Is it debt, or is it an education investment?

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MILWAUKEE -- (KRT) Accounting students know the ramifications of taking on debt. But they also know that without debt, an eventual gain in overall earnings might be impossible.

Natalie Czyz, an accounting student at Alverno College in Wisconsin, knows that better than most. She estimates that she will have taken out $50,000 in student loans by the time she receives her diploma next May. But without the loans, the single mother of three said she would not have been able to attend school and be in a position to land a better-paying job.

Student loans should pay for themselves: The loans qualify graduates for better, and better-paying, jobs to pay back the loans. But high college expenses and enticingly low interest rates are putting some new graduates into a different debt cycle. Loan repayments dog them into what should be a more financially rewarding phase of life, curbing their ability to get mortgages, cars and start saving.

The number of students borrowing to cover the costs of college is growing, and each of them owes more. In 1993-94, there were nearly 3.8 million student borrowers. In 2002-03, there were almost 6.1 million, 60 percent more, according to the College Board, a national association of colleges and universities that researches college costs. About 64 percent of students graduate with an array of debt, with an average load of almost $17,000 _ more than double the amount they carried in 1989. That includes student loans and credit card debt, as students are increasingly paying for tuition with plastic. Meanwhile, college expenses increase every year: nearly 40 percent between 1992-93 and 2002-03.

Czyz could earn as much as $38,000 in her first year as an accountant, more than she now earns as an office assistant at Flanner's Audio and Video in New Berlin, Wis. It will, she hopes, be worth the seven-year marathon of juggling college, family life and a full-time job. That doesn't mean the living will be easy. She expects to be making monthly student loan payments of at least $394 for the next 25 years. "That's what most people would consider a mortgage payment," said Carrie Anne Behr, a project and team coordinator for Mapping Your Future, a Web site that offers students free financial aid advice and is funded by the companies that guarantee student loans.

Though Czyz knows that the payments are part of the cost of a better life for herself and her family, she is still concerned that when she applies for a home loan, banks will view her debt load negatively. "I'm hoping it's not an impairment to getting a house, but I'm worried it is. I'm worried banks will throw up a flag when they see you have this debt to pay," she said.

Steve Holzman graduated in May from the University of Wisconsin-Madison with an MBA and no debt. He cleaned out his savings to pay for school _ good for the monthly budget but leaving him with few resources for buying a house or starting a company, if he wants to. "While I don't have debt, the amount of savings I have is less to pay for the rest of life," Holzman said. Still, he said, he is in a better predicament than many of his fellow classmates who face the double whammy of large student loans and credit card debt.

"Financial freedom is a personal goal of mine," Holzman said. He's held on to that mind-set since he was a high school student, working summers and holidays at Brookfield, Wis.'s V. Richard's Market, where he stocked produce. Squirreling away money from that job helped him pay his way through his undergraduate years, also at Madison. Despite saving money and choosing a state school, Holzman still had loans to repay after graduation. So like many newly minted graduates, he moved back home to save money on rent. "My friends say I paid the ultimate sacrifice. Financially, it was a great move," he said. Within a year, he had paid off his loans and moved out of his childhood bedroom. The single 29-year-old said he won't be returning home this time, but he also won't be buying a house right away, either. He plans to move into an apartment for one year and start saving up for a down payment on a house.

Paying for learning and then earning to repay nearly always benefits graduates in the long run, financial planners said. Studies show that the average college graduate earns $1.5 million more than the average high school graduate in a lifetime. If college students received a dollar for every time they've heard that one, they probably wouldn't have to worry about paying off their loans. Yet most new graduates see a diploma as a license to spend and a reason to donate leftover Ramen noodles to underclassmen. Paul Conrad, director of financial aid at Brigham Young University in Utah, advises students to keep the water boiling for another serving of those noodles.

"What we've got is a perfect storm brewing with the recession and a dramatic increases in tuition," Conrad said. "These students are faced with the prospect of borrowing money unlike any other generation before." The College Board estimates that almost 25 percent of college students are also using credit cards, with much higher interest rates than federal student loans, to finance their educations. Borrowing through programs other than the federally guaranteed student loan plans increased 41 percent for the school year that ended in 2003, according to the College Board. In recent years, at least, student debt is not creating unconquerable barriers to buying houses, partly because of low mortgage rates. According to the 2000 Census, 22.8 percent of Americans younger than 25 owned homes last year. That's up from 10 years ago, when about 15 percent were homeowners. Although new college graduates facing large loan debt won't have to "live in a van down by the river," in the words of ``Saturday Night Live'' comic Chris Farley, they also won't be able to afford a luxury loft apartment overlooking the Milwaukee River.

Simultaneously, the amount of federal Pell Grant aid has not kept up with the rising cost of college and the numbers of needy students. Thirty years ago, grant aid made up about two-thirds of student aid while loans made up one-third, said Tony Pals, a spokesman for the National Association of Independent Colleges and Universities. "Today, that's flip-flopped," Pals said.

Crystal Irish did her best to reel in scholarships but is still faced with paying $12,000 in student loans after earning degrees in French and international relations from Madison's Edgewood College. She said she applied for 25 scholarships before starting school and also won several merit scholarships. For now, she is deferring the loans while she is an AmeriCorps VISTA volunteer at the Boys & Girls Club of Greater Milwaukee. As a volunteer, she'll also receive an education grant worth $4,725 at the end of her yearlong commitment.

Even though federal Stafford Loan interest rates are at their lowest price in history, 3.42 percent, that should not be an incentive for students to borrow more. "If anything, it should be a reason to consolidate," said Behr, a former loan default counselor.

Frustrated with the lack of available grants and scholarships, families' and students' attitudes about debt have changed. Some students are even embracing student loans as a general-purpose financing tool. Mark Oleson, director of the Iowa State University Financial Counseling Clinic, said low interest rates have made loans more affordable than ever before. He has seen students use loans as a form of income or a means of funding investments such as a Roth IRA. "Students are overly comfortable with borrowing," he said. But that doesn't mean they are aware of what loans entail. "Ninety percent of students couldn't tell you within 15 percent of what they owe," he said. For graduates already walking across the stage to the tune of pomp and pinched circumstances, Conrad advises keeping extraneous costs down and making a concerted effort to whittle away their student loans. There is no penalty for paying loans off early, but paying them late or defaulting can mean financial disaster.

"Debt is a mixed blessing," said Alan Purintun, a principal at Oarsman Capital Inc., Milwaukee. "It is not a wonderful thing but not the worst thing in the world. You have acquired an asset. A college education is an asset, you have increased your earning potential."