Student Loan Costs: Can We Make It Just A Little Bit Easier?

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Science kids

Student debt is a topic that is frequently discussed these days. At our medical school, students tend to graduate with high debt burdens. Two of my children are still in college; one is in a private college where the posted cost for tuition, room, and board is staggering. Currently, the collective debt of students is approximately 1 trillion dollars, and 7 million students are in default. My assumption has always been that students with the highest debt would have the most difficulty paying back their loan.

However, as reported in The New York Times (The Upshot: August 31, 2015), it turns out that students with the most debt are actually quite good at paying off their student loans. The reason is that almost 40% of all new student loans go to graduate students. And while the median total student debt for graduating medical students is $162,000 they, like others that complete graduate degrees, have high earning potential.

Only 7% of students who take out loans for graduate school default on their student loan compared to the 22% default rate for those who only borrow for undergraduate school. While private colleges and universities are extremely expensive, only 2% of undergraduates borrow more than $50,000. Even in those that do, relatively few default on their student loan.

The real problem is with students who do not graduate from college. These students, even though they have small loans, are in much greater risk of defaulting because of difficulty finding higher paying jobs. Of the 3,200,000 students in default, the average debt is $15,000 and more than 50% of people in default owe less than $10,000. The data is clear that students with the least amount of debt are least likely to pay back their loans. Among students borrowing less than $5,000 for college, almost 34% defaulted on their student loans compared to 24% borrowing $10,000-$25,000, 21% borrowing $50,000-100,000, and 18% for those borrowing more than $100,000.

How to rectify this is problematic. European countries link student debt repayment to income so that little has to be repaid when income is low. Other suggestions include extending the term of the loan so individual payments are lower. I do not have an easy solution, but do wonder what would happen if colleges had to accept some risks associated with the student loan. Perhaps there might be a greater emphasis on student graduation and success.