

How Much College Debt is Too Much?

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This NebGuide helps students and parents consider how much debt they can afford for a college education and includes tips for managing and minimizing educational debt.

Student loans often are called “good” debt because they are considered an investment in someone’s future. But does this mean that all student loan debt is “good?” What is the general picture of how college students use education loans and credit cards? When is the best time to think about how much student debt you can afford? And bottom line, how do you know how much student loan debt is truly affordable?

When Is Education Debt “Good?”

Whether or not education debt is “good” debt depends on many things. How much difference financially and non-financially will the additional education make? What are the job prospects once the education is finished? How important is the education for the student’s personal goals and aspirations? Have you identified all other financial resources for supporting the education? Does the student understand what taking on education debt means financially after graduation? Why is the debt necessary? Is the money to be used for necessities for getting the education or to raise living level? Each situation is different so whether a specific student debt is “good” depends on the situation. Carefully consider the impact of debt before mortgaging future income to repay it.

What is the General Picture of College Students and Debt?

A quick look at 2009 statistics from the College Board indicates that while 34 percent of all undergraduate students graduate with no debt, almost 10 percent have more than \$40,000. The median student debt load was \$15,123. This means half of all students graduate with more debt, half with less. Add in \$1,645 median credit card debt for new college graduates. That means that half of graduating undergraduates are more than \$16,768 in debt as they walk across the stage to get their diplomas.

Under a law passed in 2010, the Credit Card Accountability, Responsibility, and Disclosure Act, or Credit CARD, access to credit cards for someone under 21 is now limited. Most new college freshmen will not be able to get a credit card without someone older than 21 cosigning for the account. This new law may provide some relief for future student debt; however, it’s realistic to assume that most college students will have credit cards. In 2009 Sallie Mae, a national student loan company, reported that 39 percent of freshmen arrived on campus with a credit card.

What Is the Best Time for New College Students to Think About Education and Credit Card Debt?

The short answer: before they arrive on campus. But it’s never too late as a college student to step back and look at the total picture and plan steps for controlling debt as much as possible.

What Can a Prospective or New College Student Do To Control How Much Debt He or She Will Have at Graduation?

1. **Learn what a typical starting salary is for your major.** FinAid, the SmartStudent™ Guide to financial aid at www.finaid.com, is one resource. Under Calculators, choose Student Loan Advisor-Undergraduate Students. Click your career choice to see likely national starting salaries and the total amount of loan and monthly payments that would be manageable on that income. For example, the average liberal arts graduate could expect a starting salary of \$27,700 and could manage maximum monthly education loan payments of \$346.25 and maximum total education debt of \$28,230.13, assuming a 10-year repayment period, 8.25 percent interest, and little or no additional debt. At the other end of the salary spectrum, an engineering student could handle monthly payments of \$680 in the future from total student loan debt of \$55,441.13 with an expected average starting salary of \$54,400. In the middle, the average elementary education graduate could see an average starting salary of \$33,800, and handle monthly payments of \$422.50 for a maximum loan total of \$34,466.88. Again, remember

these figures assume there is little or no additional debt, such as for a car.

A guideline for new college students is to have no more than 10 percent of expected monthly gross income from that first job go toward repayment of all loans. If you plan to buy a new car after graduation, remember that a car loan will affect significantly your ability to repay student loans.

2. **Keep track of your total debt.** Since most students don't borrow the same amount each year or even each semester, it's easy to get confused.
3. **As a beginning college student, look for a college that wants you.** You'll find a more attractive total financial package at a school trying to recruit you compared to one where you are struggling to get admitted. This is especially true if you know you'll be going to graduate or professional school after earning a bachelor's degree. If so, keep financial reserves including the ability to repay future educational loans needed for the next degree.
4. **Minimize the total amount you'll have to borrow.** Options include getting a job, accessing financial assistance you don't have to repay, or selecting a school that means taking on less debt. Most students work while going to college. Research shows that working may actually help students academically when the number of employed hours is less than 20. Check early and often for any need-based and performance-based financial assistance. Consider going to a less expensive educational institution at least for a year or so.
5. **Don't assume that because a lender is willing to give you money, you can afford it.** As a recent study points out, lenders look at the likelihood someone will default, not at the impact repaying a loan will have on someone's situation and lifestyle. Lenders protect their interests; you need to protect yours.
6. **Don't assume that student loan payments will be the only debt you'll have once you graduate** or that as your income increases, your debt payments will be more manageable. Your financial obligations are likely to increase as your income increases over time. Cars, furniture, your own home, and retirement savings are some examples of future financial obligations.
7. **Shop for the cheapest loan source.** Understand the interest being charged so you can compare loans from different sources.
8. **Live like the stereotypical poor college student while in school,** and even for a few years afterward until college debt is repaid. A 2006 survey of college graduates by Matthew Greenwald and Associates found that, because of student loans, 44 percent of college graduates delayed buying a house, 28 percent delayed having children, 27

percent skipped medical or dental procedures, and 32 percent said college loan and credit debt forced them to move back into a parent's house or live there longer than they expected.

9. **Exercise caution when using credit cards.** A quick look at statistics proves this a wise move.
 - More than one in five new college graduates have credit card balances of \$3,000 to \$7,000.
 - Close to one in five seniors carry credit card balances of more than \$7,000.
 - Half of college undergraduates had four or more credit cards.
 - Sixty percent of undergraduates expressed surprise at how high their credit card balances had reached, and 40 percent said they charged items knowing they did not have the money to pay the bill.
 - Only 17 percent regularly paid off their credit cards each month, according to a 2009 Sallie Mae report, *How Undergraduates Use Credit Cards*.
 - Forty-one percent of credit cardholders ages 18 to 29 had made only minimum payments on at least one credit card within the previous 12 months, according to a 2009 FINRA Investor Education Foundation report, *Financial Capability in the United States*.

Using cash or debit cards for most purchases helps you stay on a budget and avoid overspending. Consider the credit card for use only in emergencies and true necessities. Be clear about what an emergency is and what a necessity is.

A Tip for Parents

If you're the parent of a new college student, remember your total monthly debt payments for mortgage, credit cards, loans including vehicle loans, and education loans should not exceed 35 percent of monthly gross income. Set your own limit for the total debt you will assume for a child's education before they start college. If it's a choice between funding a child's education and funding your own future retirement, choose retirement. Your college student can always borrow for their education but you can't borrow to fund your retirement expenses.

How Do You Know if Your Student Debt Load is Affordable?

While it's enlightening to look at national and even campus statistics, remember that no student is the "average" or "typical" student. What is affordable for educational debt depends on the student's situation and, just as importantly, their anticipated situation once they graduate. Do your homework and go into the student loan arena with your eyes open to reality now and for after graduation.

Resources

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