Student loans: A heavy price

College bills drag debtors down years after graduation
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There's little dispute that a college education is a great investment. College graduates can expect to make $1 million more over their lifetimes than someone with only a high school diploma.

But more college grads find it's taking longer to pay for the investment. As student loans have become a larger part of the college tuition bill, many graduates are leaving school with unmanageable debt levels that can affect their financial security, career and lifestyle choices for years.

"A college degree is a good investment and becoming increasingly necessary," said Luke Swarthout, a higher-education associate with the State Public Interest Research Groups, or PIRG, a consumer organization. "But more of the cost of college has been pushed onto the shoulders of students. For a whole set of borrowers, this debt could affect their choices after college."

The trend affects those pursuing careers at both the high and low ends of the income spectrum - from doctors to teachers and social workers.

"I would like to go into social work or another community-oriented occupation, but I will be hard-pressed to do so until I pay off my student loans," said John Jevitts, a student at the University of Connecticut.

Tuition costs have soared at the same time that aid grants have been cut in favor of loan programs. Among college graduates in the class of 1992-93, 49 percent reported taking out student loans, and for them, the average debt burden was $10,179. For the class of 2003-04, 65 percent took out loans, and the average debt burden had risen to $18,887, according to the College Board.

And the trend is expected to continue. There is a silver lining, though. President Bush signed legislation giving students more freedom to consolidate their loans by repealing what is called the "single holder rule." Under that rule, borrowers who had all their federally guaranteed student loans with one lender could only consolidate with that lender.

The move, long advocated by consumer groups, came two weeks before the June 30 deadline to apply to consolidate loans. But the new law is a small fix to a big problem.

"Large amounts of debt put graduates in a hole that can take years, even decades from which to emerge," said Richard Davies, senior managing director of retirement and college savings plans at AllianceBernstein Investments, which recently issued a report on how college debt affects students after graduation. "Funding a college education isn't just about those four years. It's about a young adult's ability to start a family, buy a house and, ultimately, even to one day retire."

AllianceBernstein conducted an Internet poll of 1,508 college graduates ages 21 to 35 on their college finances and experiences, as well as their current circumstances. Of respondents still paying off education-related debt, 44 percent have delayed buying a home, 28 percent have postponed having children, and 32 percent had to move back in with their parents or live at home longer than expected.

What's more, 43 percent said they postponed graduate school, and 39 percent of those with college debt said they left a job they liked because they didn't make enough money.

The student loan default rate has fallen to around 4.5 percent. But just because the rate has fallen doesn't mean that people aren't struggling to pay off loans.

Before students take out loans, they must figure out what their monthly payment will be and whether their chosen career is likely to provide enough income to service the loans. If not, students should choose a less expensive college, a more lucrative career, or a more frugal post-college lifestyle.
