As Student Debt Increases, Colleges Owe More in Performance

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A college degree has become the ticket to the middle class. Yet, at the same time, the cost of achieving this milestone has increased considerably. For many students and families, the only way to meet the substantial cost of higher education is to take out loans. While some amount of debt may be acceptable—after all, it is important for students to be responsible for at least part of the cost of their educations—there is growing concern about the burden of college loans. And for good reason.

Our research finds that since 1992, the number of students taking out loans to attend college has increased significantly. The trend is particularly striking in New England, where growth in the use of loans at four-year colleges has outpaced national trends. At the region's public four-year colleges, the share of students with loans nearly doubled from 25 percent in academic year 1992-93 to 48 percent in academic year 2003-04. Overall, 44 percent of students attending college in New England took out loans in 2003-04, compared with 35 percent of students nationally.

The amount of debt students in New England are incurring has also increased considerably. In 2003-04, fourth-year undergraduates at public four-year colleges in New England had accumulated debt averaging $15,399. After accounting for inflation, this represented a 39 percent increase in debt levels since 1992-93. At private colleges in New England, the average student debt was $23,491, a 49 percent increase during the same period. In addition, loans to parents increased significantly, suggesting that debt incurred to pursue a college education is shared by the whole family.

Recent legislation increases federal student loan limits beginning in 2007, meaning that college debt levels are likely to rise even more in the coming years.

While most of the loans students take out are from the federal government, the portion of loans from private companies has tripled from 6 percent in 1996-97 to 18 percent today, according to the College Board. These private loans often do not have the same favorable terms as federal student loan programs, and thus may be more detrimental to the student. For example, private loans generally have higher interest rates and more restrictive repayment requirements.

Nonetheless, there is little agreement about the significance of the increase in student debt. While some economists and other observers are concerned about the financial strain college graduates face, others believe the concern is exaggerated because earning a college degree is so valuable economically. ["Student Debt: Earnings Premium or Opportunity Cost? CONNECTION, Summer 2006] Numerous studies document the fact that college graduates earn significantly more income than those with only a high school degree. But the debate about whether the value of a college degree justifies the increasing levels of debt obscures a critical point: many college students take on debt but then leave college without earning a degree.

At public four-year colleges in Massachusetts, for instance, less than half of students who entered college in 1998 had graduated six years later, according to performance reports by the Massachusetts Board of Higher Education. Unfortunately, many institutions across New England post similar graduation rates. The consequences are significant for students. Dropouts are frequently left with substantial debt but do not enjoy the job-market advantages and earnings premiums enjoyed by their counterparts who complete degrees. Among students who began college in 1995 and borrowed money but later dropped out, the median debt was $7,000, according to the National Center for Public Policy and Higher Education. One in every five dropouts with debt defaulted on at least one of their loans.

The large number of students who do not finish their college degrees, and the debt they incur, under-

"Student achievement, which is inextricably connected to institutional success, must be measured by institutions on a 'value-added' basis that takes into account students' academic baseline when assessing their results. This information should be made available to students, and reported publicly in aggregate form to provide consumers and policymakers an accessible, understandable way to measure the relative effectiveness of different colleges and universities."

"The federal government, states and institutions should significantly increase need-based student aid. To accomplish this, the present student financial aid system should be replaced with a strategically oriented, results-driven system built on the principles of (i) increased access, or enrollment in college by those students who would not otherwise be likely to attend, including nontraditional students; (ii) increased retention, or graduation by students who might not have been able to complete college due to the cost, (iii) decreased debt burden, and (iv) eliminating structural incentives for tuition inflation."

—A Test of Leadership, Commission on the Future of Higher Education scores a key issue related to growing debt levels: *risk*. The increasing use of loans has shifted a greater amount of risk to students and their families. Ultimately, they are responsible for paying back the money they owe, but their ability to do so depends largely on whether the student earns a college degree.

With students and their families taking on more risk as they take out loans to pay for higher education, it is important to consider how well colleges are serving students. Are students supported enough to have a fair chance at reaping the promised benefits of a college degree? Too often in higher education, students and their families are making decisions without adequate and comparable information about their chances for success.

The performance of colleges must be measured and communicated in order to help inform students of their options. Though it is a complicated issue, the most common measure is graduation rates, and there are already several efforts to make this information available online. One such effort is College Results Online (http://www.collegeresults.org/), which allows families to examine overall institutional graduation rates as well as those for diverse groups of students. Visitors to the site can also compare the graduation rates of an institution to those of other colleges or universities in its peer group. Comparing schools with similar student bodies, there are large differences in graduation rates. This suggests that institutional actions, policies and programs can matter in the outcomes of students, and these kinds of differences should be further publicized and investigated. Beyond graduation rates, there are other important issues to consider and measure, including what students actually learn in college. Many colleges are currently developing instruments to reflect learning such as student portfolios or departmental exams that test subject matter. Other schools instead focus on the passage rates of programs leading to certification exams, such as nursing and teaching.

These ideas are consistent with the conclusions of the national Commission on the Future of Higher Education, assembled by Secretary of Education Margaret Spellings. The commission has called for a "robust culture of accountability and transparency." The final recommendations include developing "new systems of data measurement and a publicly available information database with comparable college information," which would help students and families gain access to the information they need to make better decisions.

Given that the debt burden has increased so rapidly in such a short period of time, the consequences of borrowing heavily to pay for college are not yet fully understood. However, the adverse consequences for students who do not finish their college degrees are clear. Growing expectations that students will incur debt to pay for their educations must be met with increased information about what students are buying.

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