The Student Loan Crisis

The student loan crisis has made national headlines recently, with everything from multi-speech, multi-initiative attention from Obama to a cover story in *Time* magazine. Exact figure estimates vary, but somewhere around 40 million Americans (more than 12%) owe well over a trillion dollars in total student debt.

What exactly is the crisis? A college degree seems to be a default requirement for most white-collar jobs. It also represents the fulfillment of many generations' worth of dreams about improving the lives of their offspring. To get a degree, qualifying (debatably) for better future employment, students often need to take out loans. About 69% do, according to the non-profit Institute for College Access & Success. The cost of a college education has gone up significantly, far outstripping inflation. The cost of education has become an entry fee to take part in the working world, but that starting debt means that people entering the workforce now will be paying off their debt longer, and actually waiting longer to start saving than previous generations.

The anticipated crisis is three-fold.

First, not unlike the real estate crisis of a few years ago, which still haunts our economy, the system seems to be geared toward promoting debt that the debtors may never be able to pay back. Student loans are easier than most debt to defer, pushing premiums further into the future and adding interest. We can reasonably expect the default rate to rise in the future – and as we know from mortgage experience, mass defaulting on loans is never healthy for our collective finances.

Second, as the cost of college rises, the question of whether it's a worthwhile investment becomes more debatable. In some ways, this might be a positive – the number of non-traditional college programs and schools oriented toward specific career paths (rather than broader liberal arts 4-year degrees) are on the rise. But if student matriculations start to decline, it could be bad news for many colleges, locally and nationally.

Third, the societal focus on college education and the relatively easy access to funds for those colleges are producing an academic system that expects a certain level of income, which may not be sustainable. Any industry that finds itself flush with cash tends to lose efficiency, and when that flush of cash diminishes, it usually causes a lot of pain in the affected industry.

The student loan part of this situation seems to be a little bit rosier for Rhode Island than for other parts of the country. Even though RI continues to boast one of the most dismal overall employment and economic statuses in the US – and is consistently ranked as one of the least business friendly states (unless you "know a guy"), we are above the curve when it comes to educational finances.

This is more important in RI than other states. You've heard of college towns. We are a college state. Educational services is our third largest employment sector, after health care and retail (http://www.dlt.ri.gov/lmi/proj/majorindproj.htm). And we have roughly 91,000 college students during the school year, a lot for a state with a total population of about a million. Finally, education is something we do well, with a number of the world's leading schools in the fine arts, culinary arts, marine biology, medicine and liberal arts, among other things (you know who you are). Although there's ongoing concern about the "brain drain" that results when our best and brightest graduate and move away to make their livings elsewhere, one side effect of our strong university culture is a much lower than average student loan default rate.

"We have an excellent mix of colleges and universities in this state," says Noel Simpson, deputy director of the Rhode Island Student Loan Authority (RISLA). "Our default rate has benefitted from solid college and university systems." In 2011, the most recent complete year for which statistics have been finalized, the national default rate was 13.7%, while RI was 10.4%, according to Simpson.

We also have resources that other states don't have. The more you ask around, the more you will hear one organization mentioned: RISLA. A quasi-public organization intended to help RI students navigate the world of student loans, RISLA has evolved – as federal aid and laws have made it easier for students to find and apply for federal student loan programs, RISLA has adapted to fill in the gaps left by the system. "RISLA has shown far more initiative than equivalent agencies in other states," says Pat Crowley, assistant executive director of the RI branch of the National Education Association. It's re-tasking to match its mission, and changing with the times.

For example, it took radical (by financial industry standards) steps this year to offer refinancing for student loans, making RI one of the only states to offer such a service. "Rates vary depending on a lot of factors, but can be as low as 4.24% right now," says Simpson. While student loans are among the easiest loans to defer, deferral often results in interest burdens that students don't really think through. It's more convenient in the short term, but more destructive in the long term. Refinancing presents another, often more sensible option. Why isn't this option available elsewhere? (RISLA serves RI residents and students attending RI institutions only.) "That's a great question," says Simpson. "The market has been slow to accept innovations in this area of financing."

"RI is doing a very good job in this area," says Crowley. "There have also been national advances. President Obama created a Student Borrower Bill of Rights that enables students to access all the information on their own debt and to see their options." (Many private colleges offer their own loan programs, which have not always fully disclosed what students were getting into. Some of this was brought to national media attention recently when Corinthian College closed its doors – but did not release students from their student loan commitments. Federal lawmakers eventually stepped in to forgive the outstanding debt for classes not taken.)

"There are also programs now – the laws were passed in 2007, but the funding really only started last year – where you can qualify for public service loan forgiveness. So if you commit to 10 years of service in a profession like nursing or law enforcement or teaching, you can get some of your loan debt forgiven. RISLA does a really good job of explaining that program on their website," says Crowley. Or in person – another quality that makes RISLA unusual is that it offers free, walk-in consultation to students and aspiring students. Simpson explains, "We have programs to help with financial literacy. We also have cost-planning centers [in Cumberland, Bristol and the Warwick Mall] where we counsel high school students. We help them identify their financial options, but there are also ways of looking at their prospective careers, and identifying what sort of debt they can realistically manage. Some jobs produce more income than others – that's just the way life is. If students start thinking about it before college, they can find ways to plan realistically. We can lay out predictions based on projected career choices." They even have a tool on the RISLA website to help with this sort of planning (http://info.risla.com/college-planning-guide).

While none of this entirely addresses the questions of whether college degrees are overpriced, and whether college is actually going to produce a worthwhile return on investment for the current crop of students, it does present some interesting insights. The right answer might be, “It depends.” And, rather than knee-jerk college planning as the required step to a more prosperous life, we may be looking at future students who will figure out first why they want to go to college, and then identify how to pay for it.