



The Student Debt Crisis

Anne Johnson, Tobin Van Ostern, and Abraham White October 25, 2012

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Introduction and summary

Higher education is an integral part of the American Dream. But today more and more young people increasingly have to finance their education through student loans.

In the past three decades, the cost of attaining a college degree has increased more than 1,000 percent.¹ Two-thirds of students who earn four-year bachelor's degrees are graduating with an average student loan debt of more than \$25,000,² and 1 in 10 borrowers now graduate owing more than \$54,000 in loans.³

African American and Latino students are especially saddled with student debt, with 81 percent of African American students and 67 percent of Latino students who earned bachelor's degrees leaving school with debt.⁴ This compares to 64 percent of white students who graduate with debt. With \$864 billion in federal loans and \$150 billion in private loans, student debt in America now exceeds \$1 trillion.⁵

Many factors have contributed to the dramatic increase in student debt, including the global economic recession of 2008, which led to a dramatic rise in college enrollment and consequently more students borrowing to pay for school.⁶

One of the major self-inflicted causes is the consistent decline in state funding for higher education,⁷ which had helped colleges keep tuition affordable. The steadily and rapidly increasing cost of college nationwide prompted a dramatic rise in student borrowing—a natural result as families could no longer rely on scholarships, grants, and personal savings, which cannot keep up with the rapidly increasing tuition costs that have far outpaced the rise in other basic costs like those of health care, gas, and food.⁸

Beyond the job losses and decreased savings, the recession also had a major impact on state colleges and universities directly. One major effect was a drop in colleges and universities' endowment values,⁹ which meant that they had fewer dollars to distribute in grants and scholarships to the students who rely on them to

pay for school. The recession also led to significant cuts in state higher education funding¹⁰ and consequently a further uptick in tuition.

Another cause has been the rise of the for-profit college sector. Students at non-four-year, for-profit colleges have seen the largest increase in student loan debt among any group of student borrowers. In 2001, 62 percent of freshmen at these schools took out student loans—and just eight years later, that number jumped to 86 percent.¹¹ These trends are a result of a lack of oversight of private lenders and the marketing practices of these loans by for-profit schools in particular.

These practices include direct marketing to borrowers who are often unaware of all their options, a tactic that has been widely criticized for the part it's played in saddling borrowers with unmanageable levels of debt.¹² Additionally, these schools have made a concerted effort to market to and recruit veterans, even relying on third-party marketing firms who create the illusion that they are part of or endorsed by the federal government—using websites like GIbill.com—and that these for-profit colleges are the only ones accepting Post-9/11 G.I. Bill education benefits. The result is often exhausted benefits and unnecessary student debt.¹³

One of the most troubling segments of student lending, however, is the private student loan sector. Defaulted private loans alone currently total more than \$8.1 billion, representing 850,000 individual loans.¹⁴ Because these loans often carry high and variable interest rates, many students can end up paying far more than the cost of tuition.

Private student lending has become so great a concern among students, schools, and higher education advocates that the Consumer Financial Protection Bureau dedicated an entire report to the subject.¹⁵ Over the last decade, the demand for securities backed by these loans led to a dramatic growth in private student lending.¹⁶ From 2005 to 2011 alone, total private student loan debt more than doubled from \$55.9 billion to \$140.2 billion.¹⁷

Regardless of which kind of loan students take out (federal or private), all student borrowers face the challenge of repaying their loans—specifically, navigating the bureaucracy involved with the private companies contracted by the original lender (federal and private) to oversee and facilitate repayment. But the problem is more than these loan servicers being unresponsive or unhelpful. Over the last year 1 million borrowers saw their loans arbitrarily assigned (some only notified after the

fact) to a new company, which has resulted in fluctuation of their payments, being put in forbearance, and other inaccuracies in their statements.¹⁸

Major progress was made with the student loan reforms President Barack Obama signed in 2010, which eliminated \$60 billion in unnecessary subsidies to private lenders. Those funds were put toward grants for low-income students and the federal government began making fixed, low-interest loans directly to students.¹⁹

Behind these stark national numbers is the impact these trends are having on students. In fact, the impact often extends beyond the students, burdening their families for decades. This threatens the ability of current and future generations to build successful careers and contribute to the economy, and it affects the ability of previous generations to save for their own future.

Indeed, the overwhelming debt many students face leave them unable to wait for higher-paying jobs and forces them to take lower-paying jobs in order to stop the payments and interest from ballooning.²⁰ This results in fewer graduates starting their own businesses and negatively impacts the economy. Though many with federal student loans have the option of income-based repayment—a recently expanded program which caps borrowers’ required monthly payments at an affordable amount based on income and family size²¹—the majority of borrowers with federal student loans²² are either unaware or do not understand the program. Additionally, this is not even an option for those with private student loans.

Furthermore, the escalation of college costs has resulted in many students and families barely scraping by, having to turn down admissions to their top-choice schools they couldn’t afford, or delaying college altogether.²³ Worse still, some students leave school with debt and no degree.²⁴

Despite these issues, higher education remains critical for millions of students and their families. Recent reports from the Bureau of Labor Statistics now show that college graduates are nearly twice as likely²⁵ to find work as those with only a high school diploma. The current unemployment rate for those with a college degree—4.1 percent—is about half of the national average. For individuals, it provides a clear path to the middle class, a higher likelihood of gainful employment, and life-long financial and personal benefits. An advanced degree also provides for a skilled workforce that is crucial to rebuilding the American economy.

This report will provide an overview and analysis of:

- Existing student debt
- The factors contributing to the rise in student debt
- Changes in student debt over time
- The role lenders have played in the current student debt crisis
- Who has the debt
- The impact of student debt

We begin with student loans.

Loans

History of student lending

Taken for granted by many today, student loans are actually a relatively recent part of the U.S. higher education system. They were first offered through the National Defense Education Act, which passed in 1958.²⁶ The legislation was meant to help the United States better compete with the Soviet Union in the race to put a man on the moon, and was instrumental in helping thousands of enrolling students study education, engineering, and other sciences.

Thanks to the success of the legislation, access to student loans was expanded significantly with the passage of the Higher Education Act in 1965.²⁷ Providing low-interest loans to students was a major step forward in increasing college access and affordability for anyone who qualified for the opportunity to earn a degree. It was under Title IV of the act that funding for student loans was increased and expanding this program was especially crucial in opening the doors to a college education for students from middle-class families whose income meant they didn't qualify for grants and other need-based scholarships, but also weren't high enough for them to be able to afford the cost of college on their own.

Student loans can be divided into three basic categories:

- Direct Loans, which are federal student loans
- Federal Family Education Loans, or FFEL loans, which are also federal student loans
- Private loans, which are administered by private banks

Overview of student loans

Federal and private student loans each make up important parts of the current student debt picture, and both continue to grow. Current federal student loans

total \$864 billion and private student loans total \$150 billion, equaling more than \$1 trillion in current student debt.²⁸ Though the Federal Family Education Loan program was eliminated in 2010 to prioritize the Direct Loan program, generating estimated savings reaching nearly \$70 billion,²⁹ many Federal Family Education Loans are still being paid back by borrowers and remain a major part of the student debt picture.³⁰

At the end of fiscal year 2011, the Department of Education estimated that total of outstanding Direct Loans stood at \$342 billion,³¹ and a more recent estimate put the total amount of outstanding Federal Family Education Loans at \$400 billion.³² And with the Consumer Financial Protection Bureau estimating earlier this year that total outstanding student debt has surpassed \$1 trillion,³³ it is likely that the amount of outstanding loans in each program has grown even larger.

Causes of increased student debt

While a variety of factors have led to the major jump in the total level of student lending, the primary contributors have been the increasing cost of college, the choice by state legislatures to make higher education a lesser priority in annual budgets, aggressive lending practices, and the recession cutting into the savings and earning power of families.

Increasing cost of college

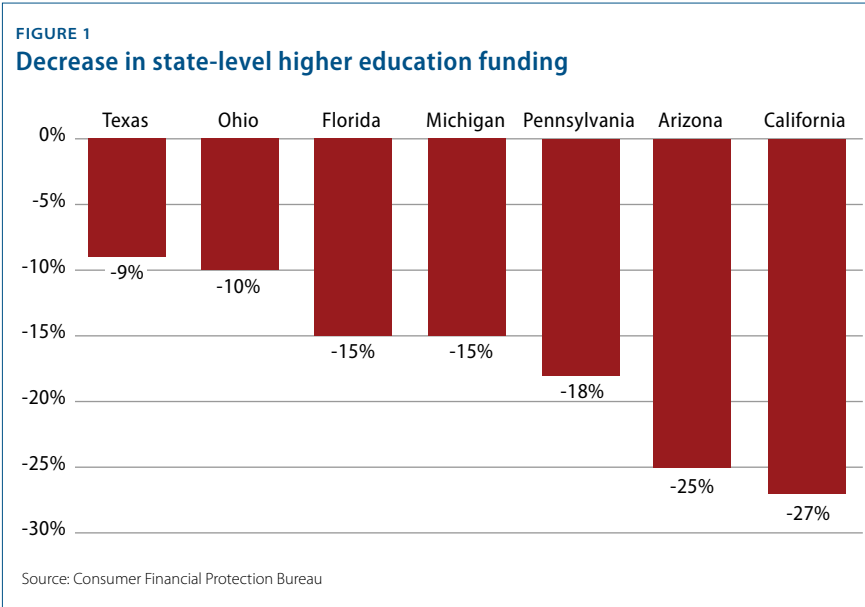
Since 1980 the cost of college has skyrocketed, growing by more than 1,000 percent.³⁴ The incredible increase in the bill faced by students and their parents is all the more concerning when considering that this increase has outpaced the growth of the Consumer Price Index, gasoline, and even health care.³⁵ By comparison, gasoline prices have increased 200 percent, health care has increased about 250 percent, and the Consumer Price Index as a whole has only increased slightly more than 100 percent over the same time period.³⁶

Over the last four decades, average hourly wages and compensation have also remained nearly flat in comparison to productivity,³⁷ meaning that the majority of U.S. workers are not being appropriately compensated and are unable to afford major and constantly rising costs like a college education.

While a variety of factors contribute to rising tuition costs, such as professor salaries and campus amenities, the Federal Reserve Bank of New York points to public funding cuts as the most significant factor. Economists Rajashri Chakrabarti, Maricar Mabutas, and Basit Zafar note that in 2000, public colleges and universities relied upon state and local appropriations for more than 70 percent of their revenue, and in 2011 public funding only made up about 57 percent of the funding for their annual budgets.³⁸ Indeed, the paper asserts that recent increases in tuition represent efforts by schools to make up for decreasing public funding, and not a result of increased federal financial aid. The end result is that more students are turning to loans to keep up with costs.

Higher education cuts in state budgets

With higher education usually considered “discretionary spending”—budget items that can be cut as opposed to nondiscretionary or mandatory spending, which refers to budget items that are locked in—in state budgets, it is one of the areas state legislators have cut in recent years.³⁹ Colleges and universities are making up the difference by increasing tuition, but it has also resulted in some schools offering fewer scholarships.⁴⁰ Ultimately, state cuts are passed onto students and families.



Aggressive lending practices

One element of student lending that has been a key part of the overall increase in loans issued has been lenders’ aggressive tactics. Richard Cordray, director of the Consumer Financial Protection Bureau, has called these tactics “strikingly similar” to those of the mortgage industry when subprime loans skyrocketed.⁴¹

Specifically, the direct marketing to borrowers who are often unaware of all their options has been widely criticized for the part it's played in saddling borrowers with unmanageable levels of debt.⁴² For-profit colleges have played a particularly significant role: In 2001, 62 percent of freshmen at for-profit colleges took out student loans—just eight years later, that number jumped to 86 percent.⁴³

The recession's impact on families

The increasing cost of college has been a major reason for the growth of student lending, but the global economic recession of 2008 was also an important factor. Many households saw one or both parents lose their jobs,⁴⁴ and many who still had jobs saw their wages cut, especially those with incomes of \$30,000 or less who could least afford it.⁴⁵ The result of these hardships was a decrease in savings by parents for their kids' college and more reliance on student loans by the students and the parents.⁴⁶

Lenders

Lenders, both federal and private, have played and will continue to play a major role in the current levels of student debt millions are facing. Outlined below are current student loan structures, the major lenders, and the collection process. We give particular attention to the roles played by private lenders and for-profit colleges.

Federal student loans: Direct Loans and Federal Family Education Loans

Direct Loans, as the name suggests, are made directly from the Department of Education to the students without the involvement of a private lender.⁴⁷ Though Direct Loans in their current iteration began in 2010, they have been a resource provided to students by the federal government since 1958.⁴⁸ These loans include subsidized loans for undergraduates, which have a 3.4 percent interest rate; unsubsidized loans for all students, which have a 6.8 percent interest rate;⁴⁹ and Direct PLUS Loans for graduate students and parents of dependent undergraduate students, which have a fixed 7.9 percent interest rate.⁵⁰

The Federal Family Education Loan program—originally called the Guaranteed Student Loan—is second only in size to Direct Loans. It began much earlier, created in 1965 by the Higher Education Act,⁵¹ and gave state and private, nonprofit agencies the power to guarantee student loans and establish insurance for the lenders who did not have access to those agencies. Renamed the Federal Family Education Loan program under the Higher Education Amendments of 1992,⁵² these loans were made by private lenders and guaranteed by the government.

To eliminate the inefficiencies created by having private lenders act as the middlemen, the federal government eliminated this program and as of July 1, 2010, the Federal Family Education Loan program was eliminated, making Direct Loans the sole option for students seeking federal student loans.⁵³ Prior to this, the government subsidized private lenders to offer loans to students and they would guarantee the value of the loan.

While a student with perfect information understands that federal student loans—with fixed, low-interest rates—remain a better deal than private student loans, many are unaware of their options and take on burdensome private student loans.

The total number of borrowers with outstanding student loan debt has now reached 37 million. Of these, 5.4 million (or 14 percent) had at least one past-due student loan account.⁵⁴ Taking stock of all federal lending, there are currently 35 million people with outstanding federal student loans, including those with Direct Loans and Federal Family Education Loans.⁵⁵ At the end of fiscal year 2011, the Department of Education estimated that total outstanding Direct Loans stood at \$342 billion,⁵⁶ and a more recent estimate put the total amount of outstanding Federal Family Education Loans at \$400 billion.⁵⁷ Earlier this year the total outstanding student debt was estimated to have surpassed \$1 trillion, and it is therefore likely that the amount of outstanding loans in each program has grown even larger.⁵⁸

Federal loan-collection process

Last year alone, the federal government spent nearly \$1.5 billion on loan collection, with \$355 million going to nearly two dozen private debt collectors that handle direct loans and the other \$1.06 billion to guarantee agencies that oversee the remaining Federal Family Education Loans.⁵⁹

With close to 6 million borrowers in default on their student loans,⁶⁰ up roughly 30 percent in the last five years,⁶¹ the need to examine the process and the incentives that loan servicers have has never been greater. To put this into context, the almost one-in-six student borrowers in default owe a combined \$76 billion, more than the combined annual tuition for all students attending public two- and four-year colleges.

A natural question, then, is how much the organizations tasked with servicing and collecting student loans make. One company, the Educational Credit Management Corp., charges fees to borrowers and gives their employees commissions when they collect on defaulted loans. In 2010 the company's top-performing employees were given bonuses that amounted to as much as 10 times their base salary.⁶²

In an attempt to recover money on the defaulted loans, the Department of Education paid more than \$1.4 billion last fiscal year to collection agencies and other groups to hunt down defaulters.

Just as troubling as the levels of compensation, if not more so, is the incentive structure in place at many of these collection agencies. Like similar organizations, the Educational Credit Management Corp. receives more money when it collects from borrowers than it does from preventing them from defaulting.⁶³ When the professional who is overseeing the entire repayment process is more concerned with the money they recover than with ensuring borrowers are on a sustainable path to repayment, the borrowers are clearly being set up to fail.

Private student loans

Private student lending has seen a significant increase in recent years, led by a rise in demand for securities backed by these loans over the past decade.⁶⁴ From just 2005 to 2011, total private student loan debt more than doubled, jumping from \$55.9 billion to \$140.2 billion.⁶⁵

The top private lenders

While there are at least 30 private banks and lenders that provide student loans, there are three that dominate the market: Sallie Mae, Wells Fargo, and Discover. With close to 2 million students expected to complete a four-year degree this year—up more than 40 percent from just five years ago—the banks see enormous potential for profit.⁶⁶

With the increased competition in the student loan market created by the federal government offering low-interest direct loans to students, private lenders have made efforts to continue to attract borrowers. In 2011 Wells Fargo began offering fixed-rate loans, a divergence from the private student loan standard of variable rate loans, ranging from 7.75 percent to 14.25 percent depending on the borrower's credit score.⁶⁷ And in May 2012 both Sallie Mae and Discover also began offering fixed-rate loans.⁶⁸ Even so, aggressive marketing by these lenders continues, targeting borrowers who can least afford these loans.

More than half of students do not exhaust their eligibility for federal student loans,⁶⁹ many because they are simply unaware of their options of various fixed, low-interest federal student loans and sign up for the more expensive private loans with variable and often higher interest rates. Indeed, due to the variable rates on

most private student loans, some students have faced rates as much as twice those offered by federal loans.⁷⁰

With 2.9 million students taking on private loans to pay for school, many are feeling the burden. And while some private lenders are seeking to expand their market, others like JPMorgan Chase & Co. are dialing back as a result of the increased competition from the federal government.

Criticism of private student lending

The recent report from the Consumer Financial Protection Bureau⁷¹ focusing on the private student-loan market highlighted a number of key problems faced by student borrowers, including the increase in direct-to-consumer loans, the trend toward more loans requiring co-signers, and private lenders targeting low-income students.

Increase in direct-to-consumer student loans

Traditionally, private student loans are certified by the school when the lender informs the college about the loan, but these new direct-to-consumer loans—loans made directly to students without the involvement of the college or university the student is enrolled in—are on the rise.⁷² Some of these lenders even discouraged students from taking out federal loans.⁷³ Indeed these loans allowed lenders to remove financial aid offices—where students could learn about their eligibility for federal loans and scholarships—from the equation.⁷⁴ The problem with this approach is that it allows lenders to sign students up for loans that are larger than they need and result in the students facing even greater debt after graduation.⁷⁵

The Consumer Financial Protection Bureau report shows that when these direct-to-consumer loans grew the most—2004 to 2007—some totaled as much as 151 percent of tuition. A consequence of students taking out larger loans than they need is that many will take longer to pay off their loans, with others even defaulting. During the 2004 to 2007 period, lenders had very little incentive to create only loans that students could pay off because the demand was still high for student loan asset-backed securities, and the lenders could quickly sell them and leave someone else to deal with the consequences.⁷⁶

Deceptive and aggressive private lenders

In 2007, Elite Financial Group and 33 other companies were singled out by New York City Attorney General Andrew Cuomo for methods and tactics they employed to sign students up for loans.⁷⁷ Cuomo alleged that these companies marketed their loans deceptively and aggressively, using online and other channels to directly target students.

Indeed, the investigation revealed that solicitation letters that Elite sent to students were marked “Federal Loan Division” and had an eagle seal.

By creating the illusion that these companies were part of the federal student loan program, they succeeded in confusing borrowers and their parents, many of whom were already struggling to navigate their financial aid options. Other practices by these schools included mailing fake checks or false rebates on loans to entice students to call.

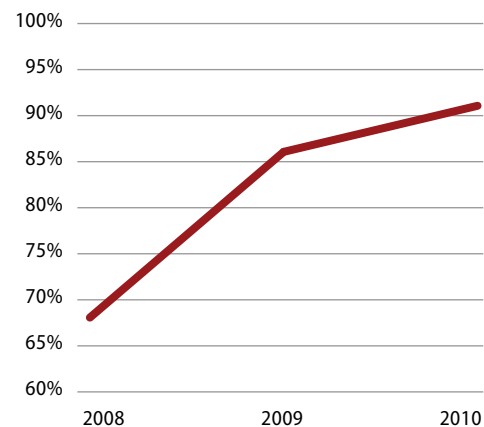
And as a result of circumnavigating the schools where these students would be enrolled, Elite and lenders like it were able to sign students up for loans that were for more money than they needed to borrow, thus increasing the likelihood that students would be stuck paying back the principal and mounting interest for years to come.

In his nine-month investigation of Elite and 33 other private lenders, Cuomo was able to reach an agreement with about a dozen companies and 26 colleges and universities to follow a new code of conduct.⁷⁸ As regulators continue to crack down on organizations like Elite and the deceptive practices they employ, we will be able to decrease the abuses that many students and their families fall victim to.

Increasing number of loans requiring co-signers

The second major trend identified in the Consumer Financial Protection Bureau report is the increase in private lenders requiring students to have co-signers on their loans. The report shows that this was a natural result of the financial market crashing in 2008 and the demand for student loan asset-backed securities going down with it. Now lenders were forced to keep the majority of the loans they created instead of just selling risky loans immediately after creating them. They also limited to lend only to credit-worthy borrowers. In order to come as close as possible to maintaining their current volume of loan generation, they gave loans to a similar number of borrowers and placated their investors by requiring that more of their loans have co-signers. In 2008 the number of private student loans with a co-signer was 67 percent, but by 2011 that share jumped to 90 percent.⁷⁹

FIGURE 2
Increase in private lenders requiring co-signers



Source: Consumer Financial Protection Bureau

Private lenders targeting low-income borrowers

The third challenge addressed in the Consumer Financial Protection Bureau report is lenders blatantly targeting low-income and financially unsophisticated borrowers. As the access to and importance of a college education increases, so too do the number of first-generation college students. But because these students cannot rely on their family and friends for experienced guidance and advice when making key decisions related to college, they can be quickly overwhelmed. Only 15 percent of these first-generation students complete their degrees within six years.⁸⁰

Worse still is the targeting of these students and their families by lenders.⁸¹ In fact, the report found that private student-loan borrowing is much less frequent for students whose parents have completed college and can advise them to favor the typically more affordable federal student loans.

Indeed, low-income students have been a key target of for-profit colleges. Because these colleges' revenue depends so heavily on federal student aid dollars, attracting more low-income students means they will have a steady stream of that money through Pell Grants and other programs.⁸² It also means that these colleges can market their high-interest loans to these low-income students who are often unaware of their options and sign on to loans that haven't been fully explained.⁸³ The dangers of such high-risk loans even lead some low-income students and their parents to eschew loans altogether.⁸⁴

Private loan collection process

As for the repayment process on private student loans, some companies, among them Sallie Mae, will not only originate student loans but also handle the servicing and collecting of repayment.⁸⁵ While this is the approach of some, most private lenders sell the student loans they create to investors and hire other companies to service and collect on them.⁸⁶

Once the student leaves school, the private lender will either shift the task of servicing and collecting the loan to part of the company dedicated to this process or outsource the process entirely to another company who handles collection.⁸⁷

The problem that arises is that two students who took out similar loans can have completely different experiences with the collection process, with some facing

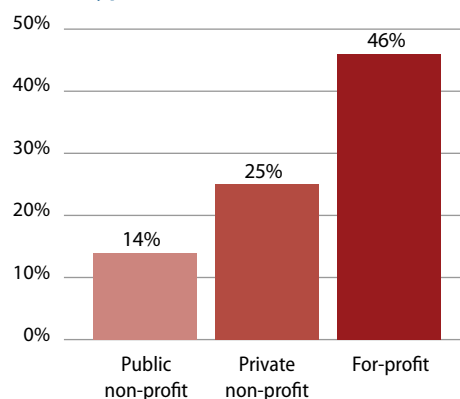
with a number of extra problems. Many of these collection agencies fail to differentiate between evasive and dishonest borrowers and the much larger number of borrowers who are simply overwhelmed and unable to repay their loans.⁸⁸

The rise of for-profit colleges

Within the realm of private student lending, a major contributor to the current crisis has been for-profit colleges. Students at non-four-year, for-profit colleges have experienced the largest increase in student debt among all student borrowers in recent years. In 2001, 62 percent of freshmen at these schools took out student loans—just eight years later, that number jumped to 86 percent.⁸⁹

Additionally, students at for-profit colleges are far more likely to take on private student loans, at about twice the rate of their peers enrolled in nonprofit programs. As the Consumer Financial Protection Bureau report notes, in the 2007–08 academic year, 36 percent of students at for-profit four-year schools took out a private student loan, compared to only 25 percent of students at private nonprofit four-year schools.

FIGURE 3
Share of private loan borrowers at each school type



Source: Consumer Financial Protection Bureau

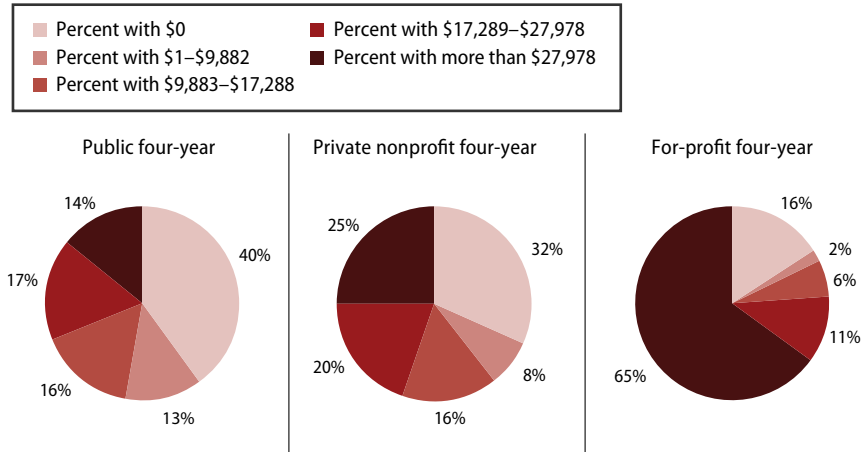
Skyrocketing enrollment

Not only are for-profit students more likely to take on private student loans—typically riskier than the low-fixed-rate federal loans—but the number of students enrolled in for-profit colleges has also skyrocketed over the last decade. Between 2000 and 2009 total enrollment at these schools more than tripled, jumping from less than 500,000 students to more than 1.8 million.⁹⁰ For-profit colleges' role in the student debt crisis is made even more clear by the telling fact that although students at these schools account for only about 10 percent of the total number of college students nationwide, these students take in more than 25 percent of federal student aid dollars and are responsible for close to half of all student loan defaults.

FIGURE 4

Levels of student debt by institution attended

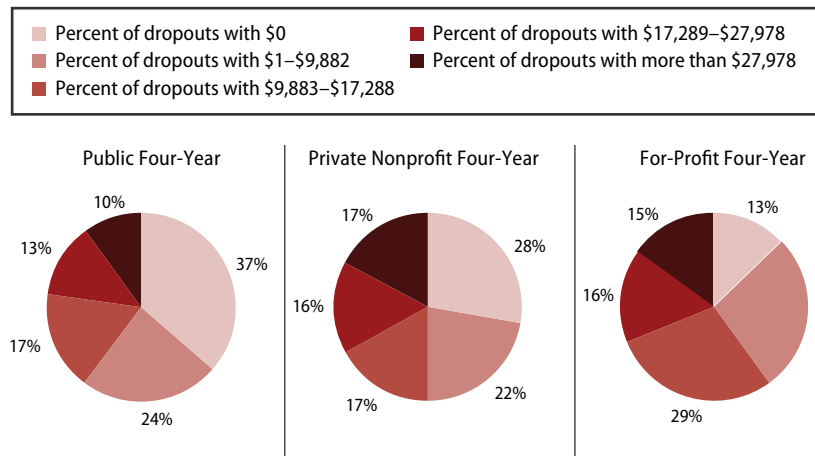
2009 dependent college graduates



Source: College Board

FIGURE 5

Drop out rate by debt level

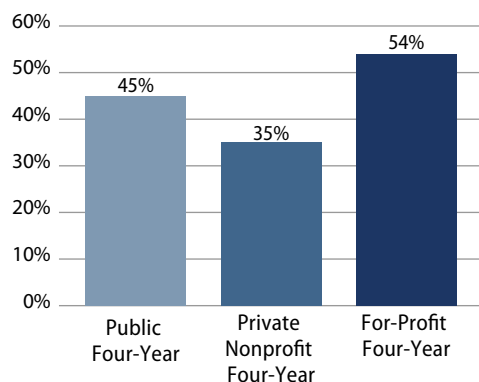


Source: College Board

Higher dropout rates

With students at for-profit colleges disproportionately saddled with debt, the fact that these students are much more likely to default on their loans is very logical. Indeed, the levels of debt that these students incur also leads to some dropping out, as they see the debt accumulating so rapidly while they are still in school that they quickly realize that continuing would mean facing far more debt than they could ever handle. This has an even more detrimental effect for students at for-profit colleges than for students at other schools. Overall, college dropouts nationwide faced a 26 percent unemployment rate, but those who dropped out of non-four-year for-profit colleges faced an unemployment rate of 36 percent.⁹¹

FIGURE 6
Drop out rate by type of college attended



Source: Reuters, CNN

Aggressive marketing to veterans

For-profit colleges have aggressively recruited veterans because of a loophole that allows for-profit schools to not count the Post-9/11 G.I. Bill and other military tuition benefits toward the regulation that mandates that no more than 90 percent of the revenue for-profit colleges take in comes from federal student aid dollars.⁹²

Holly Petraeus, director of service member affairs at the Consumer Financial Protection Bureau and wife of Gen. David Petraeus, wrote about the issue in *The New York Times*, noting that between 2006 and 2010 the amount of military education benefits that just 20 for-profit colleges took in skyrocketed from \$66.6 million to \$521.2 million.⁹³

Indeed, a perfect example of a for-profit school targeting veterans can be seen in The Apollo Group, which runs the University of Phoenix. In the 2010–11 academic year, Apollo got more than \$200 million from G.I. Bill benefits alone.⁹⁴ As a result, the G.I. Bill has become an area of the federal budget that has come under consideration for cuts, meaning veterans' access to college could be significantly impacted.

Increased scrutiny and investigation

As a result of the outsized role for-profit colleges have played and continue to play in the student debt crisis, the Department of Education and other prominent organizations and individuals have called for changes. In 2009 the department began creating tougher regulations for the for-profit college industry but for-profit schools have made concerted efforts to fight back against the crackdown, spending more than \$4 million on lobbying since President Obama took office.⁹⁵

Among the organizations which have criticized for-profit colleges are The Institute for College Access & Success, The Education Trust, the United States Student Association, United States Public Interest Research Group, and Campus Progress.⁹⁶

And in a report released by Sen. Tom Harkin (D-IA) studying 30 for-profit colleges, he found that 54 percent of the students who enrolled in the 2008–09 school year left without a degree in the space of roughly four months. He also found that 63 percent of two-year associate degree seekers left without a degree.⁹⁷

For-profit colleges: Shameless recruiting

Over the last decade for-profit colleges have tripled their enrollment, and aggressive marketing and harassment has been the key to the increase in numbers. Even recruiting the homeless.

In October 2009 two recruiters from the University of Phoenix visited a homeless shelter in Cleveland, Ohio, where they tried to talk 70 destitute men into enrolling. Following the initial contact, these recruits were hounded by constant phone calls and emails.⁹⁸

Such disadvantaged students are desirable because they qualify for federal grants and loans, which are largely responsible for the prosperity of for-profit colleges.

Sara Cohen—a case manager at Shelter Now in Meriden, Connecticut—condemned the aggressive recruiting efforts, saying these schools “are preying upon people who are already vulnerable and can’t make it through a university. It’s evil.”

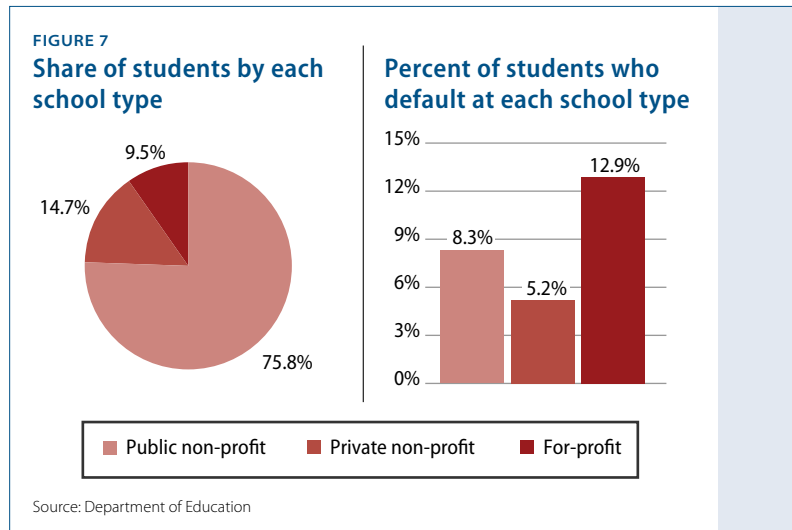
The end result for many of the homeless that were targeted is ending up in debt with no degree to show for it, even worse off than they were before.

Borrowers

The implications of student debt for the economy are significant, but so too is the individual impact on students and their families. Some of the key challenges today include more students leaving school with debt, some students leaving school before completing their degree, many students managing debt at older ages, and students of color being especially impacted by debt.

Students leaving school with debt, many without a degree

For many students, taking on debt to pay for school is a necessity from the beginning. As of 2009, 53 percent of all freshmen take out loans.⁹⁹ Earlier this year The New York Times reported that about two-thirds of bachelor's degree graduates in the 2007–08 academic year had to borrow money to attend college, up nearly 20 percent from 1993.¹⁰⁰ And this figure doesn't even include the nearly 30 percent of college students who took out loans dropped out of school.¹⁰¹ With no degree these students are unable to qualify for the good-paying jobs necessary to pay down their loans before the buildup of interest overwhelms them. And student borrowers who leave school without a degree are four times more likely than graduates to default on their loans. Today this has resulted in 37 million students facing student debt.



Students facing overwhelming debt

Kevin Felisme at American University in Washington, D.C., is facing more than \$160,000 in student loan debt when he graduates. “I was not the first person in my family to go to college, but my father grew up in Haiti and never went to college. College was emphasized because it was seen as a way to be successful.” But with the economy continuing to recover, facing this much student debt could hold Kevin back for years to come.

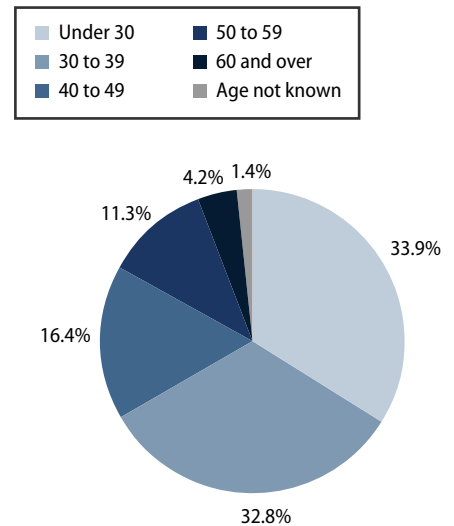
Christina Gutierrez at the University of Southern California expects to be paying off a total of \$22,000 after she earns her degree. “Was cost a major factor in deciding where to go to college? Yes,” she says. “But my parents were extremely adamant about finding means and making where I wanted to go a possibility. ... cost shouldn’t be a reason to deter a student from attending the best college they can.” Like many other current students, Christina understands the value of a college degree, but also realizes that trying to pay back that much debt may take a very long time.

Age breakdown of those with student debt

Another important aspect of the borrower pool is the age breakdown of those with student loans. While households headed by young borrowers (35 and under) face the greatest share of current student debt—40 percent—the shares held by older age groups have increased significantly in recent years.¹⁰² Close to one-fifth (18 percent) of outstanding student debt was owed by households headed by borrowers aged 45 to 54, and nearly 1 in 10 households with student debt was headed by those aged 55 to 64.

Two key factors have contributed to the increased levels of student debt among older borrowers. First, with the economy still recovering, schools have seen an increase in middle-age students enrolling to boost their job prospects and with that increase has also come an uptick in the number of middle-age student borrowers.¹⁰³ Additionally, in recent years private lenders have required that more of the student loans they issue have a co-signer,¹⁰⁴ which has also led to an increase in older borrowers holding student debt.

FIGURE 8
Age breakdown of borrowers with student debt



Source: CBS News

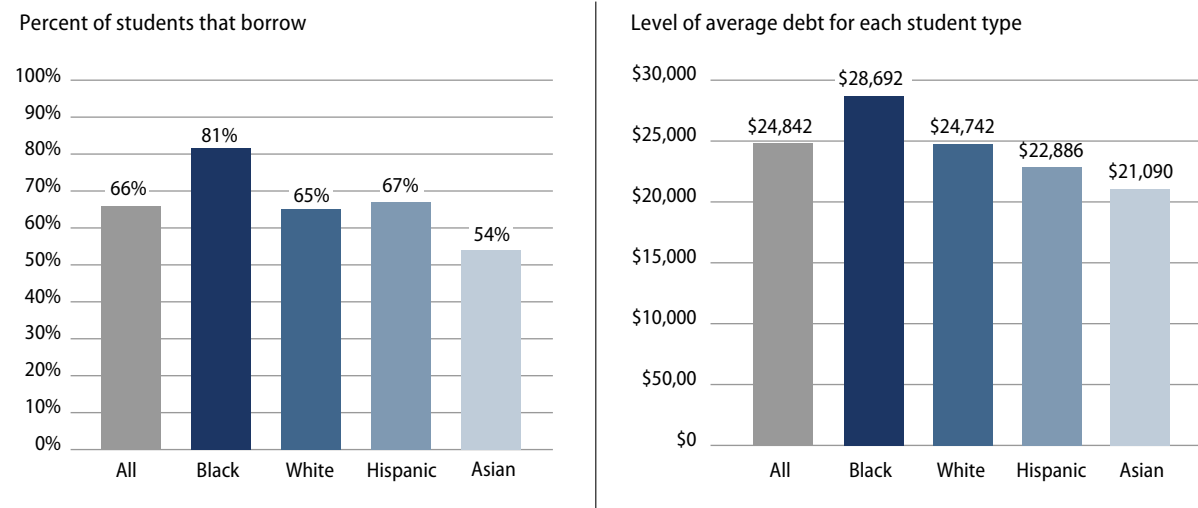
Effects of student debt on students of color

The current student debt crisis affects students from a range of backgrounds, but some are impacted more than others. More than any other group, students of color rely on financial aid to pay for college.¹⁰⁵

A recent Center for American Progress analysis on the impact of student debt on communities of color revealed some key findings.¹⁰⁶ Students of color, particularly African Americans, are graduating with more student debt: 27 percent of black bachelor's degree recipients had more than \$30,500 in debt compared to 16 percent for their white counterparts. And with Pell Grants facing cuts, many students of color who rely on these awards to help pay for school will be forced to borrow at even greater rates.

Latino students are also feeling the impact. While these students have seen their overall educational attainment increase—the number of Latinos with bachelor's degrees jumped 80 percent between 2001 and 2011¹⁰⁷—the racial gap with whites continues, with 20 percent more whites over the age of 25 holding bachelor's degrees.¹⁰⁸ As the cost of college continues to rise and more students are taking on debt to keep up, this disparity will only persist, if not worsen. Indeed, the last decade has seen the number of Latino students taking out loans increase 12 percent and the number of black students taking out loans increase 16 percent.

FIGURE 9
Rate of borrowing and average student debt level by race



Source: Demos; College Board.

Further, students of color are more likely to enroll in for-profit schools, and they currently account for almost half of student loan defaults. This is just one more way that these students are acutely feeling the impact of the student debt crisis.

13.2 percent of recent Latino graduates are unemployed, as well as 10.8 percent of recent black graduates, compared to only 8.7 percent of recent white graduates.¹⁰⁹ And the longer it takes for graduates to find jobs, the easier it is for them to fall behind on student loans.

Additionally, 69 percent of black students who don't finish school cite the burden of high student loan debt as the reason, compared with 43 percent of their white peers.¹¹⁰ And while Latino students between the ages of 16 and 25 value a college education—86 percent saying getting a degree is a high priority for them—less than half said they planned to go to college, compared to 60 percent of all young adults. Indeed, 74 percent of young Latinos who didn't attend college cited financial reasons and families' lack of knowledge of financial aid options, including student loans, as barriers to action.¹¹¹

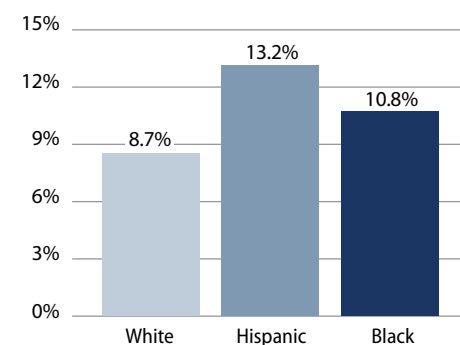
The impact of the student debt crisis cannot be underestimated. It is already apparent for millions of borrowers in the jobs they take, the economic purchases they delay, and the choices of some of them to drop out before completing their degree.

Student debt affects the jobs borrowers take

The overlap of the recent recession and the continuing rise in student debt has created a perfect storm that is overwhelming many borrowers. For some with federal loans, there is the option of income-based repayment, which caps borrowers' required monthly payments at an affordable amount based on income and family size.¹¹² The problem is that many who are eligible—those with loans made under the Direct Loan or Federal Family Education Loan programs—are unaware of this option and as a result are unnecessarily at much greater risk of default.

Facing a tough job market is more than enough to challenge college graduates, but when many are also struggling to manage ever-increasing monthly payments on their student loans, the pressure can push graduates—even from the highest-

FIGURE 10
Recent graduate unemployment rate by race



Source: Economic Policy Institute

ranked schools¹¹³—to take jobs that are unrelated to their field of study¹¹⁴ and often low paying.¹¹⁵

Student debt affects the economy

With borrowers in these situations fortunate to just keep up with their student loan payments, many are unable to save for the future and are also forced to delay major economic decisions such as buying a car or home. Indeed, the struggling economy has added to the challenges many borrowers still paying off student loans face. Close to half (46 percent) of young people aged 18 to 34 have delayed purchasing a home and that number is even higher (56 percent) for African Americans.¹¹⁶

One study finds that 40 percent of graduates surveyed by Rutgers University earlier this year cited student debt as the reason they delayed major purchases like a home or car.¹¹⁷ And in a recently released report, the Institute for One Wisconsin found a strong correlation between home ownership and student debt, with more than 85 percent of renters with a household income of \$50,000–\$75,000 currently repaying a student loan.¹¹⁸

These delayed purchases impact more than individual borrowers, however. They also dampen the economic recovery as a whole with first-time homebuyers playing an essential role in the rebound of the housing market,¹¹⁹ and consumer spending as a whole making up nearly 70 percent of the country's economic activity.¹²⁰

Student debt causes some to drop out

Far worse, however, is the challenge of facing a still-recovering job market with debt and no degree—a situation more and more borrowers are facing. In 2009 close to 30 percent of student borrowers dropped out of school, up from less than one-quarter of student borrowers just 10 years ago.¹²¹ Having all of the debt but none of the earning power a degree would have given them puts these borrowers in an impossible predicament. As of 2012, 36 million Americans have attended college without earning a degree.¹²²

The significance is evident in the disparity in expected lifetime earnings between those with degrees (\$2.3 million) and those without (\$1.5 million). Indeed, Wilbert van der Klaauw, an economist with the Federal Reserve Bank of New York, warned,

“You have to worry about repayment and how it is going to affect not just consumption but possibly lifetime decisions like marriage, fertility and buying houses.”¹²³ If these trends continue and the student debt crisis is not meaningfully addressed soon, the consequences will likely be felt for generations to come.

Student debt also affects students' families

Paying for their children to go to college has always been a significant sacrifice that families have made. But with skyrocketing college costs forcing more students to take out loans, the impact of the debt is being felt by the families as well. The result has been felt at all income levels, even the well off.¹²⁴ But lower-middle-income families are being hurt even more: A recent study found that students from families with incomes between \$40,000 and \$59,000 borrowed \$12,000 more in 2010 than families with incomes greater than \$100,000.¹²⁵

Conclusion

Student debt now exceeds \$1 trillion and it will continue to rise if we don't take action. The consequences of climbing student debt are grave for both students and the country as a whole.

A college education is essential to compete in today's job market but it will become even more indispensable in the future. Sixty-two percent of jobs today require some level of education beyond high school and that number is expected to increase to 75 percent by 2020.¹²⁶ Additionally, 90 percent of students who graduated college between 2008 and 2010 were employed in 2012 compared to 64 percent of their peers without degrees.¹²⁷

Higher education is an integral part of the American Dream. But in order for it to be affordable for all, we must address the student debt crisis before it spirals further out of control.

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