

# In debt before you start

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The average college senior graduated this year with more than \$19,000 in debt. That's a problem Joe Palazzolo would love to have. Palazzolo, 25, graduated on Mother's Day from Rutgers University with a master's degree in public policy and student loans exceeding \$116,000. His payments will average about \$800 a month. It could have been worse: Because of his top grades, Rutgers paid Palazzolo's tuition for his final year of graduate school.

At a time when his friends are thinking about buying their first homes, he's looking for roommates to share a three-bedroom house so he can limit his rent to \$600 a month. "I feel like I've done everything I was supposed to do, and at the end of the day, I've got this huge debt," Palazzolo says. "What did I do wrong?" After years of rising college costs and shrinking financial aid, it's come to this: Some graduates are now leaving college with student-loan debt in the six figures. This trend continues for students still in college. In fact, most college students face a miserable set of financial circumstances as they enroll in college this year.

After graduation, many students are leaving college with some level of unmanageable debt — debt they can't repay without significant hardship. More students are borrowing to finance their education than ever before. And, at a time when people can least afford the extra costs, universities are raising tuition.

In 2004, nearly 8% of graduating seniors carried student loans of \$40,000 or more, according to Project on Student Debt, a non-profit advocacy group. In 1993, even adjusted for inflation, only 1.3% of college seniors had debt that large, says Robert Shireman, director of the project. About 11% of graduates of private, non-profit colleges have loans of \$40,000 or more vs. 5.5% for public colleges, Shireman says.

The rise in unmanageable debt has raised concerns that many graduates won't be able to pursue careers in fields that have traditionally paid modest salaries. Nearly a quarter of four-year public-school graduates and 38% of private-school graduates who become teachers can't afford to repay their debts on a starting teacher's salary, a recent report by the Public Interest Research Group's Higher Education Project found.

Take Emily Weinberg, 23, of Fairfax, Va. Weinberg graduated last year from Ithaca College in New York with a bachelor's degree in cinema and photography. Her student-loan debt exceeds \$130,000. When she was admitted to Ithaca, Weinberg says, she thought she'd qualify for a scholarship that would have covered most of her costs. She didn't get the scholarship. Yet, her parents' income and savings were too high for her to qualify for financial aid. With interest rates low, Weinberg borrowed.

Now, Weinberg, who works as a Web-content administrator in the Washington, D.C., area, devotes \$1,200 of her \$2,100 monthly take-home pay to her student loans. She lives with her boyfriend, who helps cover rent and other expenses. (Weinberg says she's required to pay only \$791 a month toward her loans, but that would cover only the interest and would make her total balance expand even more.) Her dream of starting a photography studio remains just that — a dream. "This is not at all what I wanted to be," she says.

Sandy Baum, a policy analyst for the College Board, a membership group for colleges and universities, says there's always been a "small subset" of graduates with unmanageable debt, but they're not reflective of the typical borrower. Among the two-thirds of graduates with student loans, she says, the median sum (half are more & half are less) is \$15,500 for public-school graduates and \$19,400 for private-school graduates.

"It's very important to understand that most students graduate with no debt or a very manageable level of debt," Baum says. "That doesn't mean we shouldn't worry about" those students who are weighed down by much larger debt, she adds.

## **Inflating debt balances**

Angela Schneider, 26, graduated last year from Simmons College in Boston with a master's degree in social work and \$118,000 in student loans. To make her monthly payments of \$800, Schneider has taken on a part-time job providing in-school therapy in addition to her full-time position as a medical social worker. She's living on a tight budget that allows her \$70 a month for entertainment.

Working with people in deep financial trouble, Schneider says, helps put her own problems into perspective. "I don't need money for happiness," she says. Still, "It sure makes it easier."

Some graduates with unmanageable student loans acknowledge that their own actions and choices have contributed to the problem. Schneider says she has no regrets about attending Simmons College. Still, she adds, "I wish I had been a little more creative in finding financial help."

Weinberg says she didn't realize when she began borrowing that she could spend 30 years paying off her debt. At the same time, she says, "I signed the papers. It's my responsibility to get out of it." Most student-loan payments are deferred until the borrower leaves school. That has the unfortunate effect of making it easy for students to ignore expanding balances. In many cases, students and their families don't understand the consequences of their choices until the bills come due, Shireman says. "Choosing a college and figuring out how to pay for it is a complicated and difficult endeavor," he says.

Other factors contributing to a rise in loan balances include:

### **\*Shrinking federal aid**

College costs have risen by more than 50% since 1990, but federal aid hasn't kept up. Congress hasn't increased the Pell Grant, the most common form of direct aid for low-income students, since 2003. (The maximum Pell Grant is \$4,050 a year.)

Both low- and middle-income families have been squeezed, Shireman says. "Grant aid has not kept pace with the increase in tuition and fees and other costs. Scholarship money has also been reduced."

### **\*An increase in private loans**

Federal Stafford loans let students borrow using federally backed loans with favorable interest rates and repayment terms. Unsubsidized Stafford loans are available to all students, even if they don't qualify for financial aid. But there are limits to how much undergraduates can borrow. This year, the total in Stafford loans that a freshman can borrow is \$2,625; for sophomores, the cutoff is \$3,500. There are also limits on the amount of Stafford loans that graduate students can borrow. In 2004-05, private-loan borrowing rose by about 30%, according to the Project on Student Debt.

As a result, many students who attend private or out-of-state schools or pursue a graduate degree often must supplement their Stafford loans with more costly private loans. These loans lack some of the advantages of federally backed loans — such as provisions that let borrowers defer payments — and are costlier, Shireman says.

Starting July 1, new Stafford loans will carry a fixed rate of 6.8%, up from the current rate of 5.3% for loans in repayment. That's a big jump, but borrowers who consolidate their federal loans before July 1 can lock in the lower rate for the life of the loan. That's not an option for most private-loan borrowers. Interest on those loans is variable and linked to market rates. The rates on Weinberg's private loans range from 7.5% to 8.2%. "I'm really scared of even another half-a-percent increase," she says.

### **\*Pressure for advanced degrees**

When Rachelle Routsong, 24, graduated from Brigham Young University with a bachelor's degree in health sciences, the only relevant jobs she could find were administrative positions

in doctors' offices and community health centers. The pay was low, and "it was just a lot of paperwork," she says. "I didn't enjoy it." Routsong decided to return to school to get her master's degree as a nurse practitioner. She investigated nursing programs at several community colleges. All had two- to three-year waiting lists. She entered an accelerated program at the University of San Diego, a private school, that will enable her to get a master's in three years. She's borrowed \$65,000 and expects her loans to top \$165,000 by the time she graduates. Her student debt, she says, occupies her mind constantly.

"I want to get married, and I want to have a family. What if I want to have a child and take time off while he's an infant? Will I be able to do that with all this debt that I need to make payments on?"

Law and medical students, who can usually expect lucrative careers, have traditionally borrowed to pay for their schooling. But more than 54% of education doctoral students — who generally don't expect high-paying jobs — also borrowed in 2004, according to the Project on Student Debt. These borrowers are primarily future teachers, principals and administrators. Their average loan balance: \$43,029.

### **Long-term value?**

One of the consequences of escalating loan balances is that today's graduates will spend a lot more time repaying their debts than earlier graduates did, Shireman says.

While a Stafford loan has a standard 10-year repayment period, borrowers with large balances can extend their payments for up to 30 years. There's a good chance, he says, that today's borrowers with above-average student-loan balances will still be repaying their loans by the time their own children start college. Still, students remain willing to load up on loans in large part because studies have long shown that an investment in college pays off. The Census Bureau has estimated that college graduates will earn about \$1 million more over their lifetimes than individuals with only a high school diploma.

The problem for borrowers with heavy debts is that the loan payments arise long before the higher salaries do, says Luke Swarthout of the Higher Education Project. Most graduates are expected to start repaying their loans soon after they leave school. Besides earning modest starting salaries, they often have to consider the costs of moving to an expensive new city.

"The problem is, you don't get the \$1 million when you graduate," Swarthout says.

"If you did, it would be a lot simpler."