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Students suffocate under tens of thousands in loans

By Sandra Block, USA TODAY

Tom Dillon, 19, a pre-pharmacy major at the University of Connecticut, is carrying $52,000 in student loans. And he's just getting started. When he gets his pharmacy doctorate in four years, he expects his debt to exceed $150,000. Dillon's been drawn to pharmacy since age 5, when he found out he had epilepsy.

"The first person who helped me was my pharmacist," he says. Dillon, who no longer has would like to go into pharmaceutical research. But he knows he'd earn more money as a | for one of the big drugstore chains.

"When I get out, I'm going to have that $150,000 weighing over me," he says. "What I dec to be dependent on that debt."

And the cost of that debt is about to rise. On July 1, the rate on new federally guaranteed loans will hit a fixed 6.8%, the highest rate since 2001. It comes as the average graduate $19,000. Many undergrads, though, have debt exceeding $40,000.

Those higher payments carry huge implications for this generation of college graduates. T of debt is forcing many to put off saving for retirement, getting married, buying homes anc aside money for their own children's educations.

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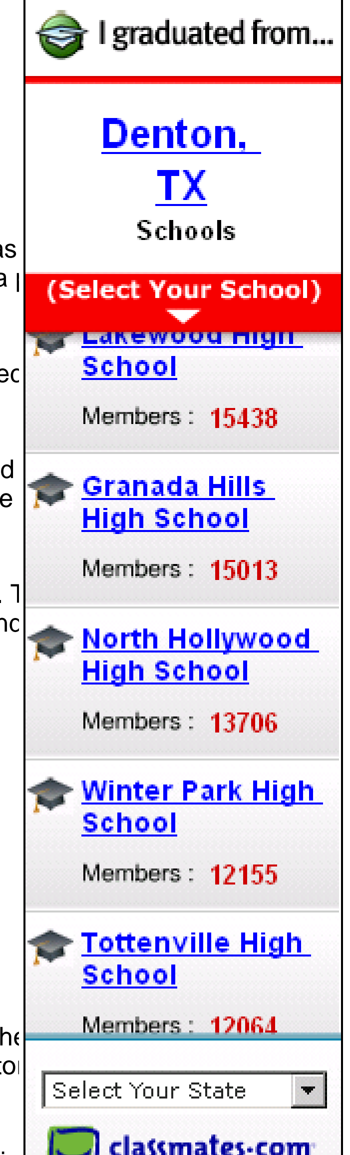

Average college debt

For undergraduate bachelor of arts degree recipients, by type of college for the 2003-04 academic year:

Type	Debt
Private, for profit	$24,200
Private, nonprofit	$16,000
Public	$10,600

Source: CollegeBoard's 2005 Trends in Student Aid

the Virginia College Savings Plan. Some graduates will refuse to risk what little money the entrepreneurial ventures. And securing loans will now be harder. "It's a real crisis," Canto "You're strapped before you get started."

The average debt for a college graduate has soared 50% in the past decade, after inflatio according to the Project on Student Debt, a non-profit advocacy group. Just as record-low rates have eased the impact of soaring home prices, low student-loan rates have let borrc their payments, softening the impact of rising debt.

"Low interest rates have served as a sort of amnesty for graduates with debt," says Robert Shireman, founder of the Project on Student Debt. "We haven't seen what the real impact is of much higher levels of borrowing."

Now, with interest rates rising, that amnesty is about to end. The 6.8% fixed rate for Stafford loans, the most popular student loan, will replace a variable rate that used to be adjusted every July 1, based on Treasury bills. Under the old system, borrowers could consolidate their loans when rates were low. And they could lock in that low rate for the life of their loans.

Today,students who don't want to borrow at higher rates have few other options. Twenty-five years ago, students who wanted to avoid debt could use money from part-time and summer jobs to help pay for college. But since then, college tuition has risen at twice the rate of consumer prices. Tuition has soared much faster than pay has for the kinds of low-wage jobs that students tend to hold.

In 1981, a student could work full time all summer at minimum wage and earn about two-thirds of annual college costs, according to an analysis by Heather Boushey, economist for the Center for Economic and Policy Research. Today, a student earning minimum wage would have to work full time for a year to afford one year of education at a four-year public university — and that assumes she saves every penny, Boushey concluded.

Parents, meantime, face competing demands for their money. They're trying to save for retirement just as their kids are starting college. Financial planners have long urged people not to delay retirement saving to pay for college. The idea was that students could borrow for college but that parents can't borrow for retirement.

That was an easier argument to make when debt loads — and tuition — were lower, says Amy Noel, a financial planner in Boulder, Colo. She still believes parents shouldn't sacrifice retirement security for their children's education. But she lays out options for her clients.

"If college is so important to you, what are you willing to give up?" Noel says. "Are you willing to work four years longer?"

A cloudy future

Lenders note that even without the change in the law, rates on Stafford loans would have risen above 6% on July 1, because rates on the benchmark Treasury bills have risen this year. They also point out that the fixed-rate formula will protect borrowers from sharp increases in future interest rates.

But if interest rates drop, borrowers with loans issued after July 1 won't be able to benefit. Graduates will still be able to extend payment periods by consolidating their loans. But that won't provide any interest-rate relief. That's because the loan rates will be fixed.

Nickalous Reykdal,22, an education major at Central Washington University, expects to leave with about $15,000 in debt when he graduates next year. Paying off that debt will be "very difficult" on a starting teacher's salary, Reykdal says. "It's like having a huge cloud over my head — worrying about how to pay this money off."

To avoid piling on even more debt, Reykdal has worked up to 25 hours a week during the school year and 60 hours a week in the summer. He's now taking a quarter off to work for a student organization so he can pay off a $1,500 credit card bill. He used the credit card — which he has since cut up — to pay for "little things I didn't want to bother my parents about."

What students can do to limit their debt loads

With college costs continuing to rise, many students can't avoid loans. But there are steps you can take to reduce the size of your debts. Among them:

• If you've already graduated, consolidate your loans before July 1. If you're already paying off your loans, you can lock in a 5.375% rate for the life of the loan. Graduates who consolidate during their grace period — the six months before you have to start making monthly payments — can lock in a rate as low as 4.75%.

The 6.8% fixed rate that takes effect July 1 applies to new loans. Loans taken out before then will still have a variable rate that's adjusted every July 1. That variable rate is expected to top 6% on July 1. Consolidating your loans will let you avoid that increase.

If you're still in school and have loans outstanding, talk to your lender about "in-school" consolidation. That would let you lock in a rate on money you've already borrowed. You must consolidate before July 1, though. The new law will bar in-school consolidation after that date.

• When borrowing for college, opt for government-guaranteed student loans before you turn to private loans. Because private loans aren't guaranteed by the government, interest rates and fees are usually higher than for federal Stafford loans. The maximum that dependent undergraduates can borrow under the federal program is $23,000. So some students with high college costs have to use private loans. But others are taking out private loans before they've taken full advantage of the federal program. A 2003 study by the Public Interest Research Group of students with private loans found that nearly 24% didn't take out any Stafford loans, and 26% borrowed less than the maximum allowed.

• Don't compound your problems by running up credit card debt. The average undergraduate has a credit card balance of $2,169, according to a 2004 survey by student lender Nellie Mae. Only 21% of students paid off their balances each month.

Many students use credit cards to pay for books, supplies and class fees. But keep in mind: The average interest rate for a standard, variable-rate card is 13.7%, according to Bankrate.com. And overdue payments can cause those rates to soar.

By Sandra Block

forgiveness programs to a handful of teaching and nursing positions and some members military. Graduates in other fields who have trouble paying off their loans can extend their periods for up to 30 years. But that will sharply boost the interest they'll pay. For example, who takes 30 years to pay off a $20,000 loan at 6.8% will pay about $27,000 in interest. T compares with $7,619 on a loan paid off in 10 years.

Borrowers can try to defer their payments. But they must prove they're suffering from eco hardship. Loan forbearance, which provides a reprieve from payments, is easier to get. B loans, interest will pile up during the forbearance period. That further swells the student's

Kimberly Bluford, 34, a social worker in Hampton, Va., has put her loans in forbearance s times since graduating in 1997. Social workers in her area don't make much money, and laid off from one job, she says. "Even with a master's degree, it's a struggle."

Bluford's balance has gone from $22,000 when she graduated to about $29,000. Her deb exacerbated by a high interest rate. In 1999, when rates were above 8%, she consolidate federal rules forbid consolidating loans more than once, even if rates fall. Bluford, who ha old daughter, says she'll "probably be 60" by the time her loan is repaid.

Though forbearance will expand a student's loan balance, the consequences of default ar The loan might be turned over to a collection agency. If so, collection fees would increase balance.

The default will also be reported to credit agencies. And it will show up as a negative item report. The government can also intercept borrowers' tax refunds, garnish wages and with Security and other federal benefits.

Erasing the loans by filing for bankruptcy is seldom an option. A 1998 law designed to rec student loan defaults requires borrowers to prove they'll fail to maintain a minimal standar unless their student loans are wiped out.

That standard is nearly impossible to meet, says Nora Raum, a lawyer and author of *Surviving Personal Bankruptcy*. The bankruptcy reform law enacted last year toughened the rules by extending the hardship standards to the private student loans that borrowers often turn to once they've maxed out on government loans, Raum says.

In December, a federal appeals court in Richmond ruled against a single mother of a 7-year-old child who earned $10,771 in 2003, the year she filed for bankruptcy. The woman, who was self-employed, had no health insurance and drove a car with 250,000 miles on it, according to court documents.

In overturning a lower court's ruling in her favor, the appeals court said the woman failed to show that she couldn't find a higher-paying job. It also faulted her for not consolidating her loans, which would have cut her payments.

Also contributing to a rise in debt: a sharp drop in direct aid. Congress hasn't increased the Pell Grant, the most common direct aid for low-income students, since 2003. The maximum Pell Grant: $4,050 a year.

"The Pell Grant isn't even keeping up with inflation, let alone college costs," says Luke Swarthout of the Public Interest Research Group. Students have to borrow more to make up the gap between direct aid and the amount their families can afford to contribute, he says.

As a result, low-income students are carrying a disproportionate amount of student debt, says Shireman of the Project on Student Debt. Shireman analyzed loans held by Pell Grant recipients because those students are from low-income families. More than 88% of Pell Grant recipients who graduated with a bachelor's degree in 2004 had student loans, vs. 59% of students who didn't have Pell Grants, according to an analysis of Education Department data.

The average amount borrowed by Pell Grant recipients was 12% higher than the amount borrowed by other students. And one-fourth of the low-income students had more than $27,000 in loans.

Caught in a bind

Students from middle-income families, meanwhile, say they're, well, caught in the middle. Their families earn too much to qualify for direct aid — but too little to pay the full tab for college. That leaves them no choice but to borrow.

Tom Dillon says his family's income made him ineligible for direct financial aid. But because he has three younger sisters, including two who'll be in college the same time he is, his parents can't afford to pay his college bills. "We're stuck," he says.

Loan payments are typically deferred until after graduation. So many students don't think much about their debts, or the interest rates they'll pay, while they're in school, Shireman says. "It doesn't hit home until they graduate, or worse, until they fail to graduate for some reason and then they're faced with these loan payments."

Nicole Lamarche, 27, an ordained minister for the Wellesley Congregational Church-United Church of Christ in Wellesley, Mass., considers herself fortunate. She consolidated $33,000 in loans last year, extending the payment period and locking in a low rate.

So her monthly payments are $200, vs. $350 if she hadn't consolidated. But even with the lower payments, she doesn't think she'll be able to buy a home for years. And she can't find money in her budget to save for retirement.

"I've been told that these are the important years for compound interest — put in money

now," she says. "But these are the years you don't have any money."

Reykdal says all his friends have student loans and predicts that the higher rates will force many future graduates to spend years paying off their debts. "Their student loans will double by the time they pay them off, just on interest alone," he says. "It makes me really worry about the future."

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