Testimony of

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Hearing: “Higher Education, Higher Cost and Higher Debt:
Paying for College in the Future”

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Chairman Kennedy, I am so grateful for the opportunity to address this committee today on the need to increase the affordability of student loans for our country.

I say for our country, not just for prospective college students, because I fervently believe that this issue has an enormous impact on every American. Our ability to educate our citizens so they not only can compete in a global economy, but can be *leaders* in a global economy is, for my money, one of the most important priorities we can set for our country. Our future rests on the success of post-secondary education. The move last year to cut $12.7 billion in federal student aid funding was a dangerous step in the wrong direction. If we do not take the steps today to make college more accessible and affordable, we are mortgaging our future as economic leaders.

- **The increasing cost of college is a barrier to obtaining a 4-year degree.** As you have detailed, each year 400,000 low income students do not seek a four-year college education because of cost issues. Those are 400,000 potential leaders that are not getting the opportunity they deserve, and that we as a nation need them to have.

- **The increasing cost of college saddles recent graduates with a high level of debt that is both a financial and career impediment**. The average undergrad leaves school with about $20,000 in student loan debt -- that is a 25% increase since 2000.* Dare to seek an advanced degree and that sum triples. It is easy to see how those large sums are a costly burden for our young adults.

I hear from thousands of young adults each year -- on my television show, at speaking engagements and through my website -- about how defeated they feel before their career even starts, given the huge student loan debt they have to pay off. I am the first to say student loans are “good debt”; we have all seen the studies that show a college degree can produce an extra $1 million in lifetime earnings. But when you are in your early twenties, with $20,000 or $60,000 or more in student loan debt and a starting job that doesn’t pay too much, you aren’t in a position to feel good about the potential lifetime payoff for your degree. Your reality is that you have a lot of debt that you feel pressured to pay off. And that debt load affects your entire financial life.

Young adults with big student loans to pay off tell me they feel tremendous pressure to “just get a job that pays” when they graduate, rather than pursue a career that they are passionate about. A work force of 20-somethings that feels they can’t afford to pursue careers that aren’t highly compensated does not bode well for our nation.

And the student loan burden has a snowball affect on their broader financial life: The rapidly increasing price in home values across the nation over the past five years or so has made buying a *first* home a struggle for so many young Americans. When you add in the fact that they are already loaded down with student loans, the prospect of adding on mortgage debt either becomes unthinkable, or pushes them into making dangerous decisions, such as buying a home with a negative amortization loan because they feel that’s all they can afford….only to learn later on what a big mistake they have made.

But the biggest mistake I see young adults make is to ignore them altogether. They are so overwhelmed by what they owe and can’t fathom how they will ever be able to dig out from their debt hole that they make the horrible decision to ignore the loan. And then they come to me absolutely depressed when they find out that their loan has kept mushrooming as the interest payments are added onto the principal, and their personal credit scores are a mess because of their failure to make timely payment on their student loans. Irresponsible? Of course it is. But there is blame to go around. The fact is we are doing a lousy job of educating our children about finances. About how money works, about how loans work, and most importantly about being fiscally responsible. I applaud the proposals put forth by this Committee to address ways to financially ease the burden of student loan debt, but I encourage you to also address the need for more and better education on how to handle student loans in the repayment period. It is a failure on our part when we hand money to young adults -- be it credit cards or student loans -- without truly making sure they understand the mechanics of how these agreements work, and give those young adults the information they need to act responsibly.

Moreover, young adults are absolutely clueless that how they handle their student loans will have a tremendous impact on their future finances. They are shocked when I explain to them that their loan repayment history plays a major role in determining their credit score. When I explain to them that failure to keep up with timely student loan payments is going to lead to getting offered lousy rates on home mortgages and car loans, or could even impact their ability to land a job or rent an apartment, their financial depression just deepens.

Another major education black hole is the issue of loan consolidation. Far too many young adults eligible for loan consolidation missed the boat on this valuable financial move when interest rates were so low in 2005. When I hear from young adults in a financial mess and I find out they have unconsolidated student loans, they invariably tell me they don't understand how consolidation works and are just too afraid or overwhelmed to figure it out.

I have no easy answers when young adults weighed down with student debt come to me for help. There are no magic moves for someone who owes hundreds of dollars a month on their student loan, but they can't even afford the rent on their apartment, food, and other basics because starting salaries these days -- high quality jobs with a promising career path -- are harder and harder to come by. Two years ago I wrote *The Money Book for the Young, Fabulous & Broke*; it tackles all the financial challenges today's young adults face. But I made a mistake. It should have been titled The Money Book for the Young, Fabulous, Broke *<u>and Depressed</u>*. So many young adults want to do the right thing, to be financially responsible. But they are justifiably depressed at how to pull it off. Just consider the scope of what they face: The cost of their student loans exceeds what their grandparents probably paid for all their homes. I challenge anyone on this Committee to contemplate how they would have handled tens of thousands of dollars in student loan debt right out of school, when they are lucky to land a job with an annual salary that is but a fraction of their student debt.

Yet I have not changed my mind: student loan debt is indeed the best kind of debt; it is an investment toward building a better future. But we need to do more to make that debt manageable for young Americans. And to demystify how it all works, so they can make the right moves right out of the starting gate when they graduate. We need to help financially and educationally.

- **The student loan crunch is financially destabilizing for parents as well as students.** One of the most overlooked aspects of our nation's current student loan approach is how it affects the parents of these children. Once again, I come to you with real life experience: no matter the venue, every day I hear from parents who have literally mortgaged everything to be able to send their kids to college. They have used a home equity line of credit, or they have made saving up for their kids' college funds a priority at the expense of not setting money aside for their own retirement. Or they raid their 401(k) savings to pay for college. Noble you say? I beg to differ. As well-intentioned as every parent is, this is going to potentially lead to a huge national problem down the line: without the necessary retirement assets, how do we expect today's parents to take care of themselves when they stop working? And don't tell me they will have great home equity to fall back on….not when they took out a $50,000 or $100,000 home equity line of credit to pay for each child's college education.

I wish you all could hear the frustration and sadness so many young adults share with me when they learn exactly what their parents did to help them go to college. Unfortunately they learn too late: after they are out of college and just starting out, Mom and Dad tell them they have little money to retire on, and the house is mortgaged to the hilt.

I hope all members of this Committee and all members of Congress will keep in mind the inter-generational impact of our student loan policy. The more accessible and affordable the loans are for students, the less debt parents -- and grandparents -- will have to take on to help their loved ones get a college degree. That is not just good for those families; it is sound national economic policy. Do we really want an elderly population that is not prepared to support themselves in retirement because they chose to send their kids to college rather than fund their 401(k)s and IRAs?

Revamping the current federal student loan program to be both more affordable and more accessible will enhance our nation's financial strength. It will produce a workforce that can lead a global economy. It will lead to a more stable economy where young adults are not buried with so much debt they can never see their way out, and it will allow their parents to focus on what we as a country need them to focus on: building the necessary savings to support themselves in retirement.

I fully support recent proposals put forth by members of this Committee:

- **Reducing student loan interest rates.** Yes, this is a subsidy. Why are we so afraid to use that term? We should be proud to state that we are subsidizing education. It is an investment in our collective future. The current fixed 6.8 percent rate on Stafford loans should at the very least be reduced for college students that qualify for subsidized loans; we owe it to them and our nation to help them receive an affordable education. Ideally we can also find a way to extend lower interest rates to those students with unsubsidized Stafford loans.

- **Increase the Pell grant limits.** Raising the current $4,050 limit to above $5,000 will go a long way to easing the financial stress of so many families.

- **Consider increasing the income limits for deductibility of student loan interest.**

- **Make sure loan repayment rules are not too onerous.**
  We need to help young adults juggle a daunting array of financial obligations. Yes, they need to pay off their student loans. But they also need to pay the rent and I think we all agree that it would be beneficial to them and for us as a nation if they also started funding

a Roth IRA and contributing to a 401(k). That's a lot to handle all at once. I think one way this Committee can help out is to review the required repayment rules for student loans. By capping the maximum annual repayment required at a reasonable percentage of income and by offering extended repayment schedules, you can make it easier for young adults to tackle multiple financial goals simultaneously. I know these issues are already on the table. But I also want to suggest one additional way to help young adults pay off their student loans: make it possible to refinance consolidated student loans. As you know, consolidation whereby a debtor locks in one fixed interest rate for the life of the loan is currently a one-time deal. I can not tell you how many adults in their late 20s and early 30s who consolidated when rates were much higher are now so frustrated to still be paying high interest rates on their old debt.

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