Student loan debt: dealing with a massive burden

By Phil Hall

November 15, 2016 No Comment

The depth and scope of the student loan debt issue is considerable: approximately 44 million consumers now owe roughly $1.3 trillion in student loans, according to the Consumer Financial Protection Bureau, with one out of four student loan borrowers past due or in default.

Closer to home, The Institute for College Access & Success ranked the 2015 graduates of Connecticut's four-year public and private colleges and universities with the third-highest student loan debt level in the nation, with a state average of $34,773. New York ranked 18th, with an average student debt of $29,320 at graduation.

In September 2015, Connecticut became the first state to pass a student loan bill of rights that offers an ombudsman, a servicer licensing requirement and additional consumer protections for student loan borrowers. And while the subject did not occupy much public time during the latter stages of the presidential campaign, President-elect Donald Trump acknowledged the issue with a proposal that would speed up the debt forgiveness process by expanding income-based repayment plan options to include private loans. That option now is only available for federal student loans.

Yet the weight of student loan debt has created agitation across some parts of the economy, most notably in the housing market, where many millennials are not pursuing home ownership due to their financial situations. A recent survey conducted by NeighborWorks America found nearly 30 percent of Americans knew someone that delayed buying a home because of student loan debt, up from 28 percent in a 2015 survey by the organization and from 24 percent in a 2014 survey.

Among survey respondents identifying themselves as potential home buyers, 53 percent with student loan debt said their debt was "somewhat or very much an obstacle to buying a home." That figure was down from 57 percent in 2015 but higher than the 49 percent rate in 2014.

"With the prices of college tuition and the need for student loans becoming more and more prevalent, it has definitely become more difficult for the younger generation," said John Walsh, president of Milford-based Total Mortgage Services. For lenders meeting with prospective millennial customers carrying high student loan debt, the best options are either having a non-occupant co-borrower on the mortgage or advising the borrower to wait until their debt level is lower or eliminated, Walsh added. "This has knocked a lot of people out of the housing market," he said.

But a number of colleges and universities in the area are working proactively to ensure that their students do not graduate with massive loan debt weighing them down.

The University of Bridgeport sought to keep tuition costs down when it launched its Connecticut Promise program in April that guarantees first-time, full-time freshmen residing in the state will pay no more than $18,500 out of pocket for tuition, fees, and room and board after all scholarships and grants have been applied. An in-state commuting freshman not living on the university's campus pays no more than $12,000 a year.

Karissa Peckham, associate vice president for enrollment at the University of Bridgeport, viewed the program as a win-win situation for both students and the school. “When we decided to implement the Connecticut Promise, we had to determine how much it would cost the university,” she said. “We wound up enrolling an additional 100 Connecticut students, which we achieved by letting them know that students had this option. And despite enrolling more students, we are still able to meet our operating needs.”

Peckham also noted that the university places a strong emphasis on scholarships and tuition and offers a financial aid appeals process that can enable students to access assistance after the semester begins if a family or personal matter disrupts their fiscal well-being. “When we do our planning each year, the item at the top of the list is how can we continue to help our students,” she said.

Even lower tuitions are available at community colleges and have been a major selling point in attracting students.

“Only 7 percent of our student body has loans,” said Esther Watstein, spokesperson at Housatonic Community College in Bridgeport. “And I had to look over that figure two times because that’s amazing. On average, our students with loans average only $5,100 in debt, which would equate to payments of $52 a month. That’s pretty fantastic.”

Across the border in New York, Mercy College participates in Salt, a financial education program offered by the nonprofit American Student Assistance. The school’s loan default rate is between 3 and 5 percent, far below the national average.

“Everybody has access to it, including employees,” said Andrew Mantell, director of admissions. “You can learn about debt, credit, any part of financial life. It helps you track payments to lenders.”

Fairfield’s Sacred Heart University also uses the Salt program, but it places an emphasis on ensuring the quality of its education will result in well-paying employment or access to prestigious graduate education opportunities.

“Here at Sacred Heart, 95 percent of our undergraduates leave with either a job or an acceptance to continue their education,” said Julie Savino, executive director of university financial assistance. “While the amount of debt from college loans is certainly a concern, our students have a very low default rate that seems to indicate the employment they find allows them to pay the loans back.”

But despite these efforts, at least one financial expert is warning that the student loan debt issue is not evaporating and the proverbial piper will ultimately have to be paid.

“Lending is so easy and students can get loans despite an inability to pay them back,” warned Michael E. Chadwick, president of Chadwick Financial Advisors in Unionville, Conn. “At this point, it is not certain if we are going to deal with it voluntarily. Eventually, we have to deal with it and not have the student loans blow up like mortgages blew up in 2007.”

And Mercy College’s Mantell expressed the hope that more students came to college with a greater understanding of the financial responsibilities ahead of them.

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“Students come here very conscious of the concept of debt, but not so much about making money, saving or borrowing,” he said. “Financial literacy in all aspects is never too early to learn — it would be great if that was part of high school, where students could learn about balancing checkbooks and constructing a budget. When they come to college and have to take out loans, it would not be such a shock.”

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