

## Student Loans

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The lack of resources and funding for higher education in California has given way to so many feelings of uncertainty for campus administrators, staff, faculty and students. The postsecondary educational system in California was created to provide a quality and affordable education for its residents. Although the fees to attend a California community college or state university have been affordable compared to other states, there are additional costs associated with attaining a higher education such as housing, transportation, food, as well as books and other materials. These other costs or unmet needs, often lead students to borrow money in the form of student loans.

There are many websites that provide statistics on student loan debt. Most of the information on student loan debt points to an increase in borrowing. According to The National Center for Education Statistics (<http://nced.ed.gov>), 38% of all undergraduates in 2007-2008 took out an average of \$7,100 in student loans. Other data reveal that average student loan figures upon graduation vary across the nation. The Project on Student Loan Debt (<http://projectonstudentdebt.org>), a nonprofit independent research and policy organization, reported that in 2008 the average student loan debt for graduating seniors across the nation rose to \$23,200 from \$18,260 in 2004. They have also reported differences in average student loan debt from the class of 2007. The average student loan debt in California was \$17,215 while in Iowa the average was \$26,208.

For some, these figures may not seem excessive (Wilson, 2009) while to others they seem outrageous. Despite these figures, the fact is that many students would not be able to complete their education without borrowing money. In 2002, Nellie Mae, a major provider of student loans, reported that 70% of students who borrowed money continue to agree that student loans were very or extremely important in allowing them access to higher education. Previous studies conducted by Nellie Mae revealed similar percentages of students who gave the same response: 76% in 1997, 71% in 1991, and 68% in 1987.

According to Wilson (2009) many students do not borrow excessive amounts of money to pay for their college education despite popular beliefs. One could argue that excessive borrowing and the value of an education differ from person to person. One cannot argue however, that an education opens the door to a quality of life that one could not aspire to with only a high school education. A report prepared by Mortenson (2009) for the California Faculty Association (<http://calfac.org/CalAtTheEdge.html>) examined California's ability to compete in the New Global Human Capital Economy. The paper vehemently outlined stark differences in prosperity and quality of life among

families and individuals who have higher levels of education and those who do not. One website devoted to addressing California's deficit and Higher education (<http://savethecsu.com>) has some interesting statistics regarding employment and higher education. According to the website, high school graduates are more than twice as likely as college graduates to be unemployed. Another interesting statistic posted on the site is that by 2025, 41% of jobs will require at least a bachelor's degree, and in order to meet this demand, the state will need to award 60,000 bachelor degrees per year.

It is not the place of an educator to advise a student what college to attend or how to finance their education. As Life Management educators, however, we teach our students the connection between goal setting and decision making. We also teach our students skills to manage their resources, including their financial resources. Over the past year, I have learned that many more of my students have already taken out student loans. I have learned that some students have taken out loans to help finance their education while others have taken loans to finance other activities and purchases. A discussion on this topic with your students might help you get an idea of what I am referring to as "other activities and purchases".

Through facial expressions and discussion, I have also learned that many did not quite understand what they agreed to when they E-signed their loan. By this I mean, they did not know whether they had taken a subsidized loan or an unsubsidized loan. The difference between the two is significant in terms of interest capitalizing and total repayment. A subsidized loan is a loan in which interest that accumulates while the student is enrolled in school is paid for by the federal government. A student must meet certain income requirements to qualify for such a loan. An unsubsidized loan on the other hand, is a loan in which interest that accumulates while the student is enrolled in school is capitalized and added to the total loan amount once the student has graduated or leaves school, however the interest can be paid prior to graduation.

Other important student loan basics include grace periods, repayment options, deference, forbearance, and cancellation. One very helpful website is 360Financialliteracy.org ([www.financialliteracy.org](http://www.financialliteracy.org)). This website provides consumers with a myriad of information to make sound financial decisions at every stage of their life. Their link for college students is a great tool to go over in class with students. Since many of our students may have difficulty finding employment after graduation, it is also important to inform them about the Federal Income-Based Repayment plan that began in July. The plan is available for any graduate who has high loan amounts and a low income. This plan caps the payment of a loan at 15% of a student's adjusted gross income. As their income rises so does the payment. Proof of income and family size must be submitted every year. Although the plan may be helpful in reducing the

monthly payment amount for a period of time, it extends the repayment period and total interest over the life of the loan.

It is crucial for students to understand the basic concepts of student loans. I believe that by incorporating basic information on student loans into our managing money and credit lectures, we can help students make more informed decisions when it comes time to borrow money to finance their education. By teaching our students to take out student loans judiciously and manage their overall debt, they can strive to become financially responsible adults. Incorporating a discussion on student loans is an excellent opportunity to educate students who have yet to take a loan but eventually may. It is also an opportune time to inform those students who have already taken a loan on what to expect when they begin to pay back their loans; and also help them be better informed if they decide to borrow additional money in the future.

Many of my students have thanked me for the lesson on student loans. I even share my personal student loan amount, capitalized interest, and total repayment amount with my students. This is something that I don't mind sharing as I use it as a means to demonstrate that had I not taken the loan, I probably would not be teaching the class.

#### References

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