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StudentNation: Making an Educated Investment

Melanie Breault | July 27, 2010

In a society where a bachelor's degree is the new high school diploma and a master's degree is the new bachelor's, the issue of college affordability is a common concern. But all that seems to be discussed are long term options for reform, such as controlling delivery costs through innovation, accelerating the employment rate of college graduates, or improving agreements between colleges to foster fluid lifelong learning.

Although these strategies make sense, they'll also take a long time, as [Randy Proto notes on Huffington Post](#) [1]. He says that what our education system really needs is more equitable, cost efficient federal student loan financing, which can happen immediately.

As 60 percent of post-secondary students borrow to fund their education, about 7.2 of them are defaulting in the first two years of their repayment, a 10-year high according to the [US Department of Education](#) [2]. Currently, there are special repayment options, including income based repayment and extended repayment, but as Proto argues, "as helpful as these [choices] are, they are likely to only help a minority of borrowers." What students and taxpayers need are extensions to repayment terms, not increases to direct subsidies for public universities or community colleges.

The US Department of Education also says there is a correlation between default rates and loan size, implying a correlation to payment amount. Proto says that if we "extend all federal direct student loans so they are repayable over 20 years instead of the current standard 10 year term," then students would pay 35 percent less in loans. Thanks to President Obama's [Student Aid and Fiscal Responsibility Act](#) [3], loan payments are now capped at 15 percent of a borrower's discretionary income. If borrowers keep up their monthly payments, their debt will be forgiven after 25 years. If, however, a borrower's payments fell below this percentage of income, Proto argues, "We could use the tax system to collect added annual loan principle repayments," which would "prepay the debt for those whose incomes can better support a faster loan payment."

While extending loan payment terms would marginally increase taxpayer cost, it would help career colleges, which do not receive direct taxpayer subsidies, meaning that the students take on the burden of the debt. As it is, career colleges or for-profit schools are [getting the crackdown](#) [4] from the administration with proposed cuts in their federal aid if too many of their students default on loans or don't earn enough after graduation to repay them.

The goal of student loan reform should be to encourage students to go to school whether it is career schools, community colleges, private four-schools, or whatever institution fits their needs. If we take away the default risks, then these students, their families, and taxpayers will be more willing to make that kind of sound investment, even in this depressing economic environment.

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Links:

[1] http://www.huffingtonpost.com/randy-proto/making-college-more-affor_b_656200.html

[2] http://chronicle.com/article/Education-Department-Takes-Aim/123655/?sid=at&utm_source=at&utm_medium=en

[3] <http://edlabor.house.gov/blog/2009/07/student-aid-and-fiscal-respons.shtml>

[4] http://www.huffingtonpost.com/2010/07/23/proposed-federal-rules-ta_n_656628.html