



How Much Should Students Borrow for College?

Anyone who pays attention to the media has heard the alarming reports about student debt. In the United States student loans total \$870 billion which now exceeds the total [credit card balance](#). Scary numbers. You would expect the question, "How much should I borrow for college?" to be the question that all students and their families are asking. But I don't think that's actually the case.

Give me a chance to explain before you think I don't have a clue as to what I'm talking about.

There are two basic problems with student loans today.

Based on media reports, it seems that people are borrowing too much money to pay for college.

Because of this, students are afraid to borrow any money to pay for college.

Both of these problems originated from **NOT** asking how much **should** students borrow. It's as if the scary numbers being reported are keeping families looking at any numbers. Instead, they latch onto the belief that all debt is bad or that a degree from a prestigious school is worth any debt so the numbers don't matter.

But this is how the scary numbers start. You have students and families borrowing money to cover the cost of a college education believing that the degree, usually from "the right" school, will make the loans insignificant. It is only after graduation that they realize that a \$40,000 yearly salary isn't going to wipe out \$100,000 in debt. (By the way, only 3.1 of [borrowers owe \\$100,000 or more in student loans](#)-that should tell you something.)

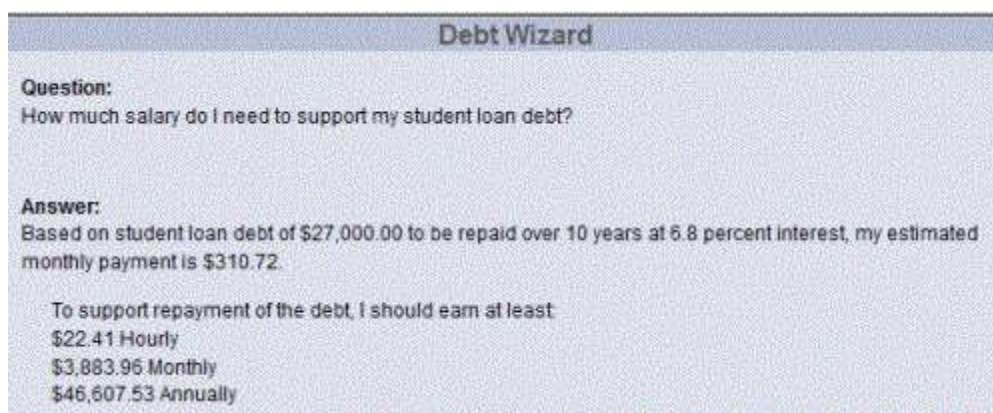
If such students had asked how much they should borrow, they were obviously given the wrong information.

What they should have done is used a debt calculator such as the ones you can find at [Mapping Your Future](#) or [The SmartStudent Guide to Financial Aid](#). At both sites you can enter a loan amount and find out what the monthly payments will be. If you take out the maximum allowed for four years through the Direct Student Loan program, \$27,000, you will owe a little more than \$300 a month, the same as a reasonable car payment-not a mortgage payment.

Loan Calculator

Loan Balance:	\$27,000.00
Adjusted Loan Balance:	\$27,000.00
Loan Interest Rate:	6.80%
Loan Fees:	0.00%
Loan Term:	10 years
Minimum Payment:	\$50.00
Enrollment Status:	Still in School
Degree Program:	Bachelor's Degree
Total Years in College:	4 years
Average Debt per Year:	\$6,750.00
Monthly Loan Payment:	\$310.72
Number of Payments:	120
Cumulative Payments:	\$37,285.87
Total Interest Paid:	\$10,285.87

The Mapping Your Future calculator has an additional feature that lets you calculate how much of a salary you need to support a student loan. A \$27,000 loan requires a \$46,600 annual salary. This is within the average starting salary range of a college graduate. However, keep in mind, some will start much lower depending on major and region.



The screenshot shows a web-based calculator titled "Debt Wizard". It has a "Question:" section with the text "How much salary do I need to support my student loan debt?". Below this is an "Answer:" section. The first line of the answer states: "Based on student loan debt of \$27,000.00 to be repaid over 10 years at 6.8 percent interest, my estimated monthly payment is \$310.72." The second line of the answer states: "To support repayment of the debt, I should earn at least". This is followed by three lines of text: "\$22.41 Hourly", "\$3,883.96 Monthly", and "\$46,607.53 Annually".

Now if you enter \$50,000 as your loan amount (11.3% of [student borrowers had a balance of \\$50,000](#) or more), you will see that you need an annual starting salary of over \$86,000. This is obviously not a reasonable answer to how much should students borrow to pay for college.

Back to the problem of students being afraid to borrow any money to pay for college.

Let me start by saying graduating from college debt free is wonderful but not always possible or the best option. There are many students who will not graduate from college because they take off a semester to work to save more money for college and never return or end up taking fewer and fewer classes so that they can work more to pay for college.

Now they have debt, no degree, and are [making less money than had they graduated](#). This explains how borrowers can be struggling to make payments on even relatively small student loans. After all, the [Federal Reserve Bank of New York](#) reports that 50% of all student loan balances are less than \$13,000. There are people who graduate from college going part-time over six or eight years but they are the exception rather than the rule.

There are also people who successfully start at a [community college](#) and transfer to a four-year institution to complete their degree to save money. Such students are increasingly more successful than they had been in past as states simplify [articulation/transfer](#) agreements between institutions. However, it takes a very focused student to manage the transfer process. Overall, students are still less likely to graduate if they start at a two-year college (Breakthrough Collaborative, [Four Year vs. Community College](#)).

The fact is that students are more likely to graduate if they attend a four-year college with a significant proportion of residential students. Saving money by living at home and commuting, particularly for the freshman year, can make it less likely to complete your degree. (This is not necessarily the case for first generation students or students from certain ethnic backgrounds.)

Taking out [Federal Direct loans](#) that will allow continuity in your education or allow you to transfer to a non-commuter campus after finishing at a community college is a reasonable option.

Yet many students are unwilling to even ask how much they can borrow even though their increased earnings as college graduates would justify some debt.

I'm not saying that working your way through college or starting off at a community college and avoiding student loans is a bad thing. I know several people who have done so successfully including my mother. The point is that if a student loan will help you get through college, it is something to consider without panicking.

So how much should students borrow for college? Given the average starting salary for college graduates, it looks like the four-year maximum allowed under the unsubsidized Federal Direct loans, \$27,000 is the reasonable maximum amount. This is \$27,000 total so if you qualify for a Perkins Loan you shouldn't take out the maximum Direct loans on top of them.

Families need to be aware that many colleges use Direct and Perkins loans as part of your financial aid package. In such situations you can't use the loan money to pay for your part of the [Expected Financial Contribution](#) (EFC). This is why, especially if you're applying to private colleges, you want to go to colleges that don't use loans to meet your demonstrated financial need since there is a good chance you'll need the loan to cover your EFC.

Colleges will offer parent loans ([PLUS](#)) to cover the difference but if you can't afford a college without taking out a PLUS or private loan, you should consider a different college.

One final consideration. There is something worse than borrowing too much to go to college-- borrowing too much to go to college and then not graduating. So if you are borrowing to go to college, make sure it's one where you have a decent chance of [graduating](#) from.

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Don't have any idea of where to go to college?



Here's how to start making your list of colleges. If you're willing to step away from the rankings spotlight, you can find some impressive programs at great values. All it takes is a little time and a visit to one of the most ignored resources in creating a college list: the college website. [Find out more.](#)