



NCES Releases 'Dealing With Debt'

By Amy Wong

The National Center for Education Statistics (NCES) released *Dealing With Debt*, an analytical report that suggests that 1992-93 graduates were able to deal with their student loans despite a heavy loan burden.

The report, which uses data compiled by the U.S. Dept. of Education and the Baccalaureate and Beyond study, shows that college students are becoming increasingly dependent on student loans as a source of financial aid.

Between 1992-93 and 2003-04, the proportion of undergraduates borrowing loans to fund their education increased from 20 to 35 percent, while the proportion of graduates borrowing loans increased from 19 to 42 percent.

Over the years, the characteristics of borrowers have also been changing. Back in 1992-93, students who borrowed had an established financial need, meaning that meeting high tuition costs was difficult because of their low income. Borrowers often were financially independent; were graduating from a private, not-for-profit organization; were dependents from a low-income household; or had parents without a bachelor's degree.

A decade later, the characteristics of a typical borrower had changed greatly. In 2003-04, middle- and high-income students took out loans, too, even if they had adequate financial resources. The report reflects this widespread borrowing, showing that more than half (51 percent) of all graduates had taken out loans in order to help fund their undergraduate education, racking up \$10,000 in average accumulated debt.

Financial burden increased even more for graduates who decided to pursue a graduate or professional degree. For the 41 percent of students who decided to enroll in additional educational programs, 43 percent of them borrowed additional loans by 2003. Those who only had loans for graduate or professional programs borrowed an average of \$36,900, while those who also had undergraduate loans to repay borrowed an average of \$41,700.

Studies indicate that the debt burden was manageable for the vast majority of graduates who opted to bypass additional educational programs: 74 percent of 1992-1993 graduates had paid off their educational debt by 2003.

Although there are alternative repayment plans to choose from, it is highly likely that this group is mainly comprised of those who had relatively small debts and those who followed the standard repayment plan, which mandates a minimum monthly payment of \$50 over the span of 10 years.



Studies support the fact that it should be easier to repay debt. The debt burden, the monthly loan payment as a percentage of monthly income, has become more manageable over the past decade. Because monthly payments remained stagnant throughout the repayment period while incomes rose, debt burden declined.

For instance, the median debt burden in 1994 was 6.7 percent. This figure decreased to 4.8 percent in 1997. Studies show that, as of 2003, 90 percent of borrowers had a reasonable debt burden of 8 percent or lower. Only 3 percent had a debt burden of 12 percent or more.

For the other 26 percent of graduates who haven't repaid their debt in the past decade, large loans and small incomes may have adversely affected their ability. Forty-two percent of graduates who still had debt borrowed \$10,000 or more. In contrast, only 5 percent who still had outstanding debt borrowed less than \$5,000.

Furthermore, 33 percent of graduates with outstanding debt had low incomes, paying an average of \$150 each month, whereas 19 percent of graduates with outstanding debt had high incomes, paying an average of \$250 or more per month.

Also, for the 39 percent of undergraduates who decided to take out Stafford loans, 5 percent had a deferment, 12 percent had a period of forbearance, and 10 percent have defaulted.

These repayment problems did not occur immediately. On the contrary, the average graduate did not enter deferment, forbearance, or default until 4 to 5 years after their graduation. These moments of financial duress were, for the most part, unexpected and temporary, with 45 percent of defaulters continuing to make their payments after they had financially recovered.

These studies show that, although lower debt burden makes it easier to repay loans, it is difficult to gauge the actual burden of a graduate's debt.