B.S. in Debt: Considering Ways to Curb College Debt

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The average undergraduate student loan debt for 2002 was $18,900 dollars. Ten years earlier, it was a mere $9,200. To add on to this amount, the average credit card debt for students in 2002 was an amazing $3,000 dollars (Williams 53). What's going on here? As a college student, I see many of my friends falling into these statistics. What's going to happen when they graduate from college and are bombarded with costs for housing, automobiles or other expenses related to independence outside of college? They'll be entering the real world financially crippled. Furthermore, as US citizens, they will contribute to America being a debtor opposed to a creditor nation. The United States' global economic standing could potentially be affected by college debt! There are options to lower these debt rates and some actions have been taken, but I believe that more needs to be done. Our nation must promote financial literacy and provide a means to facilitate affordable access to higher education.

Concerned about the rising costs of college education, the University of North Carolina Association of Student Governments set out to put a human face on these statistics, publishing a book titled The Personal Stories Project: Faces, Not Numbers. This book offers tales directly from students on the effects of rising tuition prices (Cavanagh 10). Tuition and fees have increased at roughly three times the rate of inflation (Williams 159). The result of high tuition is exemplified in this quote: "'I worked 30 to 40 hours a week every week during my junior year,' writes Rachel Alexis Johnson, a student at Appalachian State University. 'I was falling asleep in class and at work. I was trying to study while taking orders at Wendy's. I did not have a break … break was not a word that fit in my vocabulary.'" Students within North Carolina are incurring more debt, working more hours, and dropping out of more classes (Cavanagh 10). The problem of debt isn't something that's restricted to private universities or other states; it is a problem that's hitting home.

One author wrote that, as a forty-six year old man, he still owes around $9,000 from graduate school loans (Williams 155). Debt does not easily go away. It builds upon itself with interest. Stafford loans—one of the cheaper loans readily available—charge an average interest of 6.8%. Under this interest rate, a $20,000 loan will add $7,619 in interest over 10 years. If one paid it over 30 years, it would take $37,000 (About 7)! Credit cards? With an average interest rate of 13.08%, that's adding an extra $394 if the graduate doesn't pay any of his $3,000 loan only after one year (Fetterman 3). This threat of interest is twofold: it not only slows down a person's financial freedom but even limits the freedom of career choice.

The percentage of college students who are business majors has increased from 8% before WWII to 22% now (Williams 162). Why? Is it because people love business? Not completely. Liberal arts and charity are rarely logical career choices when one has debt. Why become a $24,000 a year teacher or join a volunteer organization when one has over $20,000 in total debt that can grow every year? It's just not plausible. Ultimately, what does this mean? The social structure of altruism and the intellectual wealth of the liberal arts are being reduced. All this…from debt?! Unfortunately, money is power and the effects of debt are wide -ranging.

A 2003 research project took a longitudinal study of 1992-93 undergraduates (a time when debt was merely $9,200) and tried to see if there was any correlation between debt and graduate degree enrollment (Millett 390). Their final result was blatantly clear. Students who had debt greater than $5,000 were significantly less likely to apply to graduate or professional school than their debt free peers (Millett 416). Our country's workforce is becoming educationally weak. With fewer graduate/professional degrees being conferred, we have a less educated population. As the number one economic power, this is absolutely appalling. We will quickly lose our economic position when we have a clearly less qualified workforce compared to other nations. Our people deserve better. How do we give them better? Fortunately, North Carolina is making some headway in preventing debt for its students.

The first, and arguably biggest, prevention of debt that North Carolina provides is called '"The Carolina Covenant." What this program does is give the opportunity for low-income graduates to be basically debt free as long as they provide ten to twelve hours a week in a federal work-study job. Eligibility is that students must be at or below 150 percent of what federally qualifies as poverty. An example would be a family of four who make a combined income of about $28,000 annually. The covenant is an immense help because in the fall of 2003 over eight percent of the freshman class qualified for the funding (UNC 8). North Carolina has taken a very important step forward: they are sacrificing personal state funding for an investment in the future.

In a similar vein of the previous mentioned program, North Carolina has also created the North Carolina Teaching Fellows Program. This scholarship provides a generous scholarship with the stipulation that, upon graduating, the student must teach in less privileged school districts for several years (Williams 170). This program is absolutely fantastic. It creates a system to eliminate debt and provides a service. To add some more benefits, like the program in the previous paragraph, it provides a service for a service. I believe that such reciprocal trade should become the backbone of the United States social structure.

One final program that is of note in North Carolina is a set of advertisements that urge young adults to become financially literate. These advertisements are sponsored by the Advertising Council and American Institute of Certified Public Accountants which is based out of Durham (Ranii). Unfortunately, young adults—in my opinion—do not understand that $6 smoothies add up over time and that this money could actually be used to save for the future. Too many young adults live in the now. I always have to restrain my bad spending habits. To advertise financial literacy is commendable, but I am not sure how many people who can understand its message will take the commercial to heart.

In order to increase financial literacy, we need to call on both parents and schools. The indoctrination of financial responsibility is something that needs to be applied at a young age—opposed to the belief that high school classes are effective. A study showed that high school students that took a financial literacy course scored a 69 percent (versus a 70 percent for students that didn't take the course) on financial aptitude test (Gandel 112). Apparently, they didn't learn anything. Spending habits are something that is developed at a young age and continue through the person's life. So, financial literacy should be expressed to parents to try to pass on to their children, and courses should be offered at about sixth grade. My reasoning for sixth grade is that a researcher found that financial programs in the sixth grade are much more likely to change their attitude regarding money opposed to the more inflexible seventh or eighth graders. For parents, the researcher also mentions that an allowance makes things worse (Gandel 112). If a child is given a set amount of guaranteed money every week, there's no incentive to save. Why save if you'll always get more money in the future? Unfortunately, this illogical standpoint is carried into the child's adult life and could potentially cause their undoing.

The curriculum of financial literacy classes can explain the damaging effects of credit, the importance of saving and how good debt exists. Students needlessly spend their credit cards without fully realizing the repercussions. As one author says: “If I had known in college what I know now about credit, I might have skipped the ski trip to Vail that I could not afford or thought twice about whipping out my credit card to pay for new jeans or dinner with someone I was trying to impress” (Kline 1). Young adults are getting into the completely wrong type of debt. Some students probably don’t understand that they can access home-equity loans or that there are low/no interest loans available instead of high-interest loans that are easily available. Hopefully with some knowledge, a person would be able to significantly reduce debt in their future, but there’s still comes the issue of rising tuition. Fortunately, some states have taken an initiative on this problem.

Have you heard of state 529 plans? I certainly have not. These plans lock current tuition rates for future use via investment and are available in states such as Pennsylvania and Washington (Grant). One of the reasons for increased loans is the rise in tuitions rates but this program negates the threat of tuition’s increases. In the Washington program, someone can buy up to five years of tuition through monthly payments up to the date of supposed entry in the college. In one year, Washington’s universities went up an astronomical 16 percent in tuition, giving a 16 percent return in investment for people who went into a state 529 plan. Also, students can manage their own accounts and learn to experience handling money and dealing with particular financial matters (Vestal). If all the states, including North Carolina, were able to enact these programs, then it a significant blow would be dealt to debt. It would teach to save and invest—acting as a sort of real-life financial class. Also, of course, it helps prevent rising tuition rates which can be traced as a major contributor to increased debt.

We also need cheaper loans and increased amounts of grants and scholarships. My belief is that cheaper loans should rest on the responsibility of the national government. They have the infrastructure and financial capability to manage such a system. Also, national government—as they are currently doing—should provide grants to people below the poverty level. On the other hand, states should look at providing more scholarships. Yes, it is easier said than done but let me focus on North Carolina. Thanks to the North Carolina lottery, North Carolina will soon be getting a significant amount of revenue. In Tennessee, there is a program called the HOPE scholarship. It helps more than 35,000 students attend the state's public universities and pays up to $4,000 a year to state residents who graduate out of high school with a minimum of 3.0 and a 980 out of 1600 on the SAT (Sack 20). The requirements aren't high but still lofty enough to determine a student who is generally interested in continuing their education. Furthermore, Tennessee universities have enjoyed a 24 percent jump in enrollment (Sack 20).

These HOPE scholarships create my favorite system. A system of reciprocation. Tennessee provides funding to students who deserve it, and the educated students stay in the state. It is an investment for both state and student.

In a nutshell, what needs to be done? Students need to become more financially literate and have more support from both their state and national governments. North Carolina is experiencing good beginnings but it only focuses on a specific type of people. North Carolina should expand their programs to also assist other classes of people, and this would be possible if they provide financial literacy, cap tuition and offer an increased amount of scholarships to students. If all of these programs were somehow enacted in every state, I could guarantee that the United States would be in a better position. Money is power, but if people don't know how to use the power, they can easily become engulfed by it.

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