

Why College Students Are Burdened by Debt and What To Do About It

As a college student, you are likely aware of how important a college degree is to your long-term economic success. You are probably also aware of how challenging it is to pay for your college education. What you may not know is that paying for a postsecondary degree has not always been so difficult and that it doesn't have to be. Below is a brief overview of why paying for college has become so difficult, some suggestions for how to lower your own college costs and information on public policies that can make attending college more affordable.

How Students Can Reduce Their Debt and Take out Safer Loans

- » Get involved in public policy campaigns to make college affordable.
- » Vote in local, state and national elections for candidates who support increased public investment in higher education.
- » Make sure you first exhaust the amount you borrow in safer and less expensive federal loans before considering private loans.¹
- » Apply for federal, state, institutional and private grants.²
- » Plan to graduate in four years or less and work a moderate number of hours. Students who work more than 15 hours per week or enroll part-time substantially increase their chances of not graduating or taking a lot longer to get their degree, costing more money.³

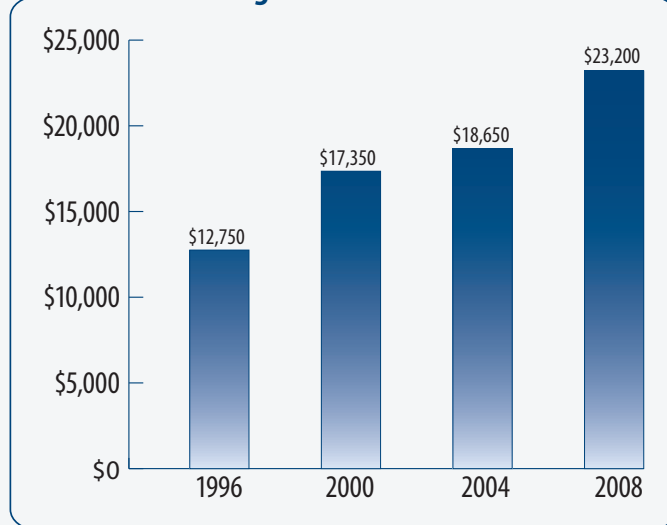
Why Students Struggle to Pay for College

The American public recognizes that investment in higher education has been - and will continue to be - invaluable in building and supporting a strong middle class. Despite this recognition public investments in higher education have not kept pace with rising costs, making a postsecondary degree a financial burden for most Americans. College tuition and fees have increased more than 400 percent in the last 25 years, while median family income has increased by less than 150 percent. Pell grants, the nation's largest source of need-based financial aid, used to cover three quarters of a college education at a public 4 year university. Today the maximum amount covers only a third of these costs.

With grant aid decreasing and tuition and living expenses increasing, low and moderate income college students and their families have been forced to take out loans and pay more out of pocket for their postsecondary degrees. Increasing numbers of students also work long hours to cover their expenses, compromising their ability to graduate at all. Only 60 percent of students who begin college at a four-year institution complete a bachelors degree within six years. Twenty percent of students who take out loans do not graduate, leaving them without the benefit of a college degree and with the burden of a student loan.

Graduates with onerous debt find their career options constrained and their ability to secure savings for basic needs such as retirement and the creation of a family greatly undermined by debt payments. This is especially the case for students who take out private loans, which are generally more expensive and offer few borrower protections in comparison to federal loans. A look at the facts:

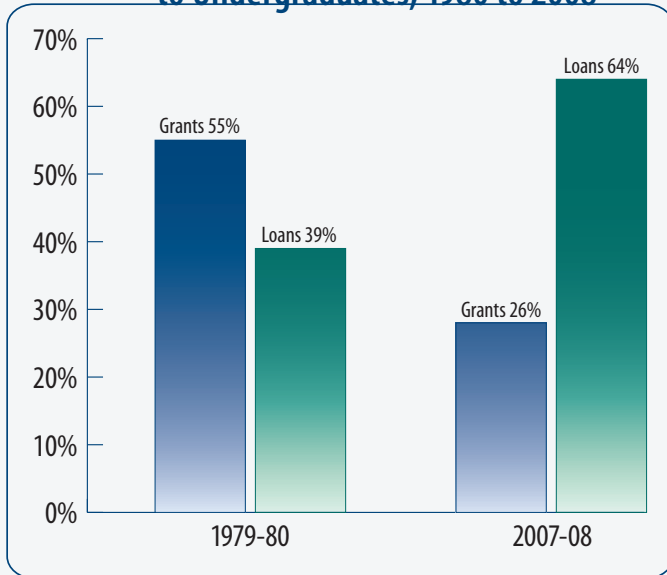
Chart 1: Average Student Debt Over Time



Source: Project on Student Debt "Quick Facts about Student Debt", August 2009, projectonstudentdebt.org/les/File/Debt_Facts_and_Sources.pdf.

- » Average student debt nearly doubled over the last 12 years. In 2008, two thirds of graduating students carried an average debt of \$23,200. (see Chart 1).⁴

Chart 2: Composition of Federal Financial Aid to Undergraduates, 1980 to 2008



Source: The College Board

- » In 1980, 39 percent of federal financial aid to undergraduates was in the form of loans, and 55 percent was awarded in grants. By 2008, this had shifted to 64 percent of the funds awarded as loans and only 26 percent as grants (see Chart 2).

- » Low-income students attending public colleges and universities are 33 percent more likely to take out debt than students from high-income families. The average debt taken out by low-income students is also higher than that by high income students.⁵
- » The percentage of students taking out private loans nearly tripled from 2003-04 to 2007-08. It increased from about 935,000 students (5 percent of undergraduates) to 2,946,000 (14 percent).⁶

Public Policies Can Restore College Affordability

In order to build a healthier and stronger American middle class, increased public investments must be made in our nation's colleges and financial aid programs and the private loan market must be well regulated. To build support for these needed initiatives, Dēmos has launched a policy and advocacy campaign to raise awareness about the financial barriers that prevent college completion, especially at community colleges. The initiative is identifying and advancing policy solutions to help students succeed by reducing financial challenges – not only paying for tuition and books but also living expenses and family needs. Some policies we support include:

- » Increasing federal, state and institutional grants to low and moderate income students.
- » Improving financial support to public colleges and universities coupled with innovations to improve their quality and accountability.
- » Improving the regulation of private lenders to ensure that student borrowers have better protections.

Endnotes

1. All students regardless of their income are eligible for federal loans if their school participates in the federal loan program.
2. A good first step toward towards doing this is by applying for the Free Application for Federal Student Aid and meeting with a financial aid officer.
3. Note that on average students receive greater amounts of financial aid if the enroll full time, Viany Orozco and Nancy Cauthen, *Work Less, Study More & Succeed: How Financial Supports Can Improve Postsecondary Success*, Demos, September 2009 http://www.demos.org/pubs/studymore_web.pdf.
4. The Project on Student Debt, "Student Debt and the Class of 2008" 2008
5. Heather Boushey, "Center for Economic and Policy Research" Center for Economic and Policy Research, 2005.
6. The Project on Student Debt "Private Loans: Facts and Trends", August 2009 http://www.projectonstudentdebt.org/files/pub/private_loan_facts_trends_09.pdf



For more information, see www.demos.org

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