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ABSTRACT

Nearly half of all full-time working college students are working enough hours to hurt their academic achievement and the overall quality of their education. At the same time, the majority of these students report that they would not be able to attend college if they did not work. As college costs have risen, federal grant-aid has failed to keep pace, and students in the future face even greater pressure in paying for college. Data about student employment are from 1,031 surveys completed by students across the United States. They show that 46% of all full-time working students work 25 or more hours per week, and 42% of these students reported that working hurt their grades. Fifty-three percent of all full-time working students who work 25 hours or more per week reported that employment limited their class schedule, and 38% said that work limited their class choice. Sixty-three percent of all full-time working students who work 25 hours or more each week reported that they would not be able to attend college if they did not work. One in five full-time working students works 35 or more hours each week. (Contains 16 figures and 17 tables.) (SLD)

At What Cost?

The Price That Working Students Pay For A College Education

April 2002

By Tracey King and Ellynne Bannon

Special thanks to Alison Cassady, Ivan Frishberg, and Liz Hitchcock.

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The State PIRGs are non-profit, non-partisan public interest advocacy groups. The Higher Education Project was established in 1994 to secure more student aid, with a focus on additional grants, lowering the cost of borrowing, and better service to students in the federal financial aid system.

State PIRGs' Higher Education Project: http://www.pirg.org/highered
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Executive Summary

A college education is one of the best investments of a lifetime. Bachelor degree recipients earn 80% more than high school graduates, or $1,000,000 over a lifetime in the workforce.[1] Yet, a higher education is not simply a means to achieve higher earning potential, it should also be a life enriching experience. Colleges and universities foster both academic and personal development – from community service and civic engagement, where students learn how to become active participants in democracy, to team athletics, where students gain valuable leadership experience.

However, as college costs rise many students are turning to working long hours to finance their education. Nearly half of all full-time working students are working enough hours to hurt their academic achievement and the overall quality of their education. At the same time the majority of these students (63%) reported that they would not be able to attend college if they did not work.

In recent decades as college costs have risen federal grant-aid has failed to keep pace. The average grant award per student, as a percentage of average tuition and fees at a typical public four-year institution, has dropped by nearly one-third since 1982,[2] and the typical student now graduates with $16,928 in federal student loan debt.[3]

Grant aid has helped many students to minimize the negative impact of working and borrowing, but still lags behind what is necessary to provide equal access to a quality education. The students who are most likely to suffer the effects of excessive working are also more likely to take on student debt to finance their education. There is also significant evidence to show that working not only impacts the quality of education, but also persistence.

Despite these findings, students are likely to face even greater hardship in the future. Gloomy state and federal budget forecasts have already begun to negatively impact tuition at public institutions and the availability of federal grant aid. In order to ensure that access to and the quality of a college education is not further compromised, it is our recommendation that state and federal lawmakers should prioritize funding for higher education. Specifically, we call for increases in student grant aid at the federal level. Funding need-based grant aid is a proven strategy for providing access to a college education and minimizing the negative impacts of excessive working and college debt.

Key Findings:

- Forty-six percent (46%) of all full-time working students work 25 or more hours per week.
- Forty-two percent (42%) of these students reported that working hurt their grades.
- Fifty-three percent (53%) of all full-time working students who work 25 or more hours per week reported that employment limited their class schedule, and 38% said that work limited their class choice.
- Sixty-three percent (63%) of all full-time working students who work 25 or more hours per week reported that they would not be able to afford college if they did not work.
- One in five full-time working students works 35 or more hours per week.

[1] The College Board. 2001. *Trends in Student Aid.* Washington, D.C.
[2] Ibid.
[3] The State PIRGs' Higher Education Project. 2002. *The Burden of Borrowing: A Report on the Rising Rates of Student Loan Debt.* Washington, D.C.

At What Cost?
The Price That Working Students Pay For A College Education

As college costs rise, federal financial aid fails to keep pace, and state budgets shrink, many students and their families are struggling to finance college. More students are turning to work to bridge the gap between their families' available resources, financial aid, and the cost of education. According to the Department of Education's 1999-2000 National Postsecondary Student Aid Survey (NPSAS), nearly half of all full-time working students are working 25 or more hours per week.[1]

Data from the 1999-2000 NPSAS also show that employment has a negative impact on many students' academics and overall college experience. The more hours that students work, the more likely that working is to negatively impact their grades and the quality of their education.

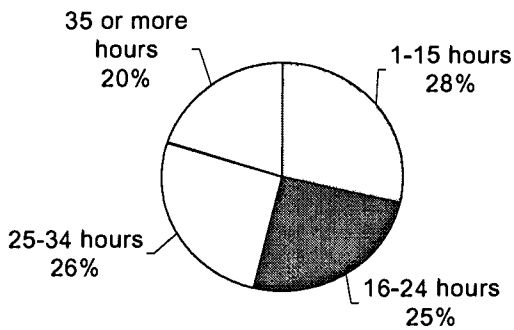
For many of these students, working compromises not only their academics, but also their ability to engage in civic learning, community service, and other extracurricular activities. Full-time students who spend 25 hours per week working are engaged in either paid work or academics between 60 and 80 hours per week. This leaves little time for a broader learning experience outside the classroom and likely cheats many of these students out of a full college education. For these students, working has become a barrier rather than a solution to advancing their education.

Student Employment

Of all full-time students, 74% work while attending school. Of students who are both employed and enrolled, 84% identify themselves primarily as students working to meet college expenses, in contrast to employees who enroll to take credit classes.

In addition to studying full-time, many students work long hours to pay for a college education. Forty-six percent (46%) of full-time students working to cover college costs worked 25 or

Distribution of Full-Time "Students who Work," by Hours Worked per Week 1999-2000



[1] "Work" includes all paid employment, on- or off-campus work, and includes work-study.

more hours per week. One in every five working students works full-time, 35 or more hours per week, while enrolled as a full-time student.

Over the last few years, the number of students working long hours has increased. The percentage of all full-time students who worked increased from 71% to 74% from 1995-96 to 1999-2000. Over the same time period, the percentage of full-time working students who worked 25 or more hours per week increased from 43% to 46%, and the percentage of those working full-time increased from 19% to 20%.

Impact of Employment on College Experience

Working while enrolled full-time helps some students prepare for their future careers and helps others with their coursework. However, many students reported that working was detrimental to their grades and college experience.

The more hours that students work, the more likely they are to report negative effects of employment on their grades and overall college education. Students who work 25 or more hours per week are more than twice as likely to indicate that working has a negative impact on various aspects of their academic experience. Forty-two percent (42%) of those working 25 or more hours per week reported that working had a negative impact their grades, compared to 22% of those who worked less than 25 hours per week. Similarly, 53% of full-time students working 25 or more hours per week reported that working limited their class schedule, compared to 26% of those working fewer hours; and 38% said that work limited their class choice, compared to 17% of those working less than 25 hours per week.

Students who worked full-time reported an even gloomier picture. Forty-six percent (46%) of these students said that work hurt their grades. The majority (62%) said that work limited their class schedule; half reported that work limited the number of classes they enrolled in; and 45% said that work restricted their class choice.

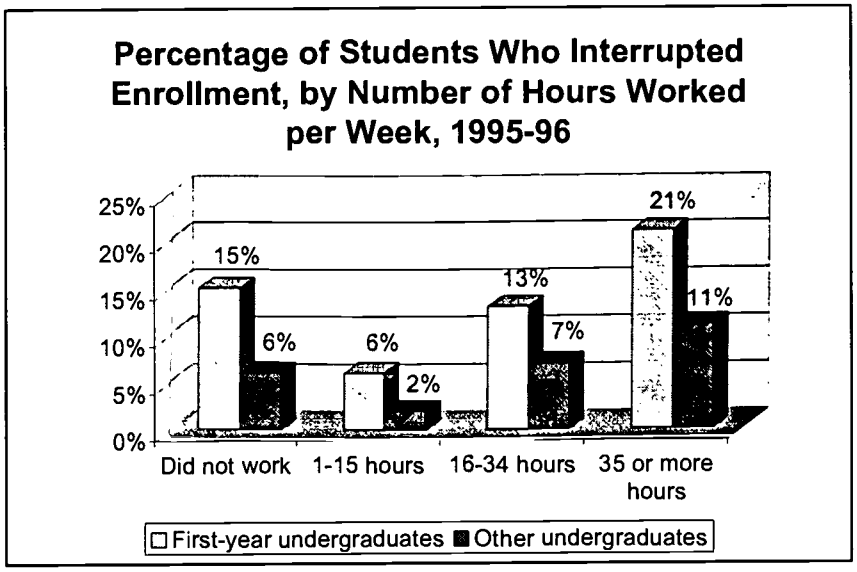
Effects of Employment on Grades Among Full-Time "Students who Work," by Number of Hours Worked per Week

	Positive effect	*Negative effect*	*No effect*
Total	25%	32%	43%
1-15 hours	29%	16%	55%
16-24 hours	26%	29%	45%
25-34 hours	23%	39%	38%
35 or more hours	21%	46%	33%

Effects of Employment on College Experience Among Full-Time "Students who Work," by Number of Hours Worked per Week

	Help with career preparation	*Help with coursework*	*Limit class schedule*	*Limit number of classes*	*Restrict class choice*	*Limit library access*
Total	54%	25%	38%	29%	27%	27%
1-15 hours	52%	27%	18%	12%	11%	12%
16-24 hours	54%	26%	35%	25%	23%	22%
25-34 hours	53%	23%	47%	36%	33%	33%
35 or more hours	58%	24%	62%	50%	45%	46%

According to the NPSAS data, students who work fewer hours are more likely to have high grade point averages than are those who work long hours. Seventeen percent (17%) of those who worked 25 or more hours per week had a GPA of 3.5 or higher, compared to 25% of students who worked less than 25 hours per week.



Evidence suggests that working affects students' persistence, specifically, the likelihood of completing a full year of college. While current data on persistence among students working 25 or more hours per week were not available from the 1999-2000 NPSAS, previous reports indicate that working a limited number of hours has a positive impact on persistence, while students who work full-time are more likely to interrupt their enrollment. Based on a 1995-96 report from the Department of Education,[2] 21% of first-year students working 35 or more hours per week did not complete a full year of college, compared to 6% of those who worked less than 15 hours per week. Among continuing students, 11% of those working full-time did not complete a full year, compared to 2% of those working less than 15 hours per week. Those working between 16 and 34 hours per week were more likely to interrupt their enrollment than were those working less

[2] U.S. Department of Education. National Center for Education Statistics. 1998. *Profile of Undergraduates in U.S. Postsecondary Education Institutions: 1995-96.* Washington, D.C.

than 15 hours per week. However, these students had similar persistence rates to students who did not work at all.

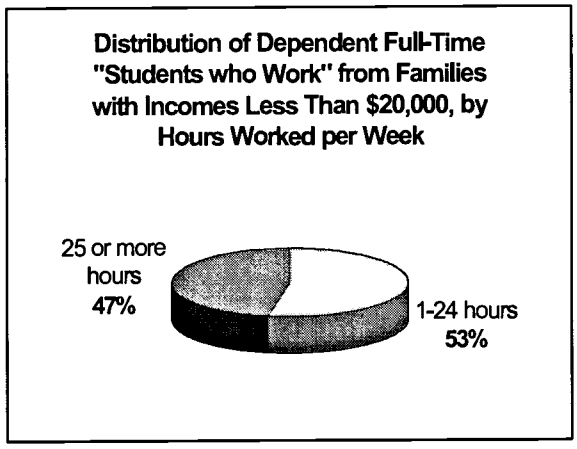
Despite research that shows that working 25 or more hours per week negatively impacts academic achievement and the overall college experience, most working students said that they would not be able to afford college otherwise. Among students who work 25 or more hours per week, 63% said that they would not be able to afford college if they did not work, compared to 70% of the students who are the most at risk – those who work full-time in addition to a full course load.

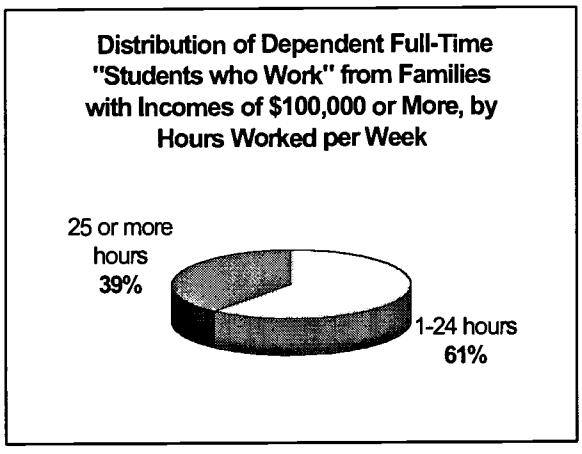
Low-Income Students

A recent report by the Advisory Committee on Student Financial Assistance found that the typical low-income student faces $3,800 in unmet need when paying to attend a four-year public institution.[3] In other words, even after all financial aid has been awarded, low-income students need an average of $3,800 per year to meet the costs of college.

Low-income students often find themselves working long hours to finance college. Among dependent students, those from low-income families were much more likely to work than wealthy students to pay for tuition, fees, or living expenses, rather than to earn spending money or to gain job experience. Sixty-two percent (62%) of full-time "students who work" from families with incomes less than $20,000 cited paying for tuition, fees, or living expenses as their primary reason for working, compared to 35% of those from families with incomes higher than $100,000. Fifty-one percent (51%) of low-income students who work said that they would not be able to pay for a college education without working, compared to 26% of wealthy students.

Low-income students are also more likely to work 25 or more hours per week than are





[3] The Advisory Committee on Student Financial Assistance. 2001. *Access Denied: Restoring the Nation's Commitment to Equal Educational Opportunity*. Washington, D.C.

wealthy students. Forty-seven percent (47%) of full-time "students who work" from families with incomes less than $20,000 worked 25 or more hours per week, compared to 39% of those from families with incomes higher than $100,000.

Thirty-two percent (32%) of students from low-income families reported that working had a negative impact on their grades, compared to 23% of wealthy students. Forty-one percent (41%) of students from low-income families reported that employment limited their class schedules, while 33% of students from wealthy families reported the same negative effect.

Effects of Employment on Grades Among Dependent Full-Time "Students who Work," by Family Income

Family Income	*Positive effect*	*Negative effect*	*No effect*
Less than $20,000	27%	32%	41%
$20,000-$39,999	23%	33%	44%
$40,000-$59,999	24%	29%	46%
$60,000-$79,999	27%	28%	44%
$80,000-$99,999	26%	22%	52%
$100,000 or more	28%	23%	49%

Effects of Employment on College Experience Among Dependent Full-Time "Students who Work," by Family Income

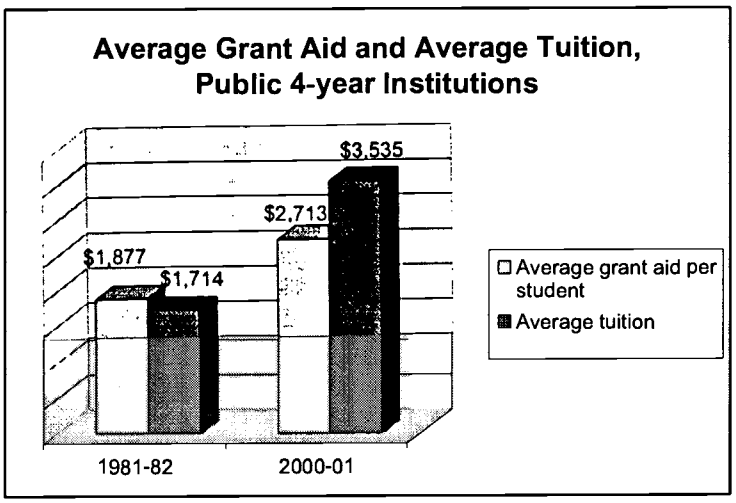
Family Income	*Help with career preparation*	*Help with coursework*	*Limit class schedule*	*Limit number of classes*	*Restrict class choice*	*Limit library access*
Less than $20,000	57%	30%	41%	31%	29%	30%
$20,000-$39,999	53%	24%	37%	28%	25%	27%
$40,000-$59,999	54%	23%	35%	25%	23%	22%
$60,000-$79,999	52%	25%	34%	22%	22%	23%
$80,000-$99,999	55%	25%	32%	22%	21%	16%
$100,000 or more	56%	24%	33%	21%	20%	18%

Need-Based Grant Aid

The good news is that need-based grant aid likely helps students reduce their workload. Students who received more need-based aid were less likely to work 25 or more hours per week. Forty-nine percent (49%) of working students who received less than $1,000 in

need-based grant aid worked 25 or more hours per week, compared to 26% of those who received more than $5,000 in need-based aid.

As federal grant aid fails to keep pace with rising costs, and the buying power of key programs – such as Pell Grant – diminish, more and more students need to work long hours to cover college costs. Since 1981-82, the average grant aid per student as a percentage of average tuition and fees at a typical public four-year institution has dropped by nearly one-third.[4]



Working and Borrowing

Full-time students who work 25 or more hours per week are also more likely to borrow to pay for school than are those who do not work. Among students who completed their degree program in 1999-2000, 64% of students who worked 25 or more hours per week graduated with debt, compared to 49% of those who did not work.

Conclusion, Recommendations

Most students work while enrolled in college, and nearly half of all full-time working students work 25 or more hours per week. While evidence shows that many students are working at levels that are likely to negatively impact their academic achievement and the quality of their education, they often cannot afford to cut back their work hours.

Rising college costs and the failure of federal financial aid to keep pace have forced too many students into working a number of hours that negatively impact their education.

[4] The College Board. 2001. *Trends in Student Aid.* Washington, D.C.

Congress should increase need-based grant aid to help make a college education more affordable for students and families, so that students do not sacrifice their academics and overall college experience.

Pell Grants

The Pell Grant program is the cornerstone of the federal grant aid program, helping nearly 4 million students and their families pay for college.[5] While Congress has made considerable strides in recent years to increase Pell grant funding, the maximum grant has been unable to keep up with rising college tuition and even inflation. The maximum grant has declined from covering 84% of the cost of attending a four-year public institution in 1975-76, to 39% today.[6] Restoring the Pell Grant to its original purchasing power would enable many students and families to meet college costs without students having to rely on working long hours. Congress should take the first step to restoring the buying power of the Pell Grant by increasing the maximum grant award in fiscal year 2003 by $500, to $4,500.

Supplemental Grants

The Supplemental Educational Opportunity Grant (SEOG) program provides additional grant aid to Pell Grant recipients in order of need. Colleges and universities match one-third of the federal government funding. Congress should increase funding for SEOG by $150 million, to $875 million in the fiscal year 2003 budget.

LEAP

The Leveraging Educational Assistance Partnership (LEAP) program encourages states to invest in student aid. For every two dollars that states invest in financial aid programs, the federal government contributes one. LEAP helps low-income students pay for college, with 60% of LEAP grant recipients coming from families with incomes below $20,000. Congress should increase LEAP funding to $100 million in the fiscal year 2003 budget. At $100 million in federal funding, students would receive a total of $270 million in grant aid.

Methodology

This analysis was based on the National Postsecondary Student Aid Survey (NPSAS), a nationwide survey conducted by the Department of Education's National Center for Education Statistics. The NPSAS surveys approximately 50,000 undergraduates and represents about 16.5 million undergraduates. The data is based on the working patterns of full-time students enrolled in 4-year institutions. Full-time students are defined as those

[5] American Council on Education. 2000. *2000 Status Report on the Pell Grant Program.* Washington, D.C.
[6] The Advisory Committee on Student Financial Assistance. 2001. *Access Denied: Restoring the Nation's Commitment to Equal Educational Opportunity.* Washington, D.C.

who are enrolled full-time for 9 or more months during the calendar year. Students who work, or working students, are those who identified themselves as students working to meet college expenses while enrolled.

In order to determine the impacts of working a 25 or more hours per week on grades, class schedule, career preparation, coursework, number of classes, class choice and library access, we used the combined weighted average of responses from both students who work 25-34 hours per week and 35 or more hours per week.

Big Loans
Bigger Problems:

A Report on the Sticker Shock of Student Loans

March 2001

By Tracey King and Ivan Frishberg

Surveying was conducted by the State PIRG's student chapters.

Thanks to the state PIRG's staff and volunteers that worked on this report: Rick Trilsch, Lavinia Sharp, Joey Fink, Jen Mueller, Kathleen Barron, Andre Delattre, James Dubick, Kat Barr, Ed Mierzwinski and Liz Hitchcock.

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Executive Summary

Higher education is critical to our society. In addition to providing the social benefits of an educated citizenry, education is essential for economic growth. As the economy becomes more technology-based, higher education becomes increasingly important for economic success, both for the individual and the nation. Neither an individual nor society can make a better investment in the future than a college education.

At the same time that we demand a college education, most students have little option but to take out loans to pay for it. Grants are not keeping pace with the rising cost of higher education, and students are becoming increasingly dependent on loans to pay for college. Students who make the important investment in higher education are graduating with alarming levels of debt.

In just the last decade, the amount of money borrowed in the form of Stafford loans has more than doubled, from $15 billion in 1992-93 to $35 billion in 1999-00.[1] From 1992-93 to 1998-99, the average annual loan increased from $3,186 to $4,994.[2] [3] The impact on students has been larger and larger debts at graduation. In 1995-96, the average debt of students graduating from public four-year schools was $11,950 and that for students graduating from private four-year schools was $14,290.[4]

Students frequently experience "sticker shock" when at graduation when they find out their debt is much larger than they planned or expected. If they do not understand loan repayment and loan costs, they may borrow more than they can afford and experience difficulty repaying their loans. The results can be altered career choices, restricted economic participation, or default. With increasing levels of borrowing, the pitfalls of debt are becoming even more significant.

In this report, we decided to study debt from the students' perspective to determine if students clearly understand the implications of borrowing. As they leave college, recent graduates are left to deal with the decisions they made as a student. This report examined how much students understand about their loans so that when they graduate they are prepared to repay their debt.

The report analyzed students' understanding of their own student loan debt. It analyzed students' understanding of interest accrual and ability to plan for repayment and borrow accordingly.

Key Findings

- **Students are not aware of the total cost of their student loans.** About 78% of students surveyed underestimated the total cost of their loans, by $4,846. Most students take out loans without a clear understanding of their total cost.
- **Larger debt comes with lower awareness of the implications of loan debt.** Even with higher expected incomes, respondents with

[1] The College Board. *Trends in Student Aid* (Washington DC: 2000).
[2] American Council on Education. *Facts in Brief: More Undergraduates Are Securing Loans to Pay for Postsecondary Expenses.* Vol. 38, No. 15 (Washington DC: 1999). Analysis of National Center for Education Statistics. *Trends in Student Borrowing.* (Washington DC: 1999)
[3] The College Board. *Trends in Student Aid 2000.*
[4] American Council on Education. *ACE Policy Brief: New Information on Student Borrowing.* (Washington DC: 1997). Analysis of U.S. Department of Education, National Center for Educational Statistics, National Postsecondary Student Aid Study: 1995-1996.

larger debts more significantly overestimated the percentage of their income they could afford to contribute to repayment. Among respondents with less than $15,000 in debt, 36% expect to dedicate more than the recommended percentage of their expected income to loan repayment, compared to 57% for respondents with debts over $30,000. Students with higher levels of debt are already vulnerable to difficulties after graduation; evidence suggests that they are even more vulnerable than they realize.

- **Students in their first years of college are at greatest risk.** Students in their first years of college were more likely than those in their later years to underestimate the impact of interest. Of students in their first and second years, 84% underestimated the total cost of their loans, compared to 72% of students in their third and fourth years. Students in their first years of college have less understanding of student loan interest and repayment.

We studied four areas to determine students' understanding of their loan debt and ability to plan for repayment. We looked at the students' comprehension of the impact of interest, their ability to estimate their future income and borrow accordingly, and their knowledge of repayment options.

Impact of Interest

Interest is a main component of loan repayment, adding a substantial amount to the principle. However, students generally are not aware of the impact of interest. Among all respondents, 78% underestimated the total cost of their loans, by an average of $4,846. Students with more debt were more likely to underestimate the impact of interest, and to underestimate the cost more significantly. Respondents with less than $15,000 in debt underestimated the total cost of their debt by $1,387, compared to $7,189 for students with more than $30,000 in debt. Students in their first few years of college were also more likely to underestimate the total cost of their loans, and by a more substantial amount, than those in the later years of college. While 72% of students in their third and fourth years underestimated the impact of interest, 84% of students in their first and second years underestimated the impact of interest on the total cost of their loans.

Expected Income

One factor of responsible borrowing is the ability to estimate future income. In general, students overestimate their expected income. Whereas the average income for recent college graduates is $27,000, students reported an average expected income of $39,016. Students in their first two years of college, with an average expected income of $39,856, reported higher future incomes than students in their second two years of college, who expected an average income of $38,096.

Debt-to-Income Ratio

The loan industry recommends that graduates in repayment dedicate no more than 8% of their income to student loan repayment. However, respondents expected to contribute an average of 10.7% of their future income. Students with more debt were more likely to overestimate the percentage of their expected income they could afford to contribute to repayment. Of students with less than $15,000 in debt, 36% expected higher burden than the recommended amount, compared to 57% among students with more than $30,000 in debt. Students in the early years of

college were also more likely to report expected monthly payments of more than 8% of their income and expected higher monthly payments as a percentage of monthly income than those in the later years of college. While students in their third and fourth years in college estimated the percent of income they could dedicate to repayment as 9.5%, those in their first and second years estimated their burden as 11.7% of their income.

Repayment Options

Repayment options help students that suffer hardship and graduate with high monthly payments in relation to their income repay their loans without going into default. Most respondents were not aware of repayment options, such as deferment, forbearance, and income-contingent repayment. In fact, only 35% of students were aware of deferment or forbearance, and 14% were aware of income-contingent repayment.

Conclusions and Policy Recommendations

We found that students do not have a clear concept of the implications of loans that they take out to pay for college. Students that are most vulnerable, those with high levels of debt, have the least understanding of repayment. This is of particular concern because we know that low-income students are more likely to have greater debt. Also, students in the first years of college have less understanding of repayment than those in later years of college.

While increased consumer education is important and will be helpful, it would be incorrect to assume that this will be the solution to rising levels of debt.

In the face of increasing need, it is tempting to turn to loans. However, evidence suggests that students, particularly first- and second-year and low-income students, are not prepared to take on more debt. Students are now borrowing without a clear understanding of loan repayment, and as debt increases, this problem will only compound. We should not propose a solution to unmet need that will increase the burden of student debt. We are concerned with efforts to increase loan limits without reducing the total cost of borrowing for students. In order to help prevent students from going further into debt, Congress should make more grant aid available, make loans more affordable to students, maintain flexible repayment plans, and improve financial and student loan education.

Introduction

Student loan volume has increased substantially in the past decade, and students are graduating with increasingly large amounts of debt. However, existing research has not fully explored students' comprehension of their own debt and ability to plan for repayment. Research has not shown whether students understand the total cost of those loans. Neither has it demonstrated whether students accurately predict their ability to repay their debt and borrow accordingly. The objective of this report is to determine the extent to which students understand the impact of their student loan debt.

Students' understanding of student loan repayment affects their preparedness to repay their loans. If they do not understand all factors of repaying their loans, they may be surprised when they graduate and find a larger debt than they expected. In other words, they may experience a "sticker shock" when they graduate. Students may be particularly vulnerable in estimating of the impact of interest and their repayment ability in relation to their future income. The factors for understanding student loan debt include understanding the cost of borrowing, estimating future income, being aware of an acceptable debt burden as a percentage of income, and being aware of repayment options.

Students who borrow money without a concept of how much interest will accrue and how much they will be repaying may be surprised when they start to repay their loans. As a result, students run the risk of not being prepared to repay their loans.

Even if students understand the cost of their loans, if they do not accurately predict what they can afford to borrow in relation to their available income, they may borrow more than they can repay. Students who do not realistically predict their future income may overestimate what they can afford to borrow. In the same way, if students overestimate the percentage of their income they will be able to dedicate to repaying their student loans, they may borrow more than they will actually be able to repay.

Another problem is that students that are not aware of repayment options run a greater risk of experiencing difficulty repaying their loans. Students who are not aware of deferment, forbearance, or income-contingent repayment plans may be more vulnerable to high monthly payments, unnecessary interest payments, negative amortization, and default.

When students overestimate their expected income or overestimate what they will be able to afford to repay on a monthly basis, they may borrow more than they can truly afford. Students who borrow beyond what they can afford as a result of not accurately planning for repayment may experience difficulty in repaying their loans. Lack of awareness of repayment plans further disables students from repaying their loans.

In general, students may experience "sticker shock" when they begin repayment of their student loans. They may have borrowed more than they could actually afford as a result of an incomplete understanding of student loan repayment. For example, they may have underestimated the total cost and monthly payments as a result of inaccurate understanding of the impact of interest. They may also have overestimated their future income or the percentage of that income they could dedicate to repayment. As a result, they may graduate with more debt than they planned or expected and may experience difficulty repaying their loan debt.

This report will provide policy makers and interested parties with a

concept of students' understanding of student loan debt. It will assist in quantifying students' comprehension of debt in a way that will be useful in determining loan policy.

Student Loans

There are two main student loan programs: the William Ford Direct Loan Program (FDLP) and the Federal Family Education Loan Program (FFELP). Whereas the federal government administers the direct loan program, banks and other lending agencies provide FFELP loans, which are then guaranteed against default by the federal government.

Both programs offer two types of student loans: subsidized and unsubsidized. For students who take out subsidized loans, the federal government pays the interest accrued while the students are enrolled in school. Students must demonstrate financial need in order to qualify for a subsidized loan. A student's need is determined by comparing the amount the student can pay and the costs of attending school. The amount the student can pay is measured by an index called the "expected family contribution" (EFC), which is based on family income and assets. The cost of attending school is the sum of tuition, fees, and other educational expenses. Financial need is the difference between the cost of school and the expected family contribution.

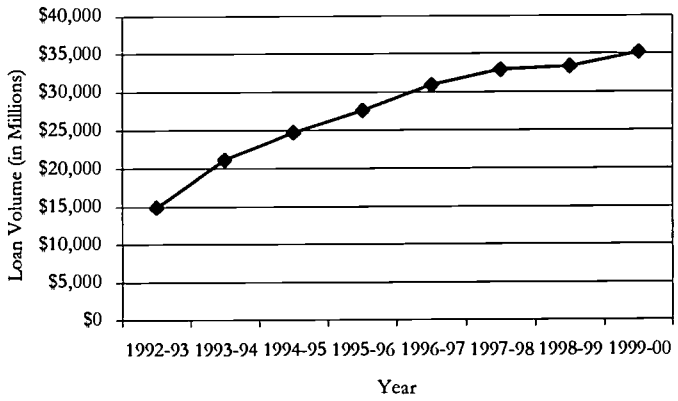
In contrast, all students are eligible for unsubsidized loans, but students with unsubsidized loans must pay the interest that accrued while they were attending school. Students do not have to pay the interest while in school, but if they do not, after graduation the interest that has accrued will capitalize. In other words, the interest that has accrued during the time in school is added to the principle amount of the loan. Interest is then calculated as a percentage of that total amount.

If a student qualifies for a subsidized loan that does not reach the maximum amount that can be borrowed, he can supplement that loan with an unsubsidized loan until the total amount reaches the maximum. Students who do not qualify for financial aid can also borrow up to the maximum amount in unsubsidized loans.

Increase in Dependency on Loans

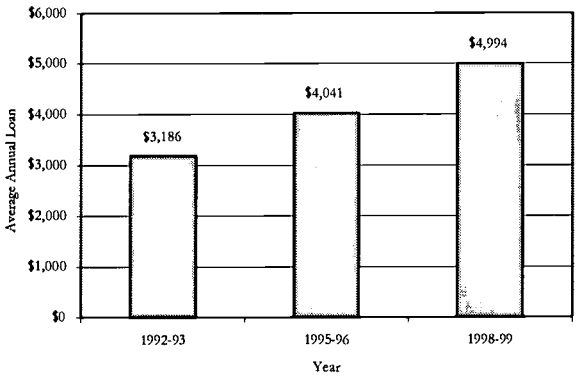
More students are increasingly dependent on loans to pay for their education. Funding for student aid has moved away from grants and toward dependency on borrowing. Since the early 1990's, the volume of student loans in this country has increased tremendously. The total amount in Stafford loans borrowed by students increased from about $15 billion in 1992-93 to about $35 billion in 1999-00.[5] See figure 1. More students are

Figure 1. Loan Volume Awarded to Students in Current Dollars (in Millions)



taking out loans, and students are taking out larger loans. The number of loans increased from 5.1 million in 1992-93 to 9.4 million in 1998-99[6], and the percentage of students who had ever borrowed increased from 31% in 1992-93 to 38% in 1995-96. Between 1992-93 and 1995-96, the average annual loan rose from $3,186 to $4,041.[7] According to the College Board, by 1998-99 the average annual loan had increased to $4,994.[8] See figure 2.

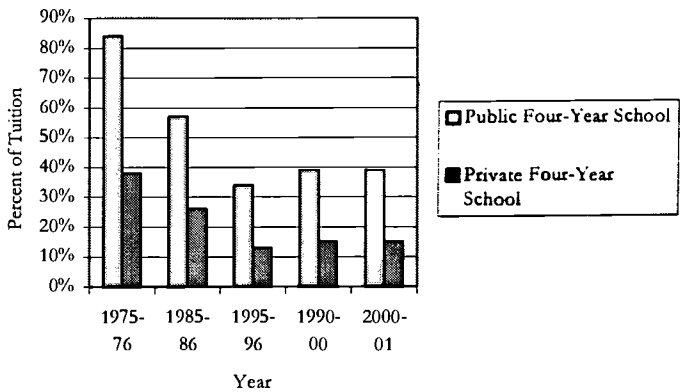
Figure 2. Average Annual Loan, 1992-93, 1995-96, and 1998-99



One reason for the increase in loan volume is the decrease in the purchasing power of grants. The Pell grant is the foundation of all financial aid and serves millions of low-income students. Pell grant eligibility is determined by financial need, and about 60% of Pell grant recipients are from families with incomes of $20,000 a year or less.[9] In 1980-81, grants accounted for about 55% of aid to students and loans about 40%. Today loans have become the primary means of paying for college and account for nearly 60% of student aid, while grants comprise only 40% of student aid funding. While grant aid has only increased by 55% over the past decade, loan aid has increased by 125% over the same period of time.[10]

The value of the Pell grant has also decreased with respect to the cost of higher education. In 1975-76, the maximum Pell grant accounted for 84% of the cost of attendance at a four-year public school. In 1999-00, however, the maximum grant covered only 39% of the cost. Whereas the maximum Pell grant accounted for 38% of the cost of a four-

Figure 3. Pell Grant as Percentage of Tuition at Public and Private Four-Year Schools, 1975-76 to 2000-01



[5] Calculated from The College Board. *Trends in Student Aid 2000*

[6] Ibid.

[7] American Council on Education. *Facts in Brief: More Undergraduates Are Securing Loans to Pay for Postsecondary Expenses.* Vol. 38, No. 15 (Washington DC: 1999). Analysis of National Center for Education Statistics. *Trends in Student Borrowing,* July 1999.

[8] The College Board. *Trends in Student Aid 2000.*

[9] U.S. Department of Education. National Center for Education Statistics. *National Postsecondary Student Aid Study: 1995-96.*

[10] The College Board. *Trends in Student Aid 2000* (Washington DC: 2000).

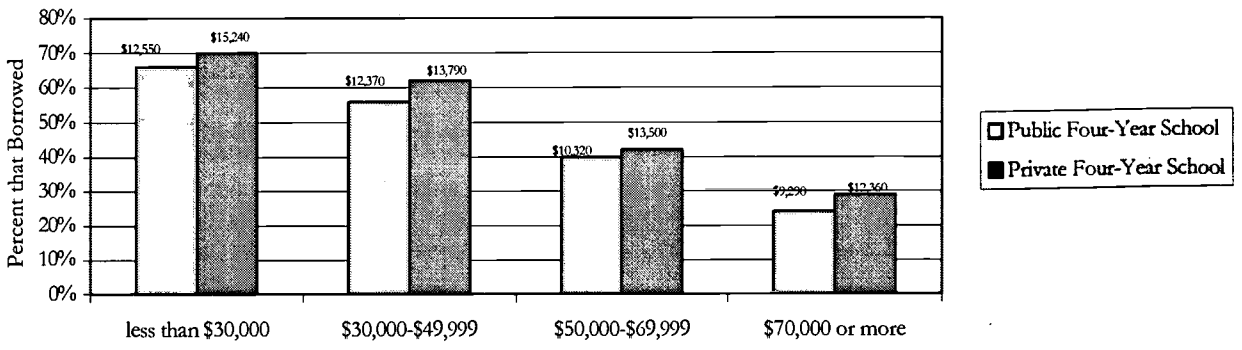
year private school in 1975-76, it only covered about 15% of the cost in 1999-00. [11] In recent years, efforts to increase funding for the Pell grant program have stabilized the decreasing trend. See figure 3.

Low-income students can no longer depend on grants to pay for college, and, as a result, more depend on borrowing. Low-income students are more likely to have to borrow to pay for college and also to take out larger loans. At public 4-year colleges, 66% of students who come from families with incomes of less than $30,000 took out loans, compared to 24% of students from families with incomes of $70,000 or more. These lower-income students borrowed an average of $12,550, compared to $9,290 for the upper-income students. At private 4-year schools, 70% of students from families with incomes of less than $30,000 borrowed, while 29% of students from families with incomes of $70,000 or more took out loans. Of the lower-income students, the average debt was $15,240, and of the upper-income students, $12,360.[12] See figure 4. Low-income students are graduating with more debt than more affluent students. Due to the decrease in strength of grant programs that traditionally help low-income students, these students must increasingly rely on loans to pay for college.

Low-income students already face the most student loan debt, and a recent study by the Advisory Committee on Student Financial Assistance found that low-income students still face a great deal of unmet need when it comes to paying for higher education. The study found that after all aid, including loans, is awarded, low-income students face $3,200 of unmet need at two-year public schools, $3,800 at four-year public schools, and $6,200 at four-year private schools.[13] Low-income students are more likely to borrow, and borrow more, than the average student, and they still face financial challenges to pay for college.

One major reason for the increase

Figure 4. Percent of Undergraduate Students that Borrowed and Average Amount Borrowed, By Family Income, 1995-96



[11] Advisory Committee on Student Financial Assistance. *Access Denied: Restoring the Nation's Commitment to Equal Educational Opportunity.* (Washington DC: 2001).

[12] U.S. Department of Education, National Center for Education Statistics. National Postsecondary Student Aid Study: 1992-1993 and 1995-1996.

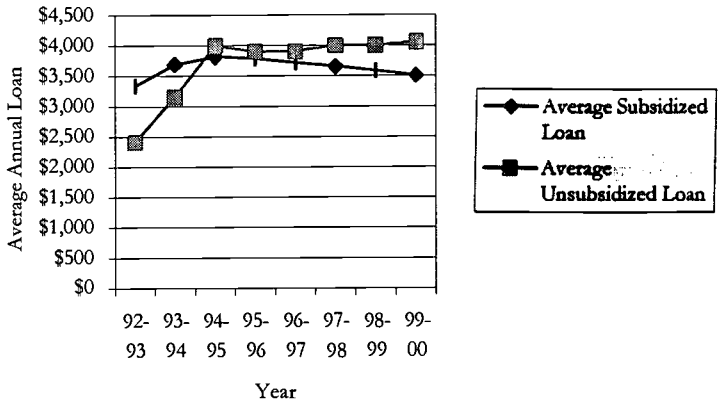
[13] Advisory Committee on Student Financial Assistance. *Access Denied: Restoring the Nation's Commitment to Equal Educational Opportunity.* (Washington DC: 2001).

in loan volume was the 1992 Reauthorization of the Higher Education Act (HEA), which made several changes that allowed increased borrowing. First, the Reauthorization made unsubsidized loans available to all students. Previously, the Supplemental Loans to Students (SLS) program had provided independent students with unsubsidized loans, but the Reauthorization of 1992 allowed all students to qualify for unsubsidized loans, regardless of need or status. As a result, students who do not qualify for the maximum subsidized loan amount can supplement it with an unsubsidized loan. These loans are more expensive to students and lead to further debt as interest accumulates during time in school and capitalizes after graduation.

Since the 1992 Reauthorization, the number of students taking out unsubsidized loans has increased significantly. By 1995-96, the percentage of undergraduates receiving unsubsidized loans had increased to 10%. In 1992-93, only 15% of undergraduate borrowers had unsubsidized loans, either alone or in combination with subsidized loans. By 1995-96, that number had risen to 40%.[14] In 1999-00, the percentage of borrowers with unsubsidized loans had increased to 55%.[15]

More students began borrowing unsubsidized loans, and these students began borrowing larger unsubsidized loans. Between 1992-93 and 1999-00, whereas the average subsidized loan increased by 5%, from $3, 341 to $3,509, the average unsubsidized loan increased by 68%, from $2,414 to $4,507. After the Reauthorization, more students began borrowing unsubsidized loans, and borrowing larger unsubsi1dized loans.[16]

Figure 5. Average Annual Loan Amount, 1992-93 to 1999-00



See figure 5.

The Reauthorization also increased the loan limits for subsidized loans, allowing students to borrow larger amounts. Table 1 shows the limits for Stafford loans before and after the 1992 Reauthorization.

After the 1992 Reauthorization increased loan limits, students began taking out larger loans. From 1992-93 to 1995-96, the average annual loan amount increased from $3,007 to $4,130 at public four-year schools and from $3,591 to $4,499 at private four-year schools.[17] As a result of the changes the Reauthorization made to the loan program, more students were able to take out loans, and to take out larger loans. These factors all contributed to a growing loan debt among students.

[14] U.S. Department of Education. National Center for Education Statistics. *Trends in Undergraduate Borrowing: Federal Student Loans in 1989-90, 1992-93, and 1995-96,* NCES 2000-151, by Lotz Berkner. Project Officer: Larry Bobbit. (Washington D.C.: 2000).

[15] The College Board, *Trends in Student Aid 2000.*

[16] Ibid.

[17] American Council on Education. *Facts in Brief: More Undergraduates Are Securing Loans to Pay for Postsecondary Expenses.*

Table 1. Annual Stafford Borrowing Limits

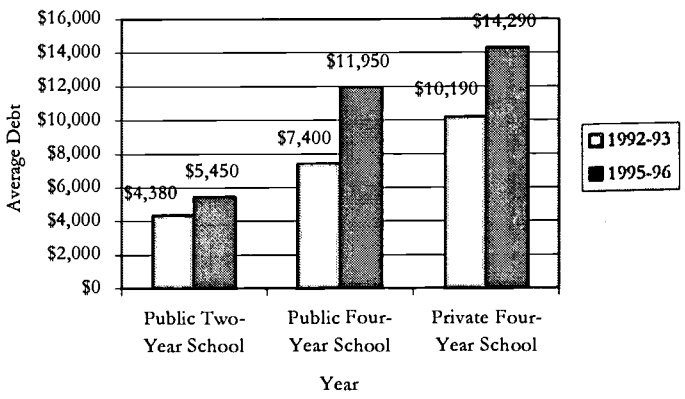
1987-87 to 1992-93	*Dependent Students*			*Independent Students*		
Year	Subsidized Stafford	Unsubsidized SLS	Total	Subsidized Stafford	Unsubsidized SLS	Combined Total
First-year	$2,625	$0	$2,625	$2,625	$4,000	$6,625
Second-year	$2,625	$0	$2,625	$2,625	$4,000	$6,625
Third-year	$4,000	$0	$4,000	$4,000	$4,000	$8,000
Fourth-year	$4,000	$0	$4,000	$4,000	$4,000	$8,000
Fifth-year	$4,000	$0	$4,000	$4,000	$4,000	$8,000
Cumulative Total	$17,250	$0	$17,250	$17,250	$20,000	$37,250

After 1992-1993	*Dependent Students*			*Independent Students*		
Year	Subsidized Stafford	Unsubsidized Stafford	Combined Total	Subsidized Stafford	Unsubsidized Stafford	Combined Total
First-year	$2,625	$2,625	$2,625	$2,625	$4,000	$6,625
Second-year	$3,500	$3,500	$3,500	$3,500	$4,000	$7,500
Third-year	$5,500	$5,500	$5,500	$5,500	$5,000	$10,500
Fourth-year	$5,500	$5,500	$5,500	$5,500	$5,000	$10,500
Fifth-year	$5,500	$5,500	$5,500	$5,500	$5,000	$10,500
Cumulative Total	$22,625	$22,625	$22,625	$22,625	$22,625	$45,625

Source: U.S. Department of Education, *The Student Guide to Financial Aid*, annual.

Between 1992-93 and 1995-96, the average debt among students graduating from public four-year colleges increased from $7,400 to $11,950. The average debt among students graduating from private four-year colleges increased from $10,190 to $14,290, and that of students from public, two-year colleges increased from $4,380 to $5,450.[18] See figure 6. These debt levels are the highest ever in the history of the student loan program.

Figure 6. Average Undergraduate Debt by Type of School, 1992-93 and 1995-96



Over the past decade, student loan volume has increased tremendously. More students are borrowing, and these students are borrowing larger amounts. One

[18] American Council on Education. *ACE Policy Brief: New Information on Student Borrowing.* (Washington DC: 1997) Analysis of U.S. Department of Education. National Center for Educational Statistics, National Postsecondary Student Aid Study: 1995-1996.

important reason for the increasing dependency on loans to pay for college is the decrease in purchasing power of grant aid. Low-income students do not receive sufficient grant aid to pay for college and, as a result, turn to loans more often than other students. Another cause of the increase in borrowing was the 1992 Reauthorization of the Higher Education Act, which created an unsubsidized loan program for all students and increased loan limits. These factors have all contributed to a rise in student borrowing, which has led to increasing debt for graduating seniors.

Impact of Interest

Most students underestimate the impact of interest on their student loans. Even if students understand the total amount they have borrowed, often they do not realize the total cost of that loan. Interest increases debt by a substantial amount, particularly if it capitalizes after graduation as in the case of unsubsidized loans. Table 2 demonstrates the total cost of loans with and without capitalization.

Interest plays an important part in repaying student loans, and comprehension of the impact of interest is essential to understanding the total cost of loans. Students who do not have a concept of the accumulation of interest may be shocked when they discover the substantial amount by which interest increases the principle loan. These students may not have taken the impact of interest into account when borrowing and may not be prepared to pay the total cost of their loans.

Students Underestimate the Impact of Interest

Most students do not understand the full impact of interest. More than 18% of students surveyed could not even estimate the total cost of their loans. These students could not have borrowed according to what they thought they would be able to repay. Rather, they borrowed without any understanding of the total cost of their loans and without a plan to repay their loans. This boils down to a common sentiment that "I'll figure that out later. Right now I just need to pay the bills."

Most students thought they knew the total cost of their loans, but they underestimated the total cost of their loans and are expecting to pay a total amount substantially less than the actual total cost. The actual total cost was calculated based on a standard repayment plan, 8.25% interest rate, and assuming the loans are subsidized. The assumption that the loans are subsidized makes these numbers conservative, considering 40% of students borrow unsubsidized loans, either alone or in combination with subsidized loans. In fact, because the limit for sudsidized loans is $22,625, all students with over that amount in debt must have borrowed at least some amount in unsubsidized loans. As a result, all interest costs are not necessarily included in each calculation, and the actual total cost will generally be lower than it would be were consideration for unsubsidized loans included. Students are

Table 2. Impact of Interest on Loans, With and Without Capitalization*

Original Loan Principle Balance	*Total Cost With Capitalization of Interest*	*Total Cost Without Capitalization of Interest*
$10,000	$19,575	$14,718
$15,000	$29,363	$22,077
$20,000	$39,151	$29,437
$25,000	$48,938	$36,796

*based on data from Nellie Mae

underestimating the total cost of their loans by even more than is demonstrated by the following numbers.

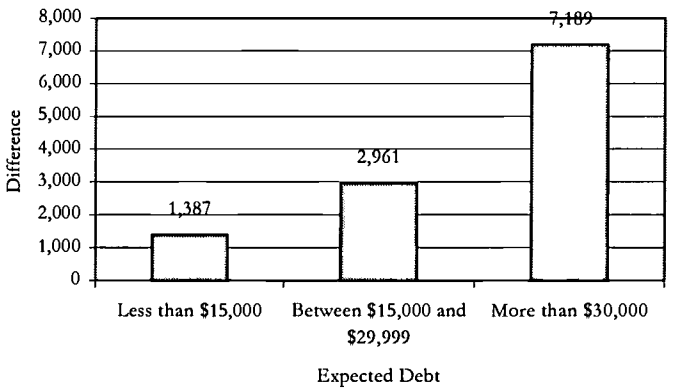
Compared to the amount they would actually pay, 78% of respondents that estimated the total cost of their loans underestimated the impact of interest. For those that underestimated the total cost of their loans, the average amount borrowed was $17,390, and the average expected total cost was $20,863. Based on a standard repayment plan and assuming the loans are subsidized, the average actual total cost will be $25,709. Respondents that underestimated the total cost of their loans will graduate with $4,846 more in debt than they realize.

Of all respondents, the average amount borrowed was $17,350, and respondents estimated an average of $22,777 as the total cost of their loans. The average of the actual total costs was $25,650, a difference of $2,873. Students are not aware of the impact of interest and are underestimating in the total cost of their loans. Students that underestimate the total cost of their loans are doing so by $4,846.

Expected Debt

Students with more debt more severely underestimate the impact of interest. Respondents with less than $15,000 in debt underestimated the total cost of their loans by $1,387. Those with between $15,000 and $30,000 in debt underestimated the cost by $2,961, and those with debts over $30,000 by $7,189. As students sink further into debt, they are less likely to understand the amount interest adds to the principle. Students who are already graduating with a large amount of debt are actually graduating with significantly more than they realize.

Figure 7. Difference Between Actual and Expected Total Cost, by Expected Debt



Low-Income Students

Because low-income students graduate with higher levels of debt than other students, they are also

underestimating the total cost of their loans more than other students. Low-income students are vulnerable on several levels. They come from low-income families and, thus, have less substantial and stable parental financial support after they graduate. Furthermore, as the Department of Education has shown, they are forced to borrow more often and larger amounts than the typical student. Evidence now suggests that they are further disadvantaged because, more than other students, they are severely underestimating the impact of interest on their loans and are not prepared to repay the total cost. Low-income students are particularly susceptible to difficulties repaying their loans as a result of these factors.

Figure 8. Percent that Underestimated Total Cost, by Year in School

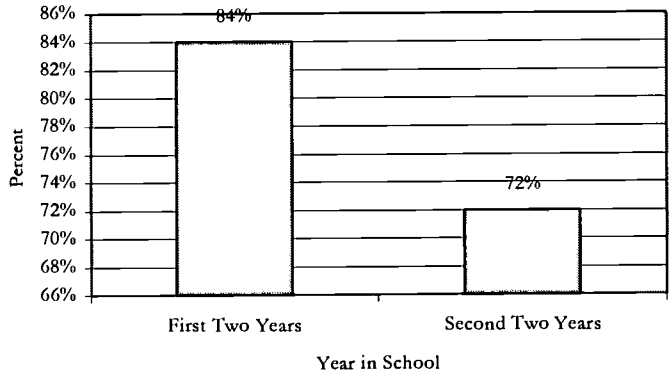
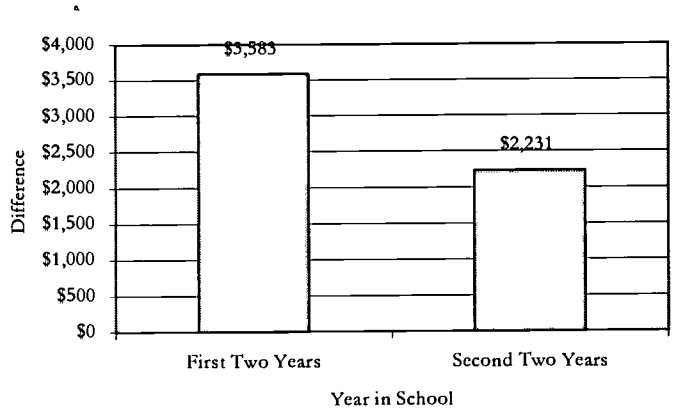


Figure 9. Difference Between Actual and Expected Total Cost, by Year in School



Year in School

As students progress through college, they seem to gain a better understanding of the impact of interest. During the first years of college, more students underestimate the total cost of repayment. About 84% of first and second year students and 72% of third and fourth-year students underestimated the impact of interest. Students in their first years of college are least likely to understand the impact of interest.

As well as being more likely to underestimate the total cost of borrowing, newer students also underestimated cost by a larger dollar amount than their more experienced counterparts. Students in their first and second years underestimated their total repayment by an average of $3,583, while those in their third and fourth years underestimated the cost by $2,231. In general, students in their first few years of college were more likely to underestimate the impact of interest and more severely underestimate the impact.

Needed More Loans

Respondents that reported that they felt like they needed more loans to pay for college also underestimated the impact of interest. About 78% of these students underestimated the total cost of

their loans, by an average of $2,823. These students want more loans, yet they are not aware of the cost of the loans they currently have.

Understanding of the impact of interest is essential to awareness of the total cost of loans. Most students underestimate the total cost of their loans, and students that borrow heavily and younger students are more likely to underestimate the cost of their loans than their counterparts. These students take out loans without a clear understanding of how much they will repay when they graduate and, as a result, are at risk of borrowing more than they can afford.

Expected Income

An important consideration when planning to take out student loans is estimating future income. If students overestimate their income, they may borrow more than they will be able to repay. Those students will find themselves in difficult situations when monthly payments comprise large portions of their monthly incomes.

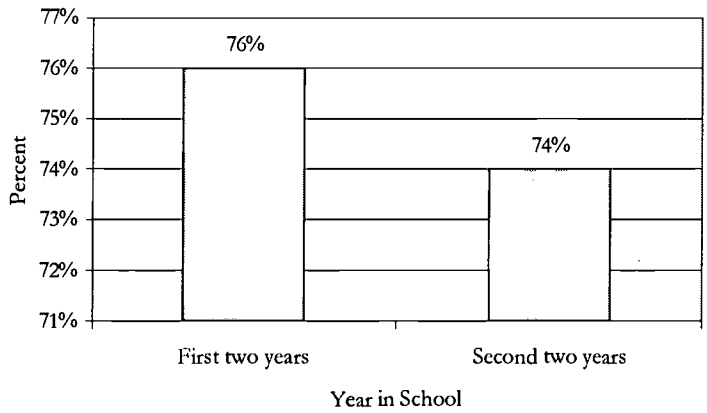
Most Students Estimate High Future Incomes

Most students overestimate their income after graduating. According to Nellie Mae, the typical income of student borrowers is $27,000 per year.[19] However, respondents estimated their income after graduation to be $39,016. About 69% estimated their income above the typical income, with an average of $45,033. Most students are expecting incomes significantly higher than what they will earn after graduation.

Year in School

Similarly to students developing a more grounded sense of the cost of their loans, respondents in the first two years of college were more likely to estimate their future income above the typical income. These students also expected higher incomes than students in their third or fourth years. About 76% of students in their first two years of college, compared to 74% of students in their second two years of college estimated their expected income above the typical income. Of the traditional four-year students, those in their first two years were more likely to overestimate their future income.

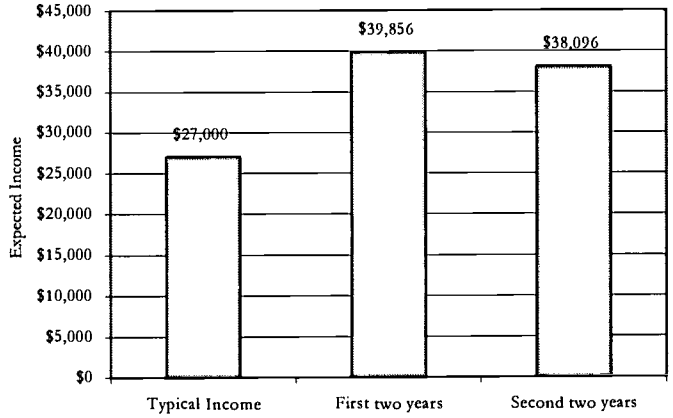
Figure 10. Percent that Estimated their Future Income above the National Average, by Year in School



Respondents in their first two years also estimated higher future incomes than those in their second two years. Students in their first and second years estimated their future income to be $39,855, while those in their third and fourth years $38,096. Among traditional four-year students, students in their first years estimate their income higher than

[19] Nellie Mae. *Life After debt: Results of the National Student Loan Survey.*

Figure 11. Expected Income, by Year in School



those in their later years. Younger students have less ability to realistically predict their future income.

Debt-to-Income Ratio

Another important part of planning to borrow is determining the percentage of income that students can dedicate to repaying student loans. The monthly payment as a percentage of monthly income is called the debt-to-income ratio. If students assume they will be able to contribute more than they can realistically afford, once they graduate, they may experience difficulty making monthly payments. Generally, recent graduates are entering the working world for the first time. They may not understand the many factors that affect how much money they can dedicate to repayment, and they may underestimate the cost of living. If, for example, they do not accurately take into account other costs, such as rent, utilities, car payments, etc., they may assume they can afford to contribute more than is possible. They may borrow more under that assumption than they would have if they had understood how much they would realistically be able to afford per month. As a result, their monthly payments may comprise a large percentage of their monthly income, and they may experience difficulty making those monthly payments.

Lenders generally recommend that monthly payments not exceed 8% of pretax monthly income. This number is derived from credit underwriting practices that limit monthly mortgage payments from 25 to 29% of income and total monthly debt repayment from 36 to 41% of monthly income.[20] Assuming that most borrowers will be making major purchases, such as a home, in the 10 years after graduation, 8% of income is the most students should be paying on student loan repayment.

Many Students Overestimate the Percentage of their Income Available for Repayment

Many students are not planning their borrowing according to what they think they will be able to afford per month. In fact, 15% of respondents could not estimate their expected monthly payments. These students do not have a concept of what they are going to have to pay per month and, therefore, have no framework within to borrow.

Many students, however, overestimate the amount they will be able to afford to pay per month. Many assume that they will be able to dedicate more than 8% of their estimated income to repayment. About 44% of respondents estimated their monthly payment as more than 8% of their estimated income. Of

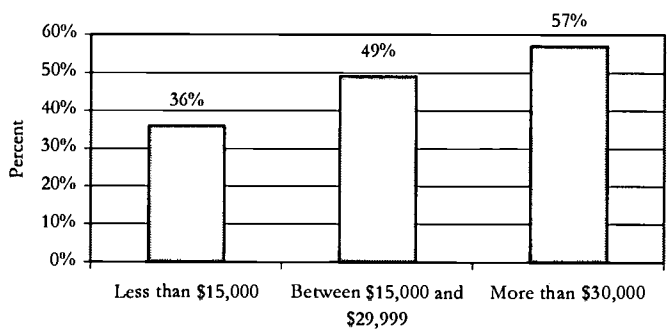
[20] USA Group Foundation. *Student Indebtedness: Are Borrowers Pushing the Limits?* By Patricia M. Scherschel. (Indianapolis, IN: 1998).

those respondents, the average debt-to-income ratio was 18.25%. Of all respondents, the average expected monthly payment was $335, and the average expected monthly income was $3,288. The average student expects to dedicate 10.72% of his income to student loan repayment. In general, students overestimate the percentage of their income they will be able to dedicate to repayment of their student loans. They do not have a clear understanding of what is an acceptable debt burden.

Expected Debt

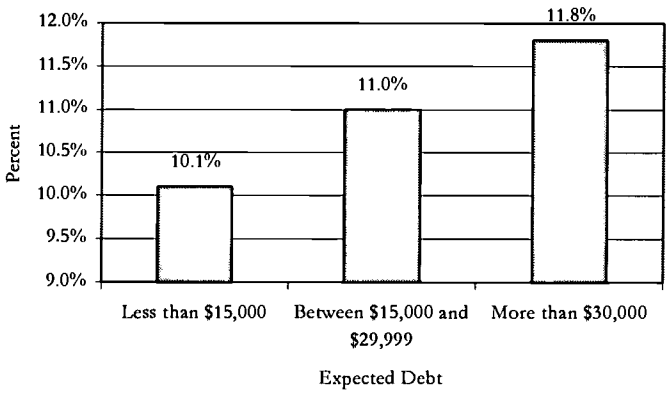
Students with higher levels of debt were more likely to overestimate what they would be able to pay per month. While 36% of those with debts less than $15,000 estimated their monthly payment as more than 8% of their expected income, 49% of those with debt between $15,000 and $30,000, and 57% of those with more than $30,000 in debt overestimated the amount they could contribute to repayment. Students with more debt are more likely to have borrowed under the assumption that they would be able to dedicate to repayment more than the recommended portion of their income.

Figure 12. Percent of Respondents that Estimated their Expected Monthly Payments as more than 8% of their Expected Monthly Income, by Expected Debt



Students with larger debts also more significantly overestimated the percentage of their income they could dedicate to repayment of their student loans. Whereas students with less than $15,000 in debt reported expected monthly payments that comprise 10.1% of their expected monthly income, those with debt between $15,000 and $30,000 expected payments of 11.0% of their income. Those with more than $30,000 in debt expected monthly payments that assume 11.8% of their expected monthly income. Students with larger debts are assuming they will be able to contribute a substantial amount, and significantly more than the recommended percentage, of their income to repayment.

Figure 13. Expected Monthly Payment as Percentage of Expected Monthly Income, by Expected Debt



Low-Income Students

Low-income students graduate with higher levels of debt than other students. As a result, they are disproportionately affected by these misconceptions. They are more likely to overestimate the acceptable burden of student loan debt and to assume that they can

afford more as a percentage of their expected income.

Year in School

Respondents' understanding of repayment in relation to income is also related to their year in school. Among students in their first four years of school, those in their first two years were more likely than those in their later two years to overestimate the percentage of their income they could dedicate to repayment. About 46% of students in their first and second years and about 42% of those in their third and fourth years expected monthly payments more than 8% of their expected monthly income. Students in their earlier years of college are more likely to overestimate what they can afford to dedicate to repayment.

Not only are students in their first years of school more likely to overestimate the acceptable debt burden, they estimate the percentage they will be able to contribute as more than other students. Students in their first two years expected to contribute a higher percentage of their expected income than those in their second two years. Whereas students in their first two years expected their monthly payment to take 11.7% of their monthly income, students in their second two years expected 9.5%. Among traditional students, those in their earlier years estimate a higher percentage of their income available for repayment. These students are expecting to contribute unrealistic amounts to their student loan repayment.

Case Study

Joe graduated from a state college with about $17,000 in debt and became a schoolteacher in a low-income urban area, earning about $25,000 a year. When he took out loans to pay for college, he was assuming he would be able to afford monthly payments of up to about $250, not knowing that the recommended monthly payment would have been about $160. Once he began working, however, he realized his cost of living was more expensive than he had predicted. After taxes, he earned about $1,700 a month, but because he lived in the city, his rent payment was about $700 a month with another $120 for utilities. His car payments and insurance took another $300, and food cost about $300 a month. After his loan payment, he had about $30 a month for entertainment and savings. This was not a survivable situation, and Joe was not aware of any option but to quit his public service job in the inner city and take a higher-paying position in a more affluent area. He wishes he hadn't needed to borrow so much, but he had no choice when he was in college. Now his reason for attending college, to become a schoolteacher, is moot as he works at another job simply to have enough money to repay his loans.

Figure 14. Percent of Respondents that Expected Monthly Payments more than 8% of Expected Monthly Income, by Year in School

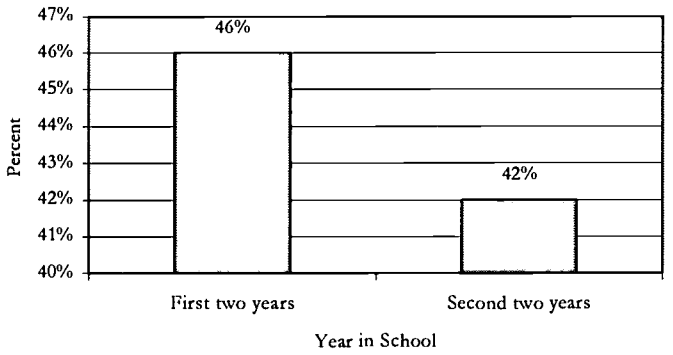
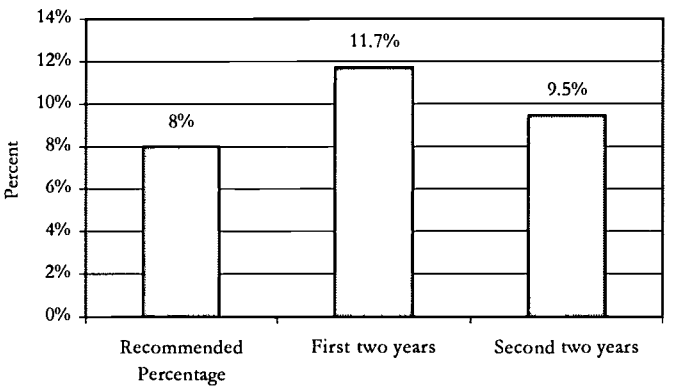


Figure 15. Expected Monthly Payments as Percentage of Expected Monthly Income, by Year in School



Needed More Loans

Students who reported that they did feel like they needed more loans tended to overestimate the percentage of income they could dedicate to repayment. These students would like more loans to be available; however, they are already estimating that they will be paying more than the recommended percentage of income toward repayment of the loans they have. About 43% of these students estimated their monthly payment as more than 8% of their expected income, with an average monthly payment as 10.05% of average expected income. Many students who felt like they needed more loans would experience difficulty making the estimated monthly payments for the loans they have already taken out.

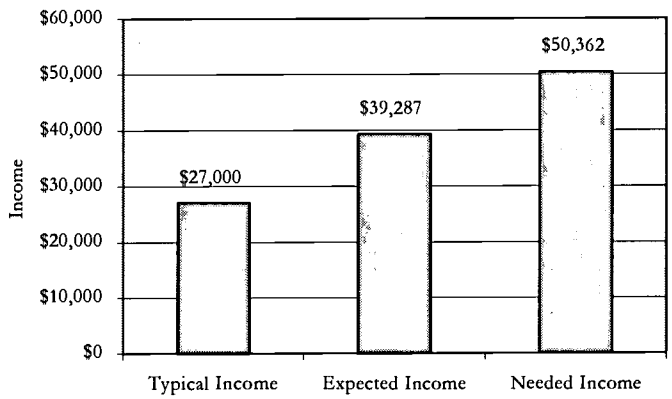
Monthly Payments as Percentage of Typical Income

Students overestimated what they could afford to pay per month as a percentage of their expected income. When combined with the fact that most students overestimate their expected income, students are even more severely overestimating what they will be able to afford per month. Whereas the expected income was $39,016, the typical income is $27,000. While 44% of students overestimated the amount they could afford according to their expected income, 66% overestimated the amount they could pay according to the typical income. The average estimated monthly payment was 14.92% of the typical income, nearly twice the recommended percentage. Students are overestimating the portion of their expected income they will able to contribute to repayment. The fact that they are also overestimating their expected income makes repayment even more shocking for graduating students.

Needed Income

In order for the debt-to-income ratio to be 8% or less, most students would have to earn substantially more than the typical income, as well as their expected income. The average needed income to repay the average expected debt of $17,350 was $50,735, compared to the average expected income of $39,287 and the typical income of $27,000. In order to repay their loans, students need to earn more than their expected income and nearly twice the typical income.

Figure 16. Typical, Expected, and Needed Income to Make Expected Monthly Payments



Repayment Options

Repayment options help students that are having difficulty repaying their loans. Most students were not aware of repayment options available to them in the student loan programs. For example, only 35% of students were aware of deferment or forbearance and 14% were

familiar with income-contingent repayments as repayment options.

Expected Debt

Students with more debt seem to have a better knowledge of repayment options. While 33% of respondents with less than $15,000 in debt were aware of deferment or forbearance as repayment options, 36% of those with between $15,000 and $30,000 in debt, and 43% of those with more than $30,000 in debt were aware of deferment or forbearance. Similarly, 12% of respondents with less than $15,000 were aware of income-contingent repayment, whereas 16% of those with debts between $15,000 and $30,000, and 17% of those with more than $30,000 in debt were aware of the option. Students with less debt may feel that they do not need to be aware of repayment options, or perhaps lenders and financial aid officers work to ensure that students with larger debts are made more aware of these options. Across the board, these numbers are alarmingly low and reflect the overall position that students are focusing on meeting the immediate need of paying for college while deciding to worry about the details later.

Figure 17. Percent Aware of Deferment or Forbearance, by Expected Debt

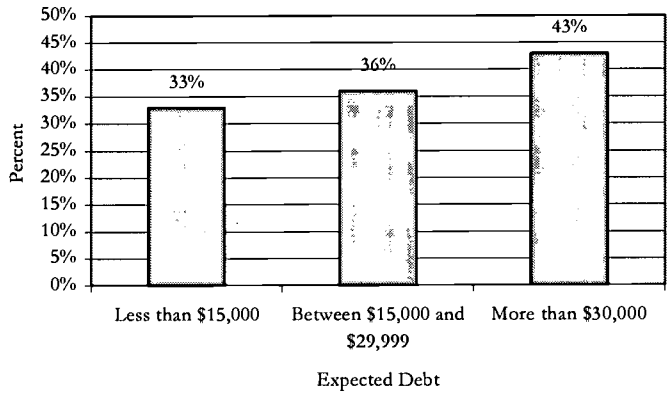
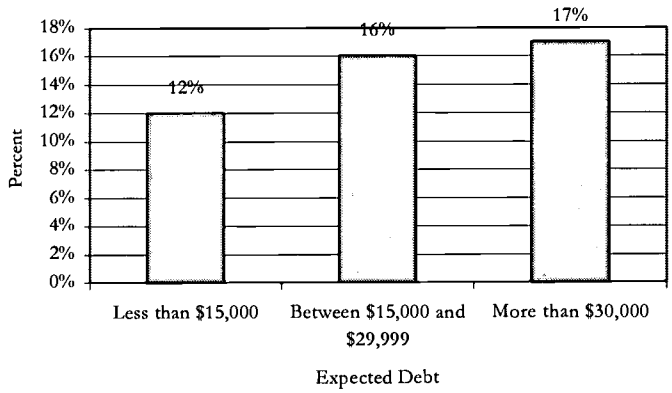


Figure 18. Percent Aware of Income-Contingent Repayment, by Expected Debt



Conclusions

Key Findings

- **Students are not aware of the total cost of their student loans.**

- **Students with larger debts are least likely to understand the impact of interest, and to more significantly underestimate the total cost. As low-income students graduate with more debt than other students, they are significantly vulnerable to underestimating the impact of interest on their loans.**

- **Younger students and students in their first years of college are at greatest risk. They are more likely to more significantly underestimate the impact of interest and to overestimate the percentage of their income they can afford to dedicate to repayment.**

Impact of Interest

- Students are not aware of the total cost of their student loan debt. They do not understand the impact that interest has on their principle loan.
- Students with more debt are more likely to underestimate the total cost of their loans, and more significantly underestimate the cost.
- Low-income students are less likely than other students to understand the impact of interest on the total cost of their loans.
- In the first years of college, students have less understanding of the impact of interest than in later years.
- Many students who feel that they need more loans are significantly underestimating the impact of interest.

Expected Income

- Students overestimate their expected income.
- Students in their first years of college are more likely to more significantly overestimate their expected income.

Debt-to-Income Ratio

- Students overestimate the amount they will be able to contribute toward repayment each month.
- Students with more debt are more likely to more significantly overestimate the percentage of their expected income available for repayment.
- Low-income students are more likely to overestimate the percentage of their income available for repayment.
- Students in their first years of college are also more likely to more substantially overestimate their acceptable debt burden after graduation.
- A significant number of students who reported that they needed more loans to pay for college are already planning to dedicate more than the recommended portion of their income to repayment.
- Considering the fact that the income of most students will be less than their expected income, they are even more severely overestimating how much they will be able to repay per month.
- Respondents would have to earn an average of $50,362 a year, significantly more than the average expected income and the typical income, to repay the average expected monthly payment with the recommended percentage of income.

Repayment Options

- Most students are not aware of repayment options.
- Students with more debt seem to have a better knowledge of repayment options.

Policy Recommendations

1. Make more need-based grant aid available. Grant aid helps students, particularly low-income students, afford college without graduating into huge levels of debt. As funding has been directed away from grants and toward loans and the purchasing power of grants has decreased, low-income students are increasingly being forced to take out larger loans to pay for college. These students are more vulnerable to financial difficulties, yet they are graduating with more debt than most students. The purchasing power of the Pell grant should be restored to assist low-income students as they face unmet need.

2. Loan limits. Most students are already graduating with more debt than they planned or expected. They borrow without a clear concept of the implications of their debt and experience a "sticker shock" when they graduate and begin repayment. Evidence suggests that larger debt loads only compound this problem, and, as a result, we express significant concern about increasing loan limits. Further, students in their first years of college are most vulnerable to underestimating the total cost of their loans. Congress should be especially wary of increasing the cost of borrowing for these students.

3. Make loans cheaper for students. Students today are dependent on loans to pay for college. Specifically, Congress should lower interest rates, provide a tax credit for interest payments and eliminate origination and insurance fees.

4. Maintain flexible repayment plans. Repayment options and safe harbors such as deferment, forbearance, and income-contingent repayment help students that are having difficulty repaying their student loans. For the many students that do not plan their borrowing according to their future income, these repayment options give them an opportunity to repay their loan debt without going into default. Congress should ensure that these programs remain in existence to help students repay their loans.

Along with well designed repayment plans, there must be an increased effort to improve financial and student loan education. Although not the sole solution to student debt, financial education can help reduce the sticker shock of student loans and avoid unnecessary problems. Entrance counseling should provide students with a clear understanding of the implications of their debt and should continue beyond the beginning of the students' first year in college. The solution to student debt does not lie in financial education, however, as even the most financially savvy student cannot avoid borrowing to pay for college.

Consumer Recommendations - Avoiding the Debt Trap

There are certain things that you, as students, can do to protect yourself from unwanted debt. You should understand student loan interest and repayment and be aware of options that you have available so that you don't take on more debt than you can repay.

Understanding the Type of Loan

There are two types of Stafford loans: subsidized and unsubsidized. For subsidized loans, which are need-based, you do not have to pay interest accrued while in school. For unsubsidized loans, interest does accumulate while you are enrolled in school. The interest then capitalizes when you start repayment. This means that when you start repayment, the interest you accrued while in school is added to the principal of your loan. Once you begin repayment, interest is calculated based on that larger amount. However, you do have the option to pay interest while in school in order to avoid the capitalization of interest.

Table 3. A Quick Guide to the Actual Cost of Loans

	Subsidized Loans		*Unsubsidized Loans*	
Amount Borrowed	Monthly Payment	Total Amount Paid (Interest Included)	Monthly Payment	Total Amount Paid (Interest Included)
$5,000	$61.33	$7,359.60	$81.56	$9,787.68
$10,000	$122.65	$14,718	$163.13	$19,575.36
$15,000	$183.98	$22,076.60	$244.69	$29,363.04
$20,000	$245.31	$29,437.20	$362.26	$39,150.72
$25,000	$306.63	$36,795.60	$407.82	$48,938.40
$30,000	$367.96	$44,155.20	$489.38	$58,726.08

Source: www.nelliemae.com

Interest Rates

The interest rates for all loans are the same, but the rate changes during the life of the loan. This is called a variable rate loan. The rate for a Stafford loan cannot exceed 8.25%, and interest rates are adjusted each July 1.

Repayment Options

There are four basic repayment plans. By far the most common is the standard repayment plan, in which there is a fixed monthly payment, and a standard repayment plan of 10 years, although you can shorten the repayment period. The extended repayment plan allows you to extend the repayment period up to 20 years. The graduated repayment plan allows you to begin repayment with smaller monthly payments, and the income-sensitive repayment plan calculates monthly payments as a percentage of your income.

What To Do If You Have Problems With Repayment

The first thing to do if you are experiencing problems with your

repayment of your student loans is not to ignore them or your lender. There are many options and ways to avoid default, and your lender should work with you to figure out what you should do. Avoiding contact with your lender can only make matters worse.

If you are having difficulty repaying your loans, here are some of your options. You can always switch repayment plans to one that requires a smaller monthly payment. This will increase the total cost of your loan, but may be preferable to going in to arrears. You can also consolidate your loans, so that you are only making one payment per month. Other options include deferment and forbearance, in which you can postpone payment on your loan for a certain amount of time. If you defer your loan payment and your loan is subsidized, the federal government pays the interest on your loan while you are in deferment. If you have unsubsidized loans, interest accrues while in deferment and capitalizes once you resume repayment. If you do not qualify for a deferment, a forbearance allows you to postpone payment, but interest accrues and capitalizes when you resume repayment.

Debt Management Tips

- Research starting salaries for the field you're entering at jobweb.org. Use calculators on the Internet sites such as www.nelliemae.com and www.pncbank.com to calculate monthly payments based on different amounts of money borrowed and repayment plans. Plan your borrowing so that your monthly payments will not exceed 8% of your expected income.
- Borrow only what you need.
- Prepay or accelerate payment on loans when you can. You can save a great deal of money in interest. Interest accrues over time, and the more time you take to repay your loans, the more interest can accrue.
- Always make payments on time.
- Be wary of plans with low monthly payments. Lower monthly payments mean a longer period of repayment, which means more interest.
- Keep complete records of all your student loans.
- Read debt management information and use calculators found on financial aid web sites, such as www.ed.gov and www.finaid.org.

Methodology

The data is based on 1,031 surveys collected from colleges and universities across the country. Surveyors asked random samples of students from 55 colleges and universities to complete the survey. The surveyors read the surveys to the respondents, who never saw the questions. In general, students responding to the survey are representative of typical student borrowers.

The amount by which students underestimated the total cost of their loans was calculated by finding the difference between the actual cost of their loans and their expected total cost. The survey included two questions that asked for expected total debt after undergraduate school and the expected total cost, including interest, of those loans. We calculated the actual cost of their reported expected debt, using an index provided by the Department of Education that is based on a standard 10-year repayment plan, 8.25% interest, and assumes that the loans were subsidized. The difference between the actual total cost and their expected total cost was the amount by which students underestimated the total cost of their loans. On a side note, these numbers were conservative as a result of the assumption that all loans were subsidized. We know that about 40% of borrowers take out unsubsidized loans, either alone or in combination with subsidized loans, and the limit for subsidized loans means that all students with over $22,625 in debt had at least part unsubsidized loans. Were all interest costs included, the actual total cost for many students would be even higher than is calculated in the report. Many students are underestimating the total cost of their loans by even more than is reported.

The percentage of their income students find acceptable to dedicate to student loan repayment was calculated by dividing their expected monthly payment by their expected monthly income, which was found simply by dividing their expected annual income by 12. We assume that when students estimate their future income, they estimate their gross income rather than net income. Lenders suggest that students dedicate no more than 8% of their gross income to student loan repayment, so students who expect monthly payments more than 8% of their expected monthly income are expecting to contribute more than the recommended percentage of their monthly income to repayment. The average percentage for each group was calculated by averaging the percentage that each respondent expected, not by finding the average expected monthly payment as a percentage of the average expected monthly income.

Data Limitations

According to data from the U.S. Department of Education Federal Student Loan Programs Data Book FY94-FY96 analyzed by U.S. PIRG, in 1995-96, 46.82% of undergraduate borrowers attended 4-year public institutions, 29.0% 4-year private institutions, 9.58% 2-year public institutions, 1.85% 2-year private institutions, and 12.71% proprietary institutions. In this report, as student debt among students at 2-year private and proprietary institutions is not studied, the percentages of borrowers within the other three sectors were expanded

proportionately to determine the source of surveys. As a result, of a truly representative sample, approximately 55% would be from students at four-year public schools, 34% from four-year private schools, and 11% from two-year public school. Of the 1, 012 complete surveys, 667 (66%) are from students at four-year public institutions, 266 (26%) are from those at four-year private schools, and 79 (8%) from those at two-year community colleges. Therefore, the sample surveyed includes more students from four-year public colleges in proportion to the other sectors than is representative of borrowers. This fact may skew data slightly.

Private institutions surveyed are located primarily in New England, where tuition tends to be more expensive than the typical private school tuition. The schools surveyed have a tuition approximately 133% that of a typical private school. Such a difference in tuition generally does not result in a significant difference in student loan debt. For example, whereas average tuition for 4-year private schools is approximately 500% of the average tuition for 4-year public schools, the average student loan debt of a student at a private school is only 118% that of the debt of a public school student. However, the location of the private institutions surveyed may result in slightly higher loan debt amounts.

The schools surveyed as a whole are also slightly geographically skewed. This should not, however, alter the data substantially. The majority of students surveyed were evenly from either New England or the West Coast. Whereas colleges in New England have high tuition, those on the West Coast have relatively low tuition. As a result, the average tuition for students surveyed should be relatively close to the national average tuition.

Demographics of Respondents

Sex	*Number of Respondents*	*Percent of Respondents*
Female	583	59%
Male	401	41%

Age	*Number of Respondents*	*Percent of Respondents*
17	5	1%
18	148	15%
19	190	19%
20	173	17%
21	176	18%
22	91	9%
23	48	5%
24	34	3%
Other	126	13%

Year in School	*Number of Respondents*	*Percent of Respondents*
1st	230	23%
2nd	250	25%

3rd	237	24%
4th	267	27%
Other	20	2%

Marital Status	*Number of Respondents*	*Percent of Respondents*
Divorced	13	1%
Married	42	4%
Single	940	94%
Widowed	3	0%

Type of School	*Number of Respondents*	*Percent of Respondents*
Private four-year	266	26%
Public four-year	667	66%
Public two-year	79	8%

Region	*Number of Respondents*	*Percent of Respondents*
Mid-Atlantic	67	7%
Midwest	112	11%
New England	411	41%
West	422	42%

School name	*Number of Respondents*
Amherst College	26
Assumption College	1
Blayne	1
Boston University	2
Brandeis University	1
Bridgewater State University	2
Bristol Community College	4
Clark University	62
Community College of Denver	5
Farleigh Dickinson University	1
Framingham State College	9
Gordon College	1
Harvard University	1
Indiana University-Bloomington	8
Lane Community College	24
Massachusetts Institute of Technology	1
Metro State College of Denver	14
Middlesex Community College	8
Mount Holyoke College	9
Mt. Wachusett Community College	21
New England Conservatory of Music	4
New Jersey Institute of Technology	1
Northeastern University	2
Oberlin College	58

Plymouth State University	1
Portland State University	50
Quincy College	5
Rutgers College	31
Simmons College	1
Smith College	43
The Evergreen State College	30
Trinity College	26
University of California - Berkeley	18
University of California - Davis	38
University of California - Irvine	21
University of California - Los Angeles	35
University of California - Santa Barbara	28
University of California - Santa Cruz	32
University of Colorado-Denver	11
University of Connecticut	12
University of Maryland - College Park	35
University of Massachusetts - Boston	59
University of Massachusetts - Dartmouth	51
University of Massachusetts - Lowell	48
University of Northern Colorado	23
University of Oregon	46
University of Southern Colorado	8
University of Washington	26
University of Wisconsin - Madison	41
Wellesley College	1
Western State College of Colorado	13
Yale University	13

Results

- By the time you graduate from undergraduate school, what will be the total amount of the loans that you have taken out?

Expected Debt	*Number of Respondents*
$0-$4,999	76
$5,000-$9,999	162
$10,000-$14,999	207
$15,000-$19,999	131
$20,000-$24,999	175
$25,000-$29,999	55
$30,000-$34,999	55
$35,000-$39,999	17
$40,000-$44,999	37
$45,000-$49,999	18

$50,000-$54,999	25
$55,000-$59,999	3

- Including interest, what do you think will be the total amount you will pay on your undergraduate loans?

Expected Total Repayment	*Number of Respondents*
$0-$4,999	48
$5,000-$9,999	104
$10,000-$14,999	143
$15,000-$19,999	108
$20,000-$24,999	110
$25,000-$29,999	70
$30,000-$34,999	70
$35,000-$39,999	37
$40,000-$44,999	36
$45,000-$49,999	20
$50,000-$54,999	28
$55,000-$59,999	12
$60,000-$64,999	21
$65,000-$69,999	3
$70,000-$74,999	7
$75,000-$79,999	6
$80,000-$84,999	3

- How much do you expect to earn after graduating?

Expected Income	*Number of Respondents*
$0-$4,999	4
$5,000-$9,999	1
$10,000-$14,999	15
$15,000-$19,999	24
$20,000-$24,999	93
$25,000-$29,999	104
$30,000-$34,999	189
$35,000-$39,999	73
$40,000-$44,999	152
$45,000-$49,999	41
$50,000-$54,999	89
$55,000-$59,999	9
$60,000-$64,999	51
$65,000-$69,999	11
$70,000-$74,999	19
$75,000-$79,999	13
$80,000-$84,999	15
$90,000-$94,999	7

$95,000-$99,999	1
$100,000+	18

- How long do you expect it will take to pay back your loans?

Expected Repayment Period (years)	*Number of Respondents*
Less than 1	3
1-2	46
2-3	83
3-4	63
4-5	54
5-6	172
6-7	46
7-8	48
8-9	32
9-10	6
10-11	249
11-12	1
12-13	10
13-14	1
14-15	2
15-16	47
16-17	1
17-18	5
18-19	1
19-20	0
20-21	59
21+	23

- What do you expect to be paying per month?

Expected Monthly Repayment	*Number of Respondents*
$0-$99	74
$100-$199	219
$200-$299	252
$300-$399	118
$400-$499	56
$500-$599	79
$600-$699	10
$700-$799	8
$800-$899	5
$900-$999	3
$1,000+	41

- If you experience difficulty repaying your loans, what options do you have?

Options	*Number of Respondents*
Deferment or Forbearance	358
Income-Contingent Repayment	146
Parents	367
Default	74
Other	234

- Do you feel like you needed more money in the form of loans to pay for college?

Needed More Loans?	*Number of Respondents*
Yes	356
No	656

- Do you feel like sufficient funds are available in the form of grants, work-study, etc.?

Sufficient Grants	*Number of Respondents*
Yes	414
No	598

Difference Between Actual and Expected Total Cost, by Expected Debt

Expected Cumulative Debt by 5000s	Expected Cumulative Debt	Expected Total Repayment	Actual Total Repayment	Difference
0 - 5000	$3,075.54	$4,428.46	$4,546.75	$118.29
5000 - 10000	$6,925.18	$8,739.26	$10,237.91	$1,498.64
10000 - 15000	$11,385.70	$15,090.89	$16,832.16	$1,741.26
15000 - 20000	$15,947.15	$20,451.96	$23,575.63	$3,123.67
20000 - 25000	$20,652.48	$28,258.87	$30,531.80	$2,272.94
25000 - 30000	$25,800.00	$33,580.00	$38,141.69	$4,561.69
30000 - 35000	$30,377.78	$41,688.89	$44,909.29	$3,220.40
35000 - 40000	$35,562.50	$43,875.00	$52,574.18	$8,699.18
40000 - 45000	$40,000.00	$51,580.65	$59,134.40	$7,553.75

45000 - 50000	$46,000.00	$58,769.23	$68,004.56	$9,235.33
50000 - 55000	$50,260.87	$63,565.22	$74,303.66	$10,738.44
55000 - 60000	$55,333.33	$63,000.00	$81,802.59	$18,802.59

Difference Between Actual and Expected Total Cost, by Year in School

Year in school	Expected Cumulative Debt	Expected Total Repayment	Actual Total Repayment	Difference
1st	$16,116.03	$20,026.51	$23,825.29	$3,798.78
2nd	$19,556.10	$25,515.07	$28,910.96	$3,395.88
3rd	$16,678.01	$21,764.08	$24,656.10	$2,892.02
4th	$16,714.92	$23,010.29	$24,710.66	$1,700.37
Other	$19,461.54	$24,615.38	$28,771.16	$4,155.78

Difference Between Actual and Expected Total Cost, by Attitude Toward More Loans

Needed more loans?	Expected Cumulative Debt	Expected Total Repayment	Actual Total Repayment	Difference
Yes	$17,286.26	$22,731.98	$25,555.31	$2,823.34
No	$17,383.56	$22,800.49	$25,699.16	$2,898.67

Expected Income, by Year in School

Year in school	Average Expected Income per Year
1st	$39,019.61
2nd	$40,610.62
3rd	$38,243.06
4th	$37,973.64
Other	$38,684.21

Monthly Payment as Percentage of Expected and Average Income, by Expected Debt

Expected Cumulative debt	Expected monthly repayment	Expected income per year	Expected income per month	Percent of expected income	Percent of average income
0 - 5000	$255.51	$39,779.66	$3,314.97	8.61%	11.36%
5000 - 10000	$418.58	$40,573.08	$3,381.09	12.17%	18.60%
10000 - 15000	$287.24	$39,545.71	$3,295.48	9.16%	12.77%
15000 - 20000	$302.87	$37,772.73	$3,147.73	10.30%	13.46%
20000 - 25000	$358.05	$38,966.67	$3,247.22	10.97%	15.91%
25000 - 30000	$417.06	$39,558.82	$3,296.57	12.77%	18.54%
30000 - 35000	$294.79	$38,250.00	$3,187.50	11.12%	13.10%
35000 - 40000	$323.08	$32,692.31	$2,724.36	12.25%	14.36%
40000 - 45000	$272.66	$37,281.25	$3,106.77	10.62%	12.12%
45000 - 50000	$570.83	$46,333.33	$3,861.11	14.24%	25.37%
50000 - 55000	$396.43	$42,142.86	$3,511.90	13.98%	17.62%
55000 - 60000	$125.00	$45,000.00	$3,750.00	7.13%	5.56%

Monthly Payments as Percentage of Expected and Average Income, by Year in School

Year in School	Expected monthly repayment	Expected income per year	Expected income per month	Percent of expected income	Percent of average income
1st	$385.32	$39,630.06	$3,302.50	12.74%	17.13%
2nd	$342.22	$41,196.08	$3,433.01	10.86%	15.21%
3rd	$238.25	$38,812.17	$3,234.35	8.05%	10.59%
4th	$341.54	$37,865.55	$3,155.46	10.57%	15.18%
Other	$951.92	$41,923.08	$3,493.59	26.20%	42.31%

Monthly Payment as Percentage of Expected and Average Income, by Attitude Toward More Loans

Needed more loans?	Expected monthly repayment	Expected income per year	Expected income per month	Percent of expected income	Percent of average income
Yes	$297.25	$38,560.34	$3,213.36	10.05%	13.21%
No	$356.69	$39,934.33	$3,327.86	11.09%	15.85%

Number and Percentage of Respondents that were Aware of Deferment or Forbearance as Repayment Options

Aware	Number of Respondents	Percent of Respondents
Yes	358	35.38%
No	654	64.62%
Grand Total:	1012	

Number and Percentage of Respondents Aware of Income-Contingent Repayment as a Repayment Option

Aware	Number of Respondents	Percent of Respondents
Yes	146	14.43%
No	866	85.57%
Grand total:	1012	

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