



Bob Collins News Cut

Is student debt a coming economic crisis?

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Is a perfect storm about to swamp the boats of graduating college seniors? A study from the Accounts Receivable Management industry suggests so.

Credit card operations are the biggest money-makers for banks and as a story recently by MPR's Martin Moylan pointed out, banks **are working the college market hard**. Meanwhile, a significant number of students are using credit cards to pay for tuition, which is rising faster than the rate of inflation.

There's plenty of risk in doing so, according to the Kaulkin Ginsberg Company report. It says 31 percent of college students polled said they didn't worry about debt, because they could pay back outstanding balances once out of school and earning a regular paycheck. Twenty-three percent chose to ignore overdraft penalties and the prospect of months of repaying a debt for a moment of fun.

Yeah, about that job thing, students, there's something we need to tell you: there aren't any. According to the report, what few summer jobs were available for college students in the past, were taken instead by adults who picked up extra part-time work to help their own struggling finances. Last July alone, the report said, 308,000 individuals entered into the part-time work for this reason.

Higher tuition and associated costs, fewer jobs, and now the credit crunch. Over the summer, more than two dozen banks stopped private lending to students.

Up to now, about 10 percent of student borrowers depend on private loans. With major lenders tightening credit, the report suggests 1 in 4 college students will be putting college costs on a credit card and may find it very difficult to pay it back.

But the National Association of Student Financial Aid Administrators said **in a campaign over the summer** that "financial aid will be available to students. The credit crunch caused by troubles in the real estate lending industry has no effect on most financial aid including (but not limited to) Pell Grants, Federal Work Study, and education tax benefits."

That's not quite the case, according to **a story this week in Time**, which says since the summer of 2007, 137 lenders have stopped funding federal loans, and 33 have suspended private programs.

"Part of that had to do with a cut in federal subsidies, but part was directly related to the credit crunch -- issuers that pulled out tended to be those that packaged and resold loans, a market that has evaporated.

Students at community and technical colleges, especially institutions that are for-profit, are having the toughest time of it. The reason: those students are more likely to use private loans (whose credit standards have tightened), and lenders under profit pressure are less willing to write loans for shorter, one- and two-year programs -- especially at schools with historically high default rates."

"Last month, a student who was looking for a college loan qualified with a co-signer," a **spokesman for JP Morgan Chase said**. "A year ago that student, with a marginal credit history might have qualified on their own."

"Any sort of shortfall in their tuition they're going to have to make up either by borrowing from their parents or using their credit card as a bridge loan," Dimitri Michaud, **who wrote the Kaulkin Ginsberg report** said. "I think the biggest pain will probably be in nondirect educational expenses; you might see students struggling with their room and board or how best to pay for their meal plans or books and supplies."

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