Personal Finance Trends: College Costs and Student Loans

For more than a decade, the rising costs of college have outpaced the rate of inflation. From 2011–12 to 2012–13, tuition and fees increased an average of 4.8 percent for four-year in-state public colleges and universities, according to the College Board's *Trends in College Pricing* released in 2012. And for the decade leading up to 2012–13, public four-year institutions saw tuition and fees increase at an average annual percentage increases of 5.2 percent. In real dollars (adjusted for inflation), this translates to a rise from $5,213 to $8,655, or $3,442. Meanwhile, the average inflation rate for the years 2002–12 was about 2.4 percent.

The College Board also notes that as college costs have increased, family incomes have decreased, which makes rising tuition levels even more problematic as families try to make ends meet. Students are more frequently turning to student loans to help finance their education. But the problems that come with taking on student debt are growing almost faster than tuition.

By helping students understand the various postsecondary options available as well as ways to finance that education with alternatives that expand beyond student loans—for example, scholarships, grants, work-study programs, and college saving plans—educators can make a bottom-line impact on students. And as part of this effort, educators can give students the facts about student loans and help them understand the consequences.

Student debt levels

Student loan debt is the second largest category of U.S. consumer debt, behind mortgages, according to the third-quarter 2012 issue of the New York Fed's *Quarterly Report on Household Debt and Credit.* As of third-quarter 2012, student loan debt had grown to $956 billion, an amount that is nearly quadruple the third-quarter 2001 level. Although this number reflects the growing number of borrowers, it also reflects an increasing level of average student loan debt. In the first quarter of 2005, the average student loan balance was $15,651; in first-quarter 2012, it had grown to $24,301. Even when the debt levels are adjusted for inflation, they grew by 30 percent.

The unintended consequences of student loans

When students seek out student loans for college, they do it in an effort to build their own human capital—their knowledge, talents, and skills. But holding high student debt can bring unintended consequences of obtaining an education.

Increasing student loan debt levels have eaten into the overall financial capacity of the individuals. These debt levels can impact an individual's ability to obtain other types of loans. Carla Jarrell, who works for a financial institution in Tennessee and serves as president of the Tennessee Jump$tart Coalition for Personal Financial Literacy, said that lenders at her institution have had to turn down individuals for mortgages based on their high student debt levels.

In addition, the number of seriously delinquent (90 or more days delinquent) student loan balances grew from $4.3 billion in the first quarter of 2003 to more than $30.35 billion in the third quarter of 2012. The Kansas City Fed's 2012 report on student loans suggests that unemployment and underemployment are significant factors related to these delinquencies. The report also suggests that another factor contributing to the delinquencies may be that current and future repayment capacities are not criteria in the federal student loan lending process.

In response to this data, Jarrell said, "People often take out student loans with the anticipation that they will be gainfully employed following graduation. If students are incurring student debt, they need to have an ultimate career goal in mind and game plan for achieving that goal."

Analyzing the options and costs
By teaching students about the various post-secondary options available as well as ways to finance that education with alternatives that expand beyond student loans—including scholarships, grants, work-study, and college saving plans—educators can make a bottom-line impact on students.

Maria Edlin, assistant center director for the Middle Tennessee State University Center for Economic Education, suggests that teachers can help students understand how to get from where they are to where they want to be. "First, have students complete an interest inventory. Then, based on their interests, have them use the Bureau of Labor Statistics' *Occupational Outlook Handbook* to explore career opportunities, necessary education levels and costs, job outlooks, and other relevant information for those careers." Edlin went on to say that students need to have an understanding of trends for industries and careers as well as what it takes to achieve their career goals.

Teaching about college costs
Some of the Federal Reserve Banks and other organizations offer resources for teaching about college costs and other important issues related to preparing to go to college.

The Higher Education Bubble Is Going to Burst. In this video from the from the *Real Clear Politics* series, Glenn Harlan Reynolds talks about how cheap and available credit for education is creating an "education bubble" similar to the housing bubble. He also suggests that a college education may not necessarily be a "ticket to future prosperity."

Katrina's Classroom: Financial Lessons from a Hurricane. A free, DVD-based curriculum developed to teach middle and high school students and their parents the importance of being financially prepared, especially in times of crisis. Lesson 4 and the video "Back to School" explore the importance of higher education.

To Get the Right Answers about College, Ask the Right Questions. In this lesson, students discuss the typical costs a college student faces. Students learn about the various types of education loans available. In the assessment, students complete a "Free Application for Federal Student Aid" (FAFSA) form and write an essay that identifies a plan for obtaining money to cover college expenses.

Major Financial Decisions: Financing College. These tools from the Richmond Fed include questions for the student to consider about going to college as well as a college cost calculator and a student loan repayment calculator.

Other resources
Occupational Outlook Handbook, U.S. Bureau of Labor Statistics
Quarterly Report on Household Debt and Credit, New York Fed
Student Loans: Overviews and Issues, Kansas City Fed
Trends in College Pricing 2013, College Board

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January 30, 2013