

Sharing responsibility for student debt

The headlines about student loan debt are as shocking as they are disheartening. Aggregate student debt exceeds \$1 trillion (about \$200 billion more than Americans owe in credit card debt!) and students are adding to that at a rate of \$100 billion a year. Seven million student loan borrowers are in default and student loan debt is second only to mortgage debt for 29- to 37-year olds. More than half of those with student loans fear that they will not be able to repay those loans. Many are suggesting that we are in the midst of an educational bubble that will wreak havoc with the economy when it inevitably bursts.

But these headlines only tell part of the story. To get the full picture, we need to look at what brought us to this predicament.

It is easy to cast the blame on higher education – and the reasoning boils down to “if colleges weren’t so expensive, students wouldn’t need to borrow so much money.” There is no question that we need to improve access and affordability at higher education institutions across the nation. But the problem is far more complex than “educational expenses” – the cost of tuition, room and board, and books.

Some higher education is certainly worth what it costs. Public education is still a great investment on the part of individuals and society. Annual tuition costs for community colleges average only \$2,963 while in-state tuition at public universities averages \$8,244. Of course, private schools are more expensive than public schools – but only 20% of students attending college go to private schools (where their average yearly tuition is \$28,500).

It shouldn’t be surprising but often goes unmentioned that student debt is much more of a problem for some students than others. Almost one third of college students graduate with no debt at all. Of those that do graduate with debt 40% find that they owe less than \$10,000 and 30% owe between \$10,000 and \$30,000 – amounts that are well within the range that financial analysts agree are reasonable to take on given the higher salaries and significant increase in life long earning potential enjoyed by college graduates. Less than 5% of those graduates who do have debt owe more than \$100,000 in student loans.

Students with large amounts of debt are typically those that have taken out loans for expenses that go above and beyond the cost of school. Michael McGervey, president and founder of McGervey Wealth Management, told Fox Business that college students often borrow more money than necessary. He observed that some “students are taking out loans that are three times the cost of school, and utilizing the remainder to live off of, or spend.” Unfortunately, student loans are some of the most dangerous kind of debt to have – unlike most debts, federal law dictates that student loans cannot be dissolved or written off in a bankruptcy.

Rising student debt is clearly a legitimate national problem. It is a drag on the economy (causing delays in home buying and dampening consumption) at the same time that it is

causing those in Generation X and Y to skew their career choices (those in debt are more inclined to seek high paying jobs and shy away from critical professions like teaching).

But the solution to this problem won't come just from reducing the cost of higher education or discouraging students from getting the college degrees that will make them (and Ohio in general) competitive in the world economy. We need to do a better job preparing students and their families for not only the path to college, but also on how to choose the institution that is best for them and work out a responsible way to pay for it.

Prospective students (and also the taxpayers that support public education) deserve much plainer explanations of the anticipated costs and benefits of different courses of study. But we also need to invest more, not less, in higher education through state support of public institutions and through the expansion of scholarship and grant programs. And, when student loans are necessary, they should be used just for education – not car payments, rent, or other living expenses.

Regardless of the economy or job market, higher education is still the best path toward achieving the American dream. Anyone willing to work hard enough should be able to go to college and earn their degrees. But, we have to do better helping those graduates avoid the pitfalls that lead to a burden of debt for years or decades to come.

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