The rapid increase in college costs is on the minds of many American families – and rightly so. Since the 1980s, tuition and fees nationwide have gone up astronomically -- four times the rate of inflation, faster even than healthcare expenses. Hardest hit are middle and low income families. Over the same period, household incomes for the latter families have decreased 7 percent, while households in the highest income brackets have risen 73 percent. Not surprisingly, 63% of respondents to a recent public survey say that making higher education more affordable is a higher priority than cutting taxes for the middle class, preserving Social Security and Medicare, reducing the deficit, or expanding job training.

For Montana, current cost estimates for entering freshman at The University of Montana, for instance, are that they will have to pay $60,000 and $70,000 in tuition, fees, books, room and board for a bachelor’s degree over four years -- even though UM is considered one of the best buys in public higher education. If present trends continue, 66-67% of these students will rely on loans, which is higher than the national average. Based on latest figures, the average loan amount graduates from any Montana university will owe after four years is $23,000, whereas three years ago it was $20,000.

Most troubling of all is the loan default rate, which has increased by 100% from 3.5 to 7.1 percent between 2008 and 2010. Indeed, the amount of student lending and indebtedness incurred nationwide and in Montana is staggering and increasing at an alarming rate. Nationally, the New York Federal Reserve estimates that education loans are on track to hit between $900,000,000 and $1 trillion this year, even more than Americans owe on their credit cards. In fact, a good number of Wall Street
watchers are so concerned about increasing student loans and indebtedness that they warn about an impending crisis similar to, although smaller than, the financial crisis and federal bailout of 2008-2009.

With unemployment hitting recent graduates especially hard, and wages outside the finance industry stagnant over the past years, Wall Street watchers worry that the most indebted generation of college students in history does not have the dependable jobs it needs to escape from life-time debt, while lenders continue to taut the availability of Student Loan Asset-Backed Securities, or SLABS, as they are called. Invented in the early 1990s, the number of SLABS traded on the market grew from $200,000 in 1991 to nearly $250 billion in the fourth quarter of 2010. Backed by credit cards, auto loans and other non-education loans, SLABS thus far have not suffered significantly and are still in relatively good shape. They are considered less risky because of federal guarantees, with the government directly or indirectly on the hook for almost all of it.

If all of this sounds disconcertingly familiar, it is important to note that the Obama administration has ended the Treasury Department’s practice of acting as a co-signer on private education loans. Moreover, as many other experts have pointed out, analogies to the sub-prime mortgage crisis may not hold up, largely because the federal government’s repayment requirements and bankruptcy laws concerning educational loans are much more stringent than for home mortgages, credit cards and auto loans. If a student declares bankruptcy, the outstanding amount for educational loans cannot be forgiven and must be paid back, a strong incentive for making sure that payments continue and not end up in default.

In addition, the long-standing American belief that a college degree leads to a middle-class lifestyle continues to persist, buttressed by memories of grandparents concerning the GI bill, and stories by
parents recounting their ability to pay their way through college with vacation-time employment and part-time jobs. Of course, the best remedy would be a speedy economic recovery and the creation of many quality jobs, but in the meantime a small number of debt reduction opportunities exist, or are about to be created.

At the national level, the most notable effort is the recent executive order by the Obama administration that reduces payments on all federal loans to 10% of disposable income and forgives all outstanding debts after 20 years, as opposed to the previous policy of 15% of disposable income and forgiveness after 25 years. However, the order doesn’t work for low-income families and students unable to make monthly payments in the first place.

At the state level, a number of loan forgiveness programs exist, one of which is Montana’s Quality Educator Loan Forgiveness Program offered to teachers in school districts with a teacher shortage. Administered through the Office of Public Instruction, this program offers new graduates $3,000 per year for up to $12,000 over four years. Other forgiveness programs include ones for nurses who work in state-operated hospitals and prisons, for graduates of law schools employed in Montana state government positions or in legal aid programs, and for medical doctors who work in underserved communities around the state. Information about these and several other programs is accessible on the Montana University System website.

Additionally, a promising new development is the Montana Board of Regents’ recent decision to create an Affordability Taskforce charged with coming up with proposals to reduce the number of student borrowers to the 45-50% level of some years ago. Although specific strategies still need to be
developed, one can only hope that the needs of low-income students and families will be at the top of
the Taskforce’s priority list.

Horace Mann said, “Education, beyond all other devices of human origin, is the great
equalizer of the conditions of men, the balance-wheel of the social machinery.” It does not bode well for
democracy if, for financial reasons, an entire segment of the population is excluded from receiving a
college education. Whether Wall Street watchers or policymakers call it a crisis or something else, more
equitable solutions to the student loan problem need to be found -- not by waiting until next year or the
following year, but by addressing the problem now.

Thank you for listening. This is Otto Koester of the Maureen and Mike Mansfield Center.