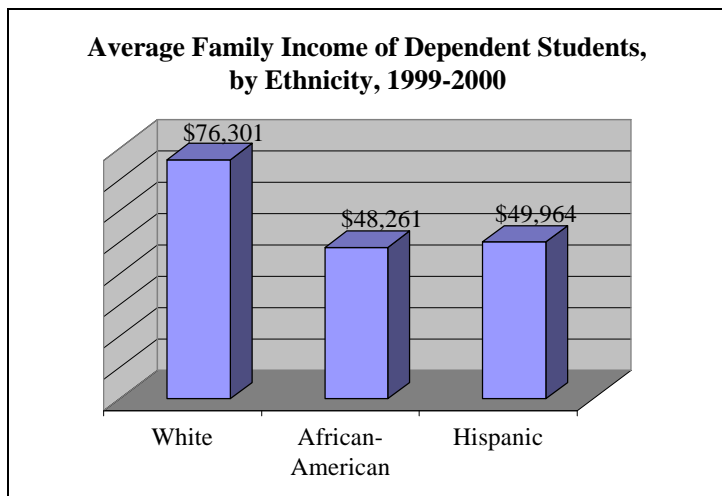


African-American and Hispanic students earn significantly less than average after graduation.



African-American and Hispanic students are more likely to graduate with unmanageable debt burden.

Many African-American and Hispanic student borrowers may also face additional burden, as they are more likely to come from low-income backgrounds. Twenty-two percent (22%) of African-American dependent students and 23% of Hispanic dependent students come from families with incomes less than \$20,000. Nearly half of all students from each ethnic group is from families with incomes less than \$40,000.



African-American and Hispanic students are more likely to come from low-income backgrounds.

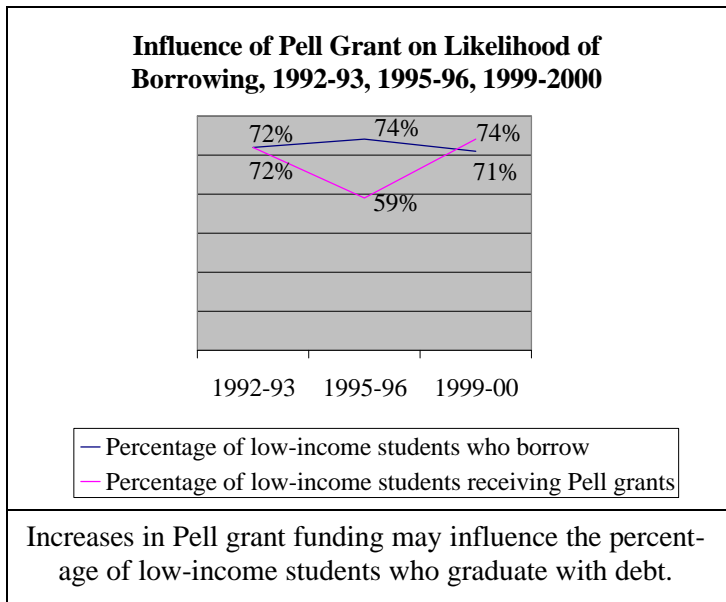
Among students who borrow, African-American and Hispanic students are more likely to find their debt unmanageable after graduation. These students are also more likely to graduate with debt in the first place, with 84% of African-American and 66% of Hispanic students graduating with debt. As a result, African-American and Hispanic college students, including both borrowers and non-borrowers, are disproportionately likely to graduate with unmanageable debt burden. Nearly half of *all* African-American college students and more than one out of *every* three Hispanic college students graduates with unmanageable debt.

The expected influx of fifteen million students, many from low-income families, into America's colleges and universities over the next ten years will only exacerbate the debt burden problem.⁴ Of these new students, 80% will be non-white, and 50% will be Hispanic. Among non-white students, 45% will be from families with the lowest expected family contribution.⁵

Other Types of Aid

Changes in Pell grant funding over the past decade may have influenced the borrowing patterns of low-income students. From 1992-93 to 1995-96, the maximum Pell grant decreased from \$2,400 to \$2,340, and the percentage of dependent graduating seniors from families with incomes less than \$20,000 who received Pell grants dropped from 72% to 59%. At the same time, the percentage of low-income students who graduated with debt increased from 72% to 74%.

Over the second half of the decade, Congress made considerable strides in restoring the Pell grant to its original buying power. By 1999-2000, Congress had increased the maximum grant to \$3,125, and the percentage of students in this income bracket receiving Pell grants went back up from 59% to 74%. Meanwhile, the percentage of low-income students who borrowed dropped from 74% to 71%.

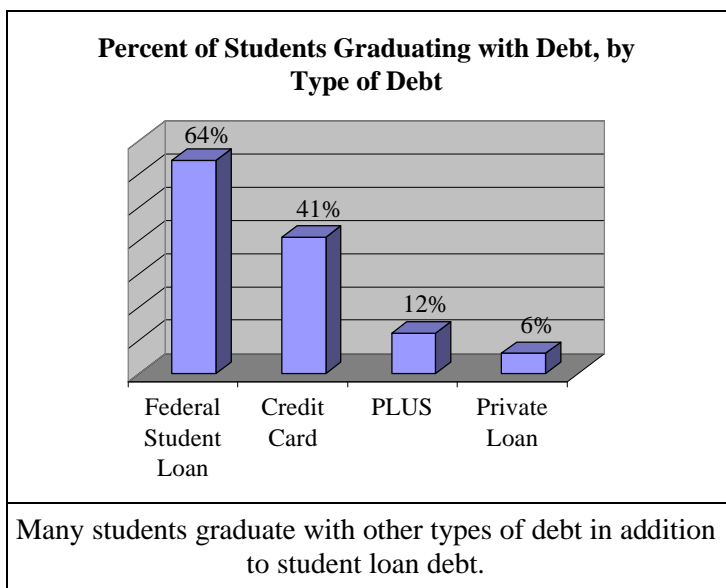


The changes in Pell grant funding also may have influenced the levels of student loan debt with which low-income students graduate. Between 1992-93 and 1995-96, when Pell grant funding was cut, the average debt among low-income students increased by 44%, from \$8,539 to \$12,306. Between 1995-96 and 1999-2000, Congress increased Pell grant funding, and the rising debt levels among low-income students began to slow, with a 24% increase, from \$12,306 to \$15,287. While low-income students are more likely to graduate with debt, and with high levels of debt, recent increases in Pell grant funding may have kept some low-income students from borrowing and may have slowed growth in debt levels among those who did borrow.

Other Debt

Many students take on additional debt burden from other sources such as credit cards, Parent Loans for Undergraduate Students (PLUS), and private label loans. According to the 1999-2000 NPSAS data, 41% of the graduating seniors carried a credit card balance, with an average balance of \$3,071. Student borrowers were even more likely to carry credit card debt, with 48% of borrowers carrying an average credit card balance of \$3,176.

The average student borrower who carries a credit card balance owes \$20,104 to credit card companies and loan underwrit-



ers after graduation.

Many families also take out PLUS loans, federal low-interest loans that parents can take out to pay for their children's college education. The average family's PLUS debt was \$15,836, and 12% of parents took out these loans. While these loans are intended for parents, it is possible that many students become responsible for repaying the loan after graduation.

Six percent (6%) of all students also borrow loans from private sources, such as independent banks. In 1999-2000, the average private label loan was \$6,206. Although debt from these sources is not comparable to the magnitude of the federal student loan program, any debt in addition to the substantial debt from student loans augments the burden of debt after graduation.

Possible Explanations for Increases in Student Debt

Decline in the buying power of Pell grants

The Pell grant program is the foundation of federal financial aid for low-income students. Among dependent graduating seniors in 1999-2000, 88% of all Pell grants awarded went to students with family incomes of less than \$40,000.

Despite recent increases in the maximum Pell grant award, the buying power of the grant has eroded over the past three decades. In 1976 the maximum award covered 84% of tuition costs at a four-year public institution, today the maximum award covers only 39% of these tuition costs.⁶

Shift from Savings to Student Loans

The percentage of wealthy students who borrow has been increasing at a rapid rate over the past eight years. In recent years, wealthy families may have contributed less than the Expected Family Contribution (EFC) and relied more on student loans. Financial aid offices use the EFC to determine how much a family should pay in order to calculate need-based financial assistance. These families may be saving less for college or spending less of their savings on college — depending on student loans to make up the difference.

It appears that while low-income students borrow to meet need in paying for college, wealthy students may be borrowing in excess of their need. A student budget is the cost of attending college after subtracting grant aid and EFC. While low-income students had an average student budget of \$8,351, wealthy students had an average student budget of \$2,520. At the same time, wealthy students borrowed \$4,321, nearly \$2,000 more than their need.

Tuition

Over the past ten years, after adjusting for inflation, the median family income increased by 12%, while the average tuition and fees at four-year public institutions increased by 40% and that at four-year private schools by 33%.⁷ As family income in this country becomes more stratified, tuition as a percentage of family income will continue to increase, particularly for low-income students, amplifying the average student's debt burden.

Policy Recommendations

We need to make college more affordable and protect students from unmanageable debt burden. The

number of students who take on unmanageable levels of debt will continue to escalate unless steps are taken to increase federal need-based aid and to lower the cost of borrowing to students.

Increase grant aid funding

Federal need-based grant aid provides low-income students with access to a higher education. Without this aid, many low-income students take on unmanageable levels of debt burden or forgo a college education altogether. Recent increases in Pell grant funding may have kept some low-income students from borrowing and slowed the growth of debt levels among those who did borrow. Congress should increase need-based grant funding and, specifically, fully fund the Pell Grant Program.

Lower the cost of borrowing to students

With the typical senior graduating with \$16,928 in federal loan debt, Congress should take the following steps to reduce the cost of borrowing.

- Congress should maintain low interest rates on student loans.
- Congress should maintain a level playing field between the Direct Loan Program and the Guaranteed Loan Program to ensure that students receive the most benefits and the best service.
- Congress should pass the Affordable Student Loan Act (H.R. 1622), which would eliminate origination and insurance fees on student loans and save the typical student \$677. These savings could be used to pay for tuition, books, and other living expenses.
- Congress should pass a tax credit of up to \$1,500 for interest paid on student loans, which would help reduce the burden of debt after graduation.

Continue to provide flexible repayment options to borrowers

Congress should continue to provide flexibility within the student loan program to help make college more affordable for all Americans. Repayment options such as deferment, loan forgiveness, forbearance, and income-contingent repayment help students who are facing unmanageable debt repay their loans without going into default.

Maintain current loan limits

Congress should not increase loan limits without reducing the current cost of borrowing. Raising loan limits will not solve the access problem. Instead it will only make the situation worse with more and more students falling into burdensome debt after college. Congress should continue to work towards increasing access to higher education while protecting students from unmanageable levels of debt.

Methodology

This analysis is based on the National Postsecondary Student Aid Study, a nationwide survey conducted by the Department of Education's National Center for Education Statistics. The data is based on the borrowing patterns of the "typical" student, a full-time and full-year student at a four-year institution. The percentage of students with unmanageable debt burden was calculated by determining the percentage of student borrowers with debt where monthly payments would exceed 8% of monthly income. Monthly payments were calculated based in a standard 10-year repayment plan with a 7% interest rate⁸ and assumed that all loans were subsidized. Income data for 2000, both general and ethnicity-specific data, is from the 2001 Annual Demographic Survey of the Bureau of Labor Statistics and the Bureau of the Census.

Endnotes

¹ Advisory Committee on Student Financial Assistance. 2001. *Access Denied: Restoring the Nation's Commitment to Equal Education Opportunity*. Washington D.C.

² The average income of 18 to 24-year-old African-Americans with Bachelor's degrees who worked full-time and year-round in 2000 was \$29,808.

³ The average income of 18 to 24-year-old Hispanics with Bachelor's degrees who worked full-time and year-round in 2000 was \$22,452.

⁴ <http://www.studentaidalliance.org/facts/default.asp>

⁵ *Access Denied: Restoring the Nation's Commitment to Equal Educational Opportunity*.

⁶ *Access Denied: Restoring the Nation's Commitment to Equal Educational Opportunity*.

⁷ The College Board. 2001. *Trends in College Pricing*. Washington D.C.

⁸ The 7% interest rate is based on the 91-day Treasury bill rates + 2.3% from 2001 to 2005 and 6.8% from 2006 to 2010. The 91-day Treasury bill rates are, respectively, 5.32%, 4.97%, 5.2%, 5.1%, and 5.03%.