

## INTRODUCTION

College debt is both a blessing and a curse. Millions of students get college degrees and a pile of student loan debt every year and manage to pay off the debt over time and live productive lives having benefitted from their investment. But for a significant number, borrowing for college leads to a nightmare of indebtedness they can spend their lives escaping. And in the current economic climate, these tales of woe are only likely to multiply.

Consider these stories as told to the Project on Student Debt:

**Sam** said he borrowed \$17,244 in subsidized and \$21,088 in unsubsidized Stafford Loans, and that eventually escalated to \$72,000 with a monthly interest-only payment of \$445.

*“This is approximately half of my full time monthly take home pay. I live a very frugal life. Throw in rent and the basics like food, phone, transportation, and I am left in negative cash flow.”*

**Tisha** studied to be a teacher, but after making her monthly student loan payment she says she might as well be working at the same job she had before she went to college to improve her standard of living.

*“I would like to tell anyone considering one of these loans not to do it,” she said. “Find some other way. This is a trap . . . We are entrapped for 30 years by these loans. My children will be affected throughout their lifetime by this one decision that I rapidly made on the Internet.”*

**Gina** borrowed money to get a Ph.D. in the arts and now works in nonprofits in the same field.

*“I got my Ph.D. thinking I would begin an academic career, but that didn’t happen, so although I value the knowledge I gained during graduate school, it hasn’t been worth the cost to me.”\**

\*(For these and other sad tales go to [www.projectonstudentdebt.org/voices](http://www.projectonstudentdebt.org/voices). The names were changed on these examples.)

These are tough luck cases, and they are probably *not* representative of the majority of college students who borrow to go to school. Yet these stories show that not everything is rosy in the land of college debt. Many students (and parents) borrow far more than they’ll be able to handle, and they do so naively believing that all the promises of college come true. There are not many warning signs, and some go overboard. Way overboard.

More than 54 percent of new college graduates said they wish they had taken on less debt during college, according to a 2002 survey done for Sallie Mae, the student lender. (In addition, some 55.5 percent said they felt “burdened” by their debt. But 58.9 percent also said “the benefits of education loans are worth it.”) However, since the average college tuition has risen sharply since

2002 (more than 61 percent at public four-year schools), and average student debt has also risen substantially in the same period, I suspect the level of discontent has continued to rise.

And there is little question colleges are addicted to tuition hikes. Even though consumer prices actually fell 2.1 percent in the 12 months ended in July 2009 (excluding food and energy they actually rose 1.5 percent), many colleges raised tuition and other fees for the 2009-10 school year. At public four-year colleges it was up 6.5 percent, while at private colleges the increase was 4.3 percent over the 2008-09 year. This was at a time when firms across the country were forcing wage cuts for the first time since the 1930s, according to the *Wall Street Journal*.

There are other tales of woe, particularly among students who borrow heavily with credit card-like “private student loans” and then find themselves not making enough to cover even the interest payments. The interest rates on these loans can escalate if you miss even a single payment. If they default, students can find themselves owing tens of thousands of dollars of extra debt they never imagined and have no escape.

This is not meant to frighten you. It is a warning that the interest of the lender – and of those college and government officials who relentlessly promote student borrowing/student debt - is not necessarily your interest. Students need to stick to the zone where their interest zones overlap with those of lenders and other representatives of the higher education industry - and be very careful about straying beyond.

For the very large part, students are financial innocents, and they are in danger of being led to the slaughter. The system may warn you, once, about the dangers. But then – this is America - you are on your own. And at 18 or 19, you may not be ready or even paying attention.

Eric Jones graduated from the Art Institute of Las Vegas in 2006 with a loan balance that had ballooned to \$80,000 by late 2008.

The Art Institute provided him with documents explaining loans, and he signed acknowledgments stating he understood their terms, he told Charlotte Hsu, a reporter for the *Las Vegas Sun*.

“But, ‘being 18, I didn’t care what the interest rate was,’ he says. ‘I didn’t think about it.’”

*People who borrow to go to college are thinking long term, and that’s good. And investing in yourself is smart. But you can pay too much for anything. Prudent investing is more likely to yield winning results.*

This book approaches college as an investment. Obviously, a college education is more than just about money. On the other hand, money is a lot of what a college education is about. That’s certainly how the education establishment tries to sell it. But most of the advice out there stops short of treating it like an investment in common stock. Instead, a lot of the advice paints it with an emotional glow.

But as Deanne Loonin, director of the Student Loan Borrower Assistance Project, a program of the National Consumer Law Center in Boston, told me, we'd do a lot better to treat college with the cool detachment of a successful investor:

*“The problem in my mind is that education is not discussed as a financial investment,” Loonin said in an interview. “I think people feel like it cheapens the discussion by talking about money and what it’s going to cost and how likely you’re going to be able to pay it back. And I think that’s a huge disservice to everybody. I think they should be thinking about the finances right from the beginning.”*

As a lawyer and head of the Student Loan Borrower Assistance Project, Loonin has spent years helping people who have defaulted on student loans.

This book tells you how to get a college education without breaking the bank and without turning yourself into a victim of the American system of higher education. You can go to college, take on a reasonable amount of debt if necessary, and live a normal life.

Here’s how.