

Student Loans: The Percentages Tell The Tale

It's no secret that the looming [student loan debt bomb](#) is ready to explode and become this country's next financial crisis. Approximately 37 million Americans are straddled with student loan debt. Dissecting the numbers gives us a more accurate picture of this pending crisis and provides clues as to what we can do to douse the flames.

Look At The Percentages

According to the [Federal Reserve Bank of New York \(FRBNY\)](#), as of March 2012, a vast majority (72%) of student loan borrowers have less than \$25,000 in debt. This number seems reasonable and manageable for a recent college graduate. For me, the debt becomes concerning when it approaches and exceeds \$50,000.



According to [FRBNY](#), almost 90% of student loan borrowers have less than \$50,000 in student loan debt. Unfortunately, this leaves 10% of the population bogged down with more than \$50,000 in student loan debt. Again, I consider this a troubling amount of debt for a recent graduate. On the other hand, given the increased earnings opportunities afforded by a college degree, this number may be manageable.

What becomes truly troubling is when we look at the top 3% of borrowers.

The Top Of The Heap

There are a small percentage of students graduating from college with debt that in my opinion, could take a lifetime to pay off. Shockingly, the top 3% of borrowers will graduate with student loan debt in excess of \$100,000! When you factor in the interest rates and payment terms, graduates will end up paying thousands in excess of the original amount borrowed.

Graduates carrying this amount of debt post degree, will be shackled by the ball and chain of student loan slavery. Moving forward in their life, they will be forced into unwanted employment. They will be forced to sacrifice their standard of living and enjoyment of life.

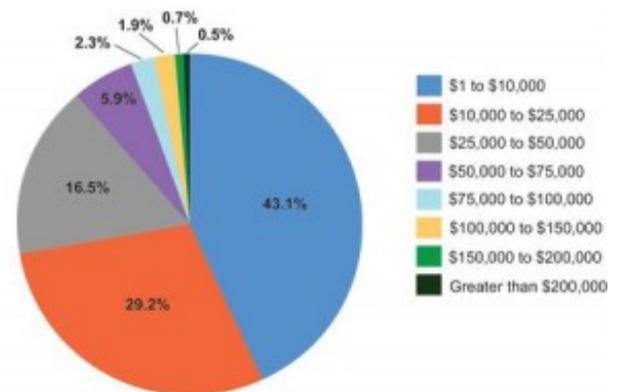
A [recent article](#) in *The Atlantic* detailed the plight of Kelli Space, a Northeastern University graduate with \$200,000 in student loan debt. She represents the top 1% and this leads us to the good news.

Good News, Bad News

It would seem that the majority of student loan borrowers do so responsibly with their eye on the prize. The ultimate goal is a college degree and the ability to improve their lives professionally and financially. Student loans, and the lenders that provide them, make college education a possibility for everyone.

The good news is that 90% of graduates seem to be working with a manageable amount of debt. So while there is close to one trillion in outstanding student loan debt, it seems that the vast majority

Student Loan Borrowers by Level of Balance in 2011: Q3
Total Number of Borrowers: 37 Million



Source: FRBNY Consumer Credit Panel/Equifax.

of that will be paid back. The value of the degree will surpass the value of the debt easily in most of these situations.

The bad news is that there is close to one trillion in outstanding student loan debt. Furthermore, there are 3.7 million graduating students staring at \$50,000+ on the precipice of stepping off into their financial futures.

More problematic is the small percentage of student borrowers at the top of the heap. These loans could literally take a lifetime to pay off. Kelli Space graduated with \$200,000 in student loan debt and a degree in sociology. The [average income of an individual with a sociology degree is \\$47,905](#). You can do the math.

It is the 3% that are lighting the fuse for the coming economic explosion.

Education

In a [recent study](#) conducted by a youth advocacy group, *Young Invincibles*, 65% of those surveyed responded that they were surprised by some aspect of their loans. Almost two thirds said they were not aware of the difference between Federal and private loans. What is clear is that some students are not given all of the information they need to make intelligent decisions for their future.

This starts with education. I am shocked that there is not a basic financial literacy class offered to high school students prior to graduating and going off to college. Most young adults, and especially those forestalling employment to get an education, have no concept of debt, credit, savings and basic personal finance principles.

The *Young Invincibles* study suggests that colleges need to make more of a commitment to educating young people. I argue that this needs to be done much sooner. I truly believe that personal finance education should be taught alongside reading, math and geography starting as early as possible.

Being able to recite the capitals of all fifty states is fun, but ultimately means nothing. Students should not be faced with the burden of student loan borrowing without the knowledge to do so.

Knowing how to borrow responsibly and save for the future is a vital skill that can improve individual lives and create a more stable society for all of us.

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