

Introduction to Student Loan Debt

With Information on Important Related Subjects

By Richard Serlin

Student loan debt has become an extremely important issue in recent years. There are several key reasons for this. First, the amount of student loan debt taken on has skyrocketed to unprecedented levels. At public universities the percentage of students graduating with over \$40,000 in student loan debt increased **18 fold** between 1993 and 2004 – **even using constant, inflation adjusted, dollars.** In 1993 only 0.3% of all graduating seniors had student debt of greater than \$40,000 (in 2004 dollars). By 2004 5.4% did.

One-fourth of all public university graduating seniors in 2004 had student loan debt greater than \$22,821. Half had student loan debt greater than \$15,471. Median student loan debt increased by 108% between 1993 and 2004, and even adjusting for inflation it increased by 58%. Those obtaining graduate degrees can finish with over \$100,000 in student loans.

This debt is especially serious given that it is virtually impossible to discharge in bankruptcy. It would take a tragedy akin to being full body paralyzed in an accident to get it discharged under the current rules. On top of this, people must often cope with these unprecedented student debt loads after graduating with deep and dangerous credit card debt.

As you have read, the job market today is far less secure, and the social safety net is substantially diminished. So adding unheard of student debt loads to the mix has caused very serious problems for the young and middle aged today. For those interested in learning more, this is well documented in the books "Strapped: Why America's 20- and 30-Somethings Can't Get Ahead", 2006, by Tamara Draut, and "Generation Debt: Why Now Is a Terrible Time to Be Young", 2006, by Anya Kamenetz.

Even with all of this debt being taken on, college students are still working unheard of hours to be able to pay for their education. 46% of all full-time students work at least 25 hours per week, and 20% work at least 40 hours per week – **2 ½ times the percentage that did so in 1987.**

Studies have shown working more than 15 hours per week lowers GPA and decreases the odds of graduating. Did you know that only 29.2% of the 1997 entering class at the University of Arizona graduated four years later, only 49.7% graduated five years later, and just 54.7% graduated after six years.

But as difficult as it has become in recent years to obtain a college degree, it has also become far more dangerous not to have one.

It may be very serious to carry heavy debt right at the very start of your professional life, but it is far more dangerous not to have a college degree in today's world.

Thus, for the vast majority of students, I ***strongly*** advise against working more than 15 hours per week while in school in order to lower your student loan debt. There is just too much of a risk of not graduating, graduating much later, or not fully developing your potential. For most students working more than 15 hours per week substantially hurts academic performance. At the extreme, 40+ hours per week for most students will severely decrease learning and academic performance, and greatly endanger your graduation.

So again, for the vast majority of students I ***strongly*** advise against working more than 15 hours per week while in school in order to lower your student loan debt. There is, however, one crucial exception to this:

I ADVISE THAT YOU NEVER TAKE OUT A FULLY PRIVATE STUDENT LOAN. THESE ARE SO UNIQUELY DANGEROUS, AND IT'S SO UNLIKELY THAT THERE WOULD EVER BE AN EXCEPTION TO THIS RULE, THAT I AM CATAGORICAL ON THIS. EVEN IF IT MEANS HAVING TO TAKE A TERM OFF OF SCHOOL AND WORKING, YOU SHOULD NEVER TAKE OUT A FULLY PRIVATE STUDENT LOAN. THESE LOANS ARE ALSO CALLED JUST PRIVATE STUDENT LOANS, SIGNITURE LOANS, ALTERNATIVE STUDENT LOANS, AND JUST ALTERNATIVE LOANS.

If you already have fully private student loans, don't panic. It would be clearly better if you didn't, but I will give you things that you can do to deal with them later in this article. If you take these loans very seriously, and follow the things I advise very diligently, you should be ok.

Now, why are these loans so uniquely and extraordinarily dangerous? First and foremost, due to a new bankruptcy law passed in October of 2005, fully private student loans can never be discharged in bankruptcy. The only exception is for a hardship essentially about as severe as full body paralysis. For all practical purposes, you can never dismiss these loans in bankruptcy. You actually cannot dismiss *fully government sponsored* federal student loans in bankruptcy either, for all practical purposes; this is another change from a generation ago, but *fully government sponsored* student loans, also called Direct Student Loans, have important safeguards, which in fact make them quite safe (There are also partially government sponsored student loans. These are *sometimes* very safe. We will discuss when and why the partially government ones are safe later.).

For example, fully government sponsored student loans strictly limit interest rates to reasonable, low, or very low levels, depending on the particular fully government sponsored student loan. The most popular one, the Stafford student loan, has a fixed interest rate of 6.8%, and the new congress just passed a law which was signed by the President and enacted, that cuts the rate for Stafford loans every year over the next four

years (2008-2011) until it is halved at 3.4% (This only applies for new Stafford loans. It's not retroactive for ones already taken out. The new law is detailed in the assigned San Francisco Chronicle article, "Financial Aid Gets an Overhaul").

In addition, and this is crucial, *fully* government sponsored federal student loans (which are called Direct Loans) allow you to choose at any time an income contingent payment plan. This extremely valuable option limits your payments to no more than 15% of your after-tax *disposable* income, and after 25 years of this, if there is any remaining balance, it is dismissed.

Fully private student loans, on the other hand, have *none* of these protections. There is no income contingent payment plan option, and there is no interest rate limit. Interest rates can increase to 20% or beyond. Remember in Assignment 1 how we learned about the exponential growth of compound interest? At a rate of 20%+ your balance can easily spiral so high that you will never be able to pay it. These are extremely dangerous loans, far more dangerous than even credit cards, because if a credit card charges an exorbitant interest rate, and the balance spirals to the point where you can never pay it, you can at least eventually dismiss it in bankruptcy; you won't become a lifetime indentured servant. There's an escape hatch.

But there's no escape hatch with these fully private student loans. If you accumulate a balance higher than you can pay, and it spirals out of control, you can have your wages garnished and any sizable assets taken for as long as you live. There are, however, some at least partial defenses to this, like fleeing to one of the states with better protections for debtors, but clearly this is not a situation you want to be in, being a lifetime debtor. It really is a return to something like the colonial days when there was lifetime indentured servitude. It's an enormous change not just from the way things were in the last generation, but from the way things have been for many generations in America.

Again, if you already have fully private student loans, don't panic. This can be dealt with *if* you take it very seriously and are very diligent. First, you have to make paying off these loans take precedence over any other payment. Are there exceptions to this rule? No. This is by far the most dangerous type of debt. It's much more dangerous than even payday loans with their loan shark interest rates, because again, those can still be discharged in bankruptcy. Private student loans can't.

If you already have private student loans you must live very cheaply and very safely until they are 100% paid off. *And, you don't want to make just the standard monthly payment.* It will take 10 years to pay them off at that rate. You absolutely do *not* want to live with this kind of danger for 10 years. Every penny you can possibly save each month should go towards paying these loans down to zero as fast as possible. You shouldn't even think of buying a new car or a home until these loans are at zero. If you do, you are risking lifetime indentured servitude. Following this advice, you should be able to pay them off quickly.

In the event, though, that this doesn't happen, if these loans do get out of control, what can you do? First, the Democrats in congress are sponsoring a bill that will repeal the exemption from bankruptcy for private student loans. You can read more about this in a Floor Statement by Senator Dick Durbin (D-IL) available in the content section of our D2L site (and, in fact, it's required reading).

What are the odds that this bill will pass and be signed into law by the president. My estimation is that Bush would veto it, but we will have a new President in 2009. My estimation there is that there is about a 50% that chance election results will be such that between 2009 and two presidential terms later, this bill or one like it will pass and be signed into law. But if there's about a 50% chance that this will happen, then there's also about a 50% chance that it won't happen. There is a significant chance it will be decades before the inability to escape private student loan debt that has spiraled to impossible to pay levels will be reversed. You don't want to take this risk. You want to take private student loan debt very seriously and go to great lengths to pay it to zero as fast as possible.

But again, what if you aren't able to pay it down quickly? What if these loans do get out of control and spiral to a balance that you will never be able to pay – and then it still keeps growing at, say, 20%. First, note that at 20% interest, the amount you owe doubles every 3.8 years, not every 5 years. This is due to interest on interest; it's the power of compound interest. Remember your first assignment. This is a very important point, so let's go over it in detail to make it more clear.

Suppose an individual's private student loan balance has grown to \$100,000, and the interest is 20%. After 1 year, the balance would grow to $\$100,000 \times 1.20 = \$120,000$. The second year it would grow to $\$120,000 \times 1.20 = \$144,000$. After 3 years it's $\$144,000 \times 1.20 = \$172,800$. And after 4 years it's $\$172,800 \times 1.20 = \$207,360$.

So, at 20% interest, it did *not* take 5 years $\times 20\% = 100\%$ for the debt to double. It took less than 5 years, because of interest on interest. After only 4 years, the debt more than doubled from \$100,000 to \$207,360. So, in fact, at 20% it doesn't take 5 years for money to double. Because of interest on interest, it takes only 3.8 years.

So, in 3.8 years \$100,000 doubles to \$200,000. In 3.8 more years the \$200,000 will double and be \$400,000. Thus, after 7.6 years a \$100,000 debt grows to \$400,000. In other words, at 20% interest it takes just 7.6 years for a debt to quadruple. So compound interest, or return, is very powerful, especially at 20%. When you are saving, that power works for you, but when you are in debt it works against you, and it can cause your debt to spiral out of control to the point where you will never be able to pay it off.

Normally if that happens you can escape being a lifetime debtor by bankruptcy, and, in fact, the founding fathers enacted bankruptcy to prevent lifetime indentured servitude, so it was an enormous break from the past when laws were recently passed not allowing student loans to be discharged in bankruptcy.

With fully government sponsored federal student loans this is not a serious danger because they have other protections, like the option to take an income contingent payment plan which limits payments to no more than 15% of disposable after tax income and dismisses any remaining balance after 25 years on the plan. Also, with fully federal student loans (called Direct Loans), interest rates are limited to very reasonable levels. But with private student loans you don't have these protections, thus the extreme danger.

Defending Yourself Against Creditors

So again, what can you do if you already have private student loans, and it does come to the point where they spiral out of control and reach a level where you will never be able to pay them off? There is still a lot you can do. Knowing how to defend yourself against creditors can make an enormous difference.

In this situation a person who doesn't know how to defend himself against creditors can spend his lifetime as a virtual indebted servant, with his wages garnished for the rest of his life, and anytime he accumulates any asset of substantial value it is seized by the private student loan company. On the other hand, a person who knows how to defend himself against creditors can live very well.

Let's take the example of protecting your home. Contrary to the opinion of many, in most states, little or none of the equity in your home is exempted from being seized by creditors – even in bankruptcy. Only 13 of the 50 states allow you to exempt (protect) \$100,000 or more of the equity of your home from being seized by creditors.

Suppose you live in one of the other 37 states, like New Mexico where the home exemption is just \$30,000, let's look at what can happen:

Suppose also – and this should never happen – that you have private student loan debt that has spiraled out of control to \$500,000, and that you own a house worth \$300,000 (after closing and sales costs), with just \$100,000 still owed on the mortgage. In this case your equity is \$200,000. This is calculated by taking what you can clear if you sell it, \$300,000, and then subtracting what you owe on it, \$100,000.

In New Mexico, the private student loan company will legally be able to force you to sell your home for \$300,000. Then the mortgage company has the legal right to its \$100,000, leaving \$200,000 left over, the equity. New Mexico's home equity exemption let's you keep just \$30,000 of that equity. The private student loan company will claim all of the rest, the other \$170,000.

So, in other words, they will take your home, and all you will be left with is the only \$30,000 that the state of New Mexico protects.

And if you think that's bad, there are 4 states which protect zero! The private student loan company will take your home and leave you with nothing.

There are in fact 33 states where you only get to keep only \$50,000 *or less*, and this includes two of the three most populous, California and New York.

Now suppose again that you live in New Mexico, and you want to own your own home. So you purchase a \$200,000 home with a down payment of \$40,000, which is a gift from your parents. Will the private student loan company force a foreclosure on your home to seize your equity?

Not yet, because suppose they foreclose right away, your home will be sold for \$200,000, but there are usually about 6% in sales and closing costs, so the sale will only yield about \$188,000. Your mortgage on the home is \$160,000, and the mortgage company will get this when the house is sold. That will leave \$22,000, but the private student loan company will not get to seize any of this because the state of New Mexico lets you keep up to \$30,000 of your equity.

So, the private student loan company will not seize your home. They will wait until it increases in value enough and/or you pay off the mortgage enough, *then* they will take it. For example, 5 years later you may have paid your mortgage down to \$145,000 and your home's value may have increased to \$230,000. Now the private student loan company will take your home. They will force you to sell it for \$230,000. There will be about \$216,200 left over after sales commissions and closing costs. The mortgage company will next take the \$145,000 you still owe on the mortgage. This will leave \$71,200 in equity. The state of New Mexico will let you keep \$30,000 of that and the private student loan company will take the remaining \$41,200.

So you will never be able to keep a home if you live in New Mexico. But, there are five states, plus the district of Columbia, that allow you to shield an unlimited amount of equity in your home from creditors. These states are Texas, Florida, Iowa, Arkansas and Kansas. So you could move to one of these states and then no matter how much your home was worth creditors could not touch it – but there still is more you need to know; you only get the exemption, the protection, if you have lived in that state for at least 4 years. If you buy your home before then, the private student loan company can seize it.

In addition, in some states you may only get any protection of your home if you file papers requesting the exemption from creditors. To me this is grossly unfair, to decide who gets to keep their home and who doesn't based on who knows some paperwork rule and who doesn't, but that's how the law is in some states.

So what are the lessons? First, knowledge is often a lot of power, and it certainly is when it comes to protecting yourself against creditors. I would hope that none of my students ever get into a situation where they have let private student loan debt spiral out of control to the point where the balance is so large, and the interest is so high, that it can never be paid off. But if it happens, it's crucial that you learn to defend yourself from these creditors. How do you do that?

The first step is to buy the NOLO book "Solve Your Money Troubles: Get Debt Collectors Off Your Back & Regain Financial Freedom". This book gives very extensive information on how to defend yourself from creditors. Like all of the many NOLO books I have read, it is very credible, authoritative, and clearly written. You should read it from cover to cover. Then, after you have formulated your plans of defense, you should consult a lawyer who specializes in creditor and bankruptcy law, and discuss your plans with her. She will be able to really help double check your plans for mistakes and/or add further useful information and actions you did not know about. Such consultation will likely take only take a few hours and a few hundred dollars. It will be well worth the price to really help protect your wages, home, and other valuable property.

If you do this, you will find that you can still live well even with private student loan debt that can never be paid. Nonetheless, this is obviously a situation that you never want to be in, so you want to take private student loans very seriously. If you don't have them, you never want to take them, under any circumstances. If you do have them, you want to do everything feasible to pay them down to zero as fast as possible.

After you graduate you want to live as cheaply as possible so that every penny can go to eliminating this most dangerous of all debt. You will want to suspend payments of your federal student loans (I'll explain how to do this) so that you will have more money available to pay off your private student loans as quickly as possible. As you will see in the other assigned student loan reading, there are two types of suspension; deferment and forbearance. When loans are in deferment you make no payments, and you are charged no interest on the amount you owe during the deferment. When loans are in forbearance, you make no payments, but interest still keeps adding to the amount you owe.

Deferment usually requires some kind of serious problem, like you are unemployed or only working part time, but forbearance, even for a period of years, is often easy to get. In many cases you don't even have to give a reason why you are requesting it. If you ask for it you get it. So you probably can get either deferment or forbearance, and you definitely should if you have private student loan debt. Every dollar that would have gone towards payments for safe federal student loans, should be going instead to paying off immensely more dangerous and higher interest private student loans as quickly as possible.

Now, let me give one more example of what a difference knowing how to defend yourself against creditors can make, just to really drive the point home: Federal law limits any wage garnishment (seizing of wages by creditors) to no more than 25% of net earnings after taxes, but some states offer even greater protection. In Illinois the most creditors can take is 15%. In Texas it's zero! Texas state law prohibits creditors from garnishing any wages at all, in addition to protecting 100% of home equity. Texas is clearly one of the best states in the country to live in for an individual with unpayable private student loan debt. The private student loan company cannot take a penny of an individual's wages, or a penny of his home equity, no matter how much he earns and no matter how much his home is worth.

Still, you obviously don't want to live with an unpayable debt hanging over you for the rest of your life. Even in Texas there are still other assets that they can seize and problems that they can cause. Take private student loans very seriously.

Now, while I advise that you never take out fully private student loans, I also advise, with rare exception, that you always take out fully government sponsored federal student loans if the alternative is having to work more than 15 hours per week. fully government sponsored federal student loans are totally different. They're very safe and reasonable. Furthermore, working too many hours is a very serious and widespread problem for students today. It is dramatically lowering learning and graduation rates.

Working Even Less than 15 Hours per Week

What if you can keep your work hours to 15 per week, and still be able to pay for school, without having to take out any *safe federal* student loans¹? or without having to take out all of the safe student loan funds that are available to you?

An important question is, should you *still* take out safe federal student loans so that you can work *even less* than 15 hours per week, so that you can work say 10 hours per week, or even zero hours per week?

This depends on the individual. Studies have shown that many students have self discipline problems, and for those students having to work 10 to 15 hours per week makes them take school more seriously. It makes them really feel that they're paying for their university education, and so they shouldn't waste it by not learning much and perhaps not graduating. Job work can also add structure to their lives, and if students work on, or near, campus, it can make them feel more a part of the university, and feeling a part of the university can be very important for motivation and enthusiasm for school, studying, and learning. It can be very valuable to spend a lot of time around others who are studying and into school.

However, if a student's motivation and self discipline can be reasonably good without working, having an extra 10 to 15 hours per week can be very helpful. It can make a big difference. Let's explore this further. Suppose that a student is currently working 15 hours per week at \$8.00 per hour. Two semesters is 30 weeks; 30 weeks times 15 hours per week is 450 hours per school year. And 450 hours x \$8.00 per hour is \$3,600 per school year in gross income, gross income meaning income before taxes.

¹ I've already noted that fully government sponsored federal student loans (also call Direct Loans) are safe, and that Private Student loans are the most dangerous of all loans, but what other student loans are safe? Certain partially government sponsored loans are safe under certain circumstances. I'll explain this in detail later in the article.

Taxes

But, you don't get the whole \$3,600. You have to pay taxes. It is important to know the basics of taxes, and this is certainly related to our discussion, so it is worthwhile to go off on a tangent here and discuss this. As I've said before, although it's the style to super compartmentalize and separate all subjects, this is not how the world works; subjects are typically very interrelated, so it can be very valuable for learning to discuss them in an interrelated way, for example by going through a process and seeing how they work together. Plus, it can allow you to understand and remember the process better.

So, let's start this tangent with the FICA tax. It is currently (2007) 7.65% of all income up to \$97,500. Most taxes are progressive, which means that the more you make, the higher a percentage you pay. This one, however, is actually regressive; the rate is the same for all income all the way up to \$97,500, and then the rate actually drops to zero for any income over \$97,500.

The FICA tax goes to pay for social security and Medicare. FICA stands for Federal Insurance Contributions Act, and was so named because these taxes are contributions to what is considered federal insurance. Social Security is insurance against poverty in old age, and in fact, before social security was enacted in 1935, senior citizens were the largest group in poverty by far. Today they are the smallest.

But although social security will keep you above the poverty level², you certainly don't want that to be all that you have at retirement. It's worthwhile here to go off on another tangent and talk a little about 401k's.

401k's

It's very important that you fully take advantage of the opportunity to deposit money in a 401k at work. It would be a big mistake not to do this because you would be foregoing a great deal of free money.

² The higher your lifetime earnings, the higher your social security checks will be. That's how it works. For a typical college graduate, the checks will be high enough to keep you above the poverty level. In rare cases, however, a person who has spent a large percentage of his life unemployed, and had low wages when he did work, will get a social security check so small that it alone will not be enough to put him even over the poverty line. To give you an idea of the size of the social security benefit: If your top 35 earnings years, approximately adjusting for inflation, averaged \$25,000 per year, then as a single individual you will get \$12,733 per year in social security. If you averaged \$50,000 per year, then you will get \$20,604, and the top social security payment for a single individual is \$27,717. This is for people who have averaged \$97,500 or more per year in their 35 highest earnings years (with adjustments approximately for inflation). Allowances are made for people who depended on a spouse for their income. Seniors may also be eligible for some welfare benefits. Each year social security benefits are increased by the percentage that average wages have increased in the economy. Social security benefits are only taxed, at most, at half the rate of regular income, and in many cases they are not taxed at all.

With a typical 401k plan, for every dollar that you put in, your employer gives you a free dollar to put in. Then Uncle Sam gives you additional free money because the dollar you put in is tax deductible.

Typically, you can put in up to 7% of your income before taxes. Now, an amazing 30% of workers who had access to 401k plans didn't deposit any money at all in them.³ This was a big mistake. Let's see why by comparing putting money in a 401k to keeping the money.

Suppose you are deciding whether to put a dollar of income in your 401k or to keep it. If you decide not to put the dollar of income in your 401k, you will have to pay income taxes on it. Suppose your federal and state income taxes combined are in the 30% bracket, (which is pretty typical for a college grad), then you will get 70 cents left over after taxes to spend.

Now, what if you contribute the dollar to your 401k instead? First, there will now be no money taken out in taxes. All contributions are tax deductible. Next, your employer will give you a free dollar to put in your 401k, so you will end up with 2 dollars in your 401k, and you can instruct that this money be invested in a well diversified stock fund like the Wilshire 5000, MSCI Broad Market Index, or something similar.

So, if you don't put the dollar in the 401k, you will get 70 cents to spend. If you do put it in you will get \$2 invested in a stock index fund. It's 70 cents versus \$2, the choice is clear. You get about 3 times as much money by depositing in the 401k! For every dollar you put in you get approximately 2 free dollars. You don't want to pass that up. You want to milk that for every penny you can and put in the full amount allowable, which is usually 7%.

You won't get to spend the money until age 59-1/2, and I know it's hard to think that long term, but believe me by the time you're 59-1/2, with that many years of advances in medical science, people will probably typically be very healthy well beyond 80. That's a lot of years you will want to live enjoyably, and that money might also be a big help for your children and grandchildren in completing their educations and getting started in life.

Note that in our analysis we showed that if you are in the 30% tax bracket, which is a little above the center of the middle class, then every dollar you forego to put in your 401k, results in about 3 dollars deposited. Thus, if you have 7% of your before tax income put in your 401k, then you have actually ended up putting about $3 \times 7\% = 21\%$ of your after tax income into your 401k, and your 401k is, of course, savings. So you have actually achieved the 20% of after tax income to savings part of Professor Warren's balanced money plan just from your 401k.

The thing is, however, none of that money can be touched without major penalties until you are 59-1/2, and it's still very important to also have savings you can draw on at any

³ How to Make Employees Take Their 401(k) Medicine, New York Times, November 13th, 2005, http://www.nytimes.com/2005/11/13/business/yourmoney/13reti.html?_r=1&oref=slogin

time if necessary. So, I add, that while your total savings should be ***at least*** 20% of your after-tax pay during stable normal times, at least 10% of your after tax income should be saved in a form that can be accessed at any time, like a regular index mutual fund, or a Roth IRA (as opposed to a traditional IRA).

So, if, as is common, your employer allows you to put up to 7% in a 401k, and with employer matching and tax breaks this comes to about 20% of your after tax pay, then you *should* put in the full amount – you're getting a ton of free money. But you should *also still* save at least another 10% of your after-tax pay in a regular index mutual fund and/or Roth IRA.

Back to Taxes

Now let's get back to our 15 hour per week student worker. We next look at the federal income tax, which is progressive. Currently (2007) this rate is zero for the first \$3,400 per year in income (technically this is because there is an "exemption" for this income), and it's 10% for the next \$7,826 of income. If you make less than \$3,400, the federal government will still probably take federal income taxes out of your paycheck (This is called withholding.), but they will refund the money to you at tax time.

What is the rest of the federal income tax schedule? The next \$24,026 is taxed at 15%. The \$45,251 after that is taxed at 25%. Then, the next \$83,751 is taxed at 28%. Now we're getting into some very high incomes. The next \$188,751 is taxed at 33%, and finally, any income after that is taxed at the top federal income tax rate of 35%. There are, however, income tax deductions and credits which can lower your tax bill substantially, but many people get none of these.

Next, there are state income taxes. Arizona follows the federal government in not taxing the first \$3,400 in income. The next \$10,000, though, is taxed at 2.73%. The \$15,000 after that is taxed at 3.04%, the next \$25,000 at 3.55%, the next \$100,000 at 4.48%, and any income after that is taxed at 4.79%. There are also deductions and credits for state income taxes which can lower your tax bill substantially, but again many people get none of these.

State income taxes vary substantially from state to state. Some states have no state income tax at all, but remember, schools, police protection, roads, parks, universities, etc. are not free. They have to be paid for somehow. States with no income taxes may have higher property and sales taxes (or like Texas, they may have a lot of oil revenue which substitutes for income taxes). They may also simply have poorer schools, police protection, roads, parks, universities, etc. Mississippi and Alabama have some of the lowest overall taxes in the country, but also some of the poorest schools and infrastructure. You don't see a lot of wealthy individuals and families moving there from expensive high tax areas in California and New York to save on taxes. There's clearly a trade-off. So when you decide where to live, it's important to look at more than just how low the local taxes are.

Now, back to our example of a student working 15 hours per week to make \$3,600 per school year in gross income, in order to take out less in federal student loans. Using what we learned earlier:

His FICA tax will be $\$3,600 \times 7.65\% = \$3,600 \times .0765 = \$275.40$.

For federal income taxes, the rate is zero on his first \$3,400 in income. On the other \$200 of his income, the tax rate is 10%; 10% of \$200 is \$20. So the student will pay \$20 in federal income taxes.

For state income taxes, again, the first \$3,400 is exempt, so he will only pay taxes on the next \$200. The rate on that is 2.73%. $\$200 \times 2.73\% = \$200 \times .0273 = \$5.46$.

So, with an income of just \$3,600, the student's total tax bill is very low, just:

$\$275.40 + \$20 + \$5.46 = \300.86

Typically, more than this will actually be taken out of the students paychecks, but then the excess will be refunded at tax time. The total net amount paid in taxes will end up being just \$300.86. And \$300.86 divided by \$3,600 is .0836, or 8.36%. So the student is paying 8.36% of his income in total taxes. If he works during the summer too, he will be pushed into a higher tax zone, and this percentage will rise.

Looking just at this \$3,600, subtracting \$300.86 in taxes leaves \$3,299.14 in take home pay.

So, if the student works 15 hours per week he can take out about \$3,300 less in safe federal student loan debt per year. That's \$13,200 less in total debt if it takes 4 years to graduate.

Is it worth it?

Again, it depends on the student, but if the student has reasonably good self discipline, then it probably is *not* worth it. \$13,200 is not a difficult amount of debt for a typical college graduate to pay, if it's safe, reasonably low interest debt. And fully federal student loans are very safe and low interest debt. The interest rate, in fact, is actually zero while in school (for the subsidized type). There are hardship deferments if things go wrong, and there's always the option of an income contingent payment plan which limits payments to no more than 15% of disposable income.

With regard to the benefit of taking out this extra debt, being able to study an extra 15 hours per week can greatly improve learning, grades, and the odds of graduating. That is well worth an extra \$13,200 in very safe low interest debt. For most students an extra 15 hours every week of studying will make an enormous difference. Remember, as I noted in my Investment Strategy article, according to the National Center for Education

statistics at the U.S. Department of Education, only 29.2% of the 1997 entering class at the University of Arizona graduated four years later. Only 49.7% graduated after five years, and only 54.7% graduated after six years. And these numbers are not unusual for public universities. Studies have shown that over the last generation college graduation rates have fallen substantially, and an important part of the reason is that most students a generation ago (and especially two generations ago) did not work at all while going to college.

So, given how many students don't graduate from college, this risk is very real for most students. Thus, if you have the self discipline to put most or all of the 15 hours per week you would save from not working into studying, then this is well worth the cost of accumulating about \$13,000 extra in very safe federal student loan debt over the course of your college career.

In addition, your grades will be higher, your learning will be greater, and you may graduate earlier. This will, on average, mean better jobs and career success, which will probably make you much more additional money over the course of your career than the \$13,000 cost.

Note that studying more is not the only productive way to put the extra 15 hours per week to use. Many students don't get enough sleep. While many people think of sleep as optional, or lazy, science says otherwise. It is well established that not getting enough sleep can substantially diminish mental performance as well as physical. It can also make you much more susceptible to illness, and can make your mood and attitude more negative. All of this can substantially hurt your academic performance. It's one thing to stay up late from time to time and get up relatively early the next day; it's another thing to do it most of the time.

For some students, saving 15 hours per week not working may be best spent by putting 7 of them towards getting an extra hour per night of sleep, and 8 towards studying. The proper amount of sleep varies from individual to individual, however. You have to experiment with different schedules and see how they work for you, but if you are feeling tired all the time, having trouble concentrating, etc., then you will probably benefit substantially from getting more sleep.

Summer Courses

Another benefit of taking out more safe federal student loan debt is that it can allow you to take Summer courses. Let's consider the decision of whether to work during the Summer in order to take out less safe federal student loan debt, or instead, to take out the debt, so you can take Summer courses.

There are three summer terms; Pre-session, Summer I, and Summer II. Pre-session is only 3 weeks long, but you receive credit for a 15 week course, thus each course has about 5 times as much work per week. So, if you take one three credit course, it's like taking a 5

credit full load. Therefore, most students take no more than one course during pre-session, and that is well advised.

Summer I and Summer II are both 5 weeks long, so one course is about the same amount of work as three regular semester courses. Therefore, in Summer I and Summer II most students take one or two courses per term, and two is pretty heavy.

For 2008, Pre-session is May 19th – June 7th, Summer I is June 9th – July 10th, and Summer II is July 14th – August 14th. Then, Fall semester begins August 25th, so a student could take one course in the Pre-session and one course in Summer I, and still have a month and a half of Summer vacation.

What would this mean? For one, by taking two extra courses during the Summer, you could take 1 less course each semester, and still graduate on time (in 4 years). Otherwise, to graduate in 4 years you would have to take 5 courses each semester, which can be pretty heavy depending on the courses. Today, virtually every course is 3 credits, so to get to 15 credits you have to take 5 courses. Few students realize that it wasn't always like that. A generation ago 4 and 5 credit courses were much more common, so at many universities students usually took 4 courses per semester or less. And 4 courses which add up to 15 credits is usually much less work than 5 courses which add up to 15 credits.

Many, if not most students, will earn substantially better grades, and be substantially less likely to have problems, if they take 4 courses per semester, rather than 5. In fact, I would estimate that most students would gain more learning value, as it will typically be more valuable to learn 4 courses well, than to learn 5 in a mediocre, or poor, way. And in any case, students will not even be taking less courses per year if they make up for the one less course per semester by taking a course in the pre-session and a course in Summer I.

So taking Summer courses can be very valuable.

I would estimate that many students who dropped out and never graduated would not have run into serious problems, and would have moved steadily through to graduation, if they had cut down to 4 courses per semester, and taken 2 over the Summer. And 4 courses per semester for 12 credits is still considered full time for financial aid purposes. Taking out extra student loan debt can be well worth it if it's so that a student can take less courses per semester, and make up for it by taking Summer courses.

In addition, taking Summer courses can just mean graduating earlier, and starting a high paying college degree job earlier. Consider two alternatives, (A) working full time every Summer so as to take out less safe federal student loan debt, and (B) Going to school full time during the Summers (You will still end up with about two weeks of Summer vacation, plus a month off over the Winter holidays, and ten days for Spring Break.).

If you work full time during the Summer, typically you will make about \$8.00/hour x 45 hours per week x 13 weeks (this is the length of Pre-session, Summer I, and Summer II).

This equals \$4,680. Taking out 10% for taxes leaves \$4,212. So you will earn about \$4,000. If instead you go to school for those 13 weeks, you will forego the \$4,000.

Now what about tuition and book costs for the courses? This depends.

During the semester, the Spring 2008 tuition cost for regular undergraduate units is a little complicated. It's \$252 per unit for up to the first 6 units. Then the 7th unit costs \$900, and then any units over 7 are free. So, it's a little funny.

If you take 7 units, you pay $(6 \times \$252) + \$900 = \$2,412$, but if you take 15 units it's no more expensive, still \$2,412.

If you take 15 units per semester, you pay $\$2,412/15 = \160.80 per unit. If, on the other hand, you take 12 units per semester, you pay $\$2,412/12 = \201.00 per unit, so it's a little cheaper per unit to take more units, but not that much. If taking 12 credits per semester will substantially increase your odds of graduating, and your learning, it's overwhelmingly worth paying the little extra per unit. Remember the story of the tortoise and the hare (or please Google it). Slower and steadier very often wins the race. If four courses totaling 12 credits per semester means you will graduate in 5 years almost surely, this can be much better than taking five courses per semester if that would mean a big risk of problems and never graduating.

But again, taking some Summer courses can allow you to take just 4 courses per semester, and still graduate in 4 or 4-1/2 years. You do want to watch for burnout though. The Pre-session begins just one weekend after Spring semester ends. All you get is a two day break (or maybe a little longer depending on how early your Spring finals end). For some students it can be very important to have a good amount of Summer time to rest from school, and have some time away from it to assimilate what has been learned. Thus, it might be a good idea to skip the pre-session, so you will have at least three weeks to get away before taking courses again.

If you are the kind of person who *really* needs a good amount of time away from school, you might want to then take just one course during the Summer I session, and maybe even skip Summer II, so you will have about 7 weeks away before school starts again in the Fall.

What's best will really depend on the individual, but it can be quite valuable to experiment. If feasible, I recommend trying to take Summer courses and seeing how it goes. If you don't get burned out, it can be a great way to graduate earlier and to relieve any pressure you may feel to take 5 courses a semester even if taking that many courses risks problems.

Now, let's look at Summer credit costs. The schedule is simple \$256.44 per unit for *any* credits, no matter how many. So if you go during the Summer the units are a little more expensive, but not that much. Suppose that you were taking 15 credits during the regular school year, then you were paying an average of \$160.80 per credit, which is \$95.64 less

than the Summer rate. If you take 6 credits during the Summer that's an extra $6 \times \$95.64 = \573.84 . Now suppose that you have \$200 in books and supplies. We estimated earlier that you would lose about \$4,000 that you could have made if you worked instead of taking those Summer courses, so the total cost of taking 2 courses each Summer is about \$4,800.

If you do this for 4 years, the cost is \$19,200. Often it will be worth an extra approximately \$19,000 in safe federal student loan debt to do this. Again, this can allow you to take only 4 courses during the regular semesters and still graduate in 4 years. And taking 4 courses per semester instead of 5, for many students, will greatly improve the odds of graduation, and will increase learning value substantially.

Even for students who are fine with 15 units per semester, taking Summer courses can still be very beneficial by resulting in graduating a year early. This will provide a whole extra year of college graduate earnings. It will also, on average, increase earnings every single year throughout your career, as every year you will be one year ahead of where you would have been in experience and seniority. Keep in mind that real earnings for the college educated typically more than double over the course of a career due to increasing experience and seniority. So, graduating a year early will usually make you far more than a \$19,000 cost of taking Summer courses.

However, I strongly believe that money is a means to an end, with the end being some combination of making your life as happy and fulfilling as possible, and helping your family, and others. Money is great, but I don't believe it's the only factor you should consider. Graduating in three years instead of four, all other things equal will mean more lifetime earnings, but the rushing may make you enjoy your college years less, plus many students really enjoy their college years and are not in that much of a hurry to see them end.

What's best for you depends on your individual situation and preferences. I just want to help make you aware of options you may not have thought of and help you evaluate them well. I also want to show you by going through these college and student loan related examples at such length, some lessons in good decision making. One is that for something important, you want to be careful to consider all of the tradeoffs, the direct and the indirect, and not just the monetary costs and benefits, the non-monetary ones too.

So often people only do basically benefit-benefit analyses, not really considering the costs. Or they do the reverse, cost-cost analyses, not really considering the benefits. You want to make sure that you consider both well, the costs (and don't forget risks) and the benefits.

Now, getting back to the Summer courses decision, note that taking *community college* courses can substantially decrease the cost. The tuition cost per unit is typically only \$40 - \$50, and at some community colleges it's in the 30's! (recall that it's \$256 per unit at the U of A). Most students can take at least half of the courses needed for graduation at community colleges, so this is clearly something to consider. In addition, you can save a

lot of money by living with your parents while taking community college courses. This is because community colleges are so common that in almost all cases there is one within driving (or bus) distance of your parent's home.

What If You Can't Afford to Work 15 Hours or Less, Even If You Do Take Out the Maximum Available in Safe Federal Student Loans?

If you are having trouble affording the U of A without having to work excessive hours, even after taking out all of the safe federal student loans that you qualify for, this is truly unfortunate. It is really a departure from a generation ago when essentially any student could afford college without having to work excessive hours. If you are in this situation, you should consider taking occasional semesters, or perhaps your first two years, at a community college.

You can live at home, *and the savings on living expenses and tuition are tremendous.* This should allow you to be able to work 15 hours per week – or less. A big caveat, though, is that students can really lose enthusiasm and drive at a community college. Studies have shown this. You have to stay motivated. Keep in mind that at a community college you are still gaining valuable learning (not necessarily in all of your classes, but most of them.), which will greatly increase your earning power and job security. You are doing something very important in increasing your productivity through education. You are also doing something patriotic by increasing the productivity and wealth of your country.

It is also ***very*** important that you have a good study environment at home. Make sure you have, or buy, a good desk or table, in a part of the home that is quiet, or can be made relatively quiet by shutting a door. Do not spend most of your time studying on the couch or your bed. Most of the time your focus and endurance will be far better studying in a solid upright chair at a desk or table.

If you do still find yourself losing motivation at a community college to a dangerous degree, you should return to the U of A and live as close to campus as possible, or on campus, so you can really feel a part of the university, and be around others who are studying, and enthusiastic about their educations. Studies have shown this can make a big difference.

It's also important to ask yourself whether it really is true that you cannot afford to attend the U of A without working excessive hours, and even after taking out the maximum in safe federal student loans.

Is the reason that you can't afford it that you are driving a new car? If so, this is a horrible reason; sell that car as soon as possible. There is a huge number of fine places to live within 15 minutes walking, and 5 minutes biking, to campus. You do not have to pay \$200 to \$400+ every month in car payments, insurance payments, parking, and gas. If you need to look prestigious so badly that you are working excessive hours to drive a new

car, and endangering your entire future as well as making your college years much less happy, then you have a serious problem. I recommend reading Robert Frank's book *Luxury Fever* and/or seeking counseling.

And used cars can also still be a substantial expense, which can mean the difference between working excessive hours and working reasonable ones. They should be considered carefully, and *all* expenses should be considered, especially insurance, which can be very costly for young people.

You do not need a car so that you can get home safely at night. The U of A Safe Ride program can do that for you for free (at <http://saferide.asua.arizona.edu/>). For groceries, there's usually a friend with a car you can go with, or you can stock up on non-perishable food when your parents visit. You can also just walk to the grocery store and carry back a bunch of bags. It is good exercise, as is walking or biking to class in general. And, there's always the bus. It can take you anywhere.

If you're a non-traditional student with a family, you may need a car. A single healthy student in his teens or early 20s, however, does not. Selling your car can save, or make, over \$200 per month. That's \$2,400 per year. There are 30 weeks in two semester. $\$2,400 \div 30 \text{ weeks} = \80 per week . If you make \$8.00 per hour, *that's 10 hours less you would be able to work per week as a result of selling your car* (and it's actually more than 10 hours because you would get less than \$8.00 per hour after taxes are taken out.). *Going from 25 hours worked per week to 15 can have a huge positive impact on your grades, learning, and odds of graduating.*

And, there may be other areas of great savings. Getting a roommate, moving to a less expensive apartment, or to a room in a house can also save \$200 or more per month. *So, for example, if you're working 35 hours per week, you may be able to cut to 15, and be able to afford school, just from selling your car and moving into an inexpensive but perfectly fine apartment or house near campus with roommates. And believe me, with few exceptions, going from 35 hours per week of work to 15 will have a huge positive impact on your grades, learning, odds of graduation, health, and happiness.*

You especially should consider a room in a house. Not only is the rent usually much lower, you can save greatly by splitting the costs of internet and phone among many people. And, no, you don't still need to pay for your own cell phone. A cell phone is NOT a necessity. Believe me, I know, people had very happy, fulfilling lives before they were invented and brought to the mass market in the 90s. And don't even think about telling me you'll look too unprestigious without a cell phone. Have pride in who you are, your unique abilities and personality, and in being a good person, rather than over-relying on how you look to others.

In general, if you find that you cannot afford school without working more than 15 hours per week, even after taking out the maximum in safe federal student loans, then you need to go over your expenses very carefully to see if you can cut them, and especially the big expenses, the Must-Haves like rent and car (if any).

Fully Private, Partially Private, and Non-Private Student Loans

To this point we have discussed fully private student loans and we have discussed *non-private* federal student loans, which are completely through the federal government, are very safe, and are also called Direct Loans. Now let's discuss partially private student loans, which are very common.

Something I should make sure is clear first, though, is the different kinds of government in the United States. At the top, there is the federal government, whose chief executive is The President. Then, each state has its own separate state government, whose chief executive is a governor. State governments have the right to pass many types of laws, and engage in a wide variety of taxation and public spending, but there is much that only the federal government is allowed to do. The next level down is the governments of cities and other localities. They have the least powers, but these powers can still be substantial.

In the student loan game, for almost all of the loans where the government is involved, it's the *federal* government. Only a very small percentage of student loan dollars are from state programs, and that's especially true of the state of Arizona. Most students will not have access to any state of Arizona student loans.

However, *all* students have access to at least some student loans which are at least partly sponsored by the federal government. So, what are the federal government student loans? Let's start with the most common and important one, the Stafford.

Stafford loans can be subsidized and unsubsidized. Subsidized is better because you aren't charged any interest at all on the loan until six months after you complete your education, including any graduate school. So you get a lot of interest free loan time. The government decides how much of your Stafford loan money is subsidized and how much is unsubsidized. The more financial need you have the more subsidized loan money you get.

Another distinction among Stafford loans is that you can take them out directly through the government (and so these are aptly called Direct Loans), or you can have a private middle man (like Bank of America) administer the loans (with the government still having the role of guaranteeing the funds). These partially private/partially government Stafford student loans are called FFEL loans, where FFEL stands for Federal Family Education Loan.

I recommend asking for Direct loans whenever possible. The FFEL loans are safe enough that it's ok to take them, because they are government sponsored, and have some important government protections, but they don't have as good government protections as the loans directly through the government, the aptly named Direct Loans.

For example, the income contingent payment plan for FFEL type Stafford loans is much worse than the one for Direct type Stafford loans. With Direct loans your payment will never be higher than 15% of your disposable income, and after 25 years of this any

remaining balance is cancelled. With a FFEL your payments can go as high as 25%, not just of the disposable part of your income, but 25% of your entire pre-tax income. And, there is no provision to cancel any remaining balance after any length of time.

Ideally you would want 100% of your Stafford loans to be Direct. Unfortunately, however, the middle men who make a large profit off of FFEL loans have pressured the government to restrict the availability of Direct Loans, so you may only be able to get some of your money through the Direct program and the rest through a FFEL lender.

It's very important though that you have at least some of your loan money through the Direct program. This is because if you do you can for sure consolidate later all of your loans with the Direct program. If you don't have any Direct loans, you probably still can consolidate with them, but it's not for sure.

What is "consolidating your student loans with the Direct program"? What does it mean? It means taking all of your student loans (except for fully private which aren't eligible), and making them one big Direct loan.

For example, suppose you have four student loans; a \$3,000 Direct loan, a \$3,500 FFEL loan administered by Wells Fargo Bank, a \$2,500 Direct loan, and a \$3,000 FFEL loan administered by Bank of America. If you consolidate all of these loans with the Direct loan program, you end up with just one big loan owed to the Direct loan program for $\$3,000 + \$3,500 + \$2,500 + \$3,000 = \$12,000$. And you are eligible for all of the benefits of the Direct loan program on this \$12,000 loan, including their excellent income contingent payment plan.

You may get all sorts of advertisements in the mail from private companies promising big savings if you consolidate with them, but I strongly recommend that you only consolidate with the Direct program. I believe it's simply too hard to trust private companies on this with as little government consumer protection regulation as we have right now. It's too easy not to be aware of dangerous clauses in the fine print written in legalese.

Student loans are very complicated and the contracts are written in specialized technical language that few students can really understand. It's very easy for a private company to slip in clauses that can be very harmful to you financially, but make the private company a lot of money. Since you cannot understand these clauses, and most people don't even try reading them, the private company can often get away with giving you a raw deal, and the private company has a strong profit incentive to do this. The government, on the other hand, does not have this profit incentive. They don't have the profit incentive to put in clauses that are very financially dangerous to you, and in fact, there would be a risk of a scandal, and of lost government jobs of those responsible, if they did.

So, for something like this, where it's hard to tell what's going on if you're not a lawyer and/or other expert, it can be best, depending on how severe this is, to play it safe and go through the government, where there isn't the profit incentive to trick you, or otherwise take advantage of your lack of knowledge. This is true of the market for many products,

and economists refer to this problem, or market imperfection, as the problem of asymmetric information. When a market is competitive and well functioning, and when consumers can understand a product well, then companies have a profit incentive to provide a good deal, or they will get few sales, but if consumers don't have necessary advanced expertise to tell if the product is really a good deal, then greater profits can often be made by selling a bad deal for consumers, or even a dangerous one.

In a situation, where the asymmetric information problem is severe enough, economists (trained and accredited, not self-proclaimed) recommend a government role to prevent the harmful and economically inefficient activity. The most common one is to enact and enforce consumer protection regulation to prevent companies from taking advantage of consumer's lack of knowledge. Harvard Professor Warren makes this point on page 146 of "The Two Income Trap" where she writes:

The argument for reregulation of consumer lending is a lot like the argument for regulating any other useful but potentially dangerous product. Consider the toaster. People buy toasters for home use. No one makes them buy toasters, and they could live without toasters. If they understood electrical engineering, they could evaluate the safety of each toaster under every possible scenario. But toasters are regulated. No toaster manufacturer may peddle toasters that have even a 1 percent chance of catching fire.

So we cannot always know whether a product is a bad deal or even dangerous. To always have this knowledge would require that we obtain degrees in every area of engineering, every area of law, finance, medicine, chemistry, and on and on. It's impossible in today's advanced world. In 1810, maybe. Then, the average person lived on a farm, engaged in farming with just simple tools, and had very little money to buy anything anyway. Unless we want to go back to those days (when the average lifespan was in the 30s), it's simply not possible to fully evaluate every product, so we rely on consumer protection regulation, and the economics community generally advocates this regulation (or other government role) in cases where profit can be made taking advantage of consumer ignorance, and where the cost of administering and enforcing the regulation does not outweigh the benefit.

In recent years there has been a great decrease in consumer protection regulation. Whether you like this politically or dislike it is up to you. Your political opinions are your own. But in managing our personal financial lives well, it is very important that we recognize that this exposes us to much greater risk than a generation ago when there was much more consumer protection regulation, and we must as a result be more careful.

What we see today are things which would have been unimagined a generation ago. Credit card providers charging 30% interest, legal loans with interest rates over 1000% at payday loan shops, but the most dangerous new development is fully private student loans because they can charge devastating interest rates where the amount owed can easily spiral out of control, yet unlike credit cards and payday loans, they can never be discharged in bankruptcy.

As you can see, there is a lot to know here, but knowing the fundamentals of the student loan system can save you from decades of heartache and stress. Three short articles I recommend, which are available on NOLO's website (<http://www.nolo.com>) are (1) "Your Student Loan Repayment Options", (2) "When You Can't Pay Your Student Loans: Cancellation, Deferment, and Forbearance", and (3) "Student Loan Collections".

NOLO is an outstanding legal aid organization. They publish a great number of books and articles. Their materials are very authoritative and accurate, yet they are also written clearly and understandably for non-experts. Many of their books are on personal finance issues.

The three NOLO articles will give you a good foundation, but if you owe, or will owe, a potentially difficult amount of student loan debt, I recommend purchasing the inexpensive book, "Surviving Your Student Loans", 2006, by Nancy Mitchell. For those wanting to read more after that, I recommend NOLO's book, "Take Control of Your Student Loan Debt", 2001, by Robin Leonard and Deanne Loonin.

For the most up to date information you can search the web. Most sites are pretty vague and have just the basics, so you may have trouble finding the information you want. If so, I recommend checking out a site for financial aid professionals, the Information for Financial Aid Professionals Library (IFAP), at: <http://ifap.ed.gov/IFAPWebApp/index.jsp>

Of course, you could also talk to a financial aid counselor, and this is a good start, but there's so much to know that they could easily give you sub-optimal advice, so you want to double check, and do some research on your own. There have also, unfortunately, been cases which you may have read about in the press, of financial aid departments receiving large payments by private student loan companies to refer students to their loans, even when far cheaper and safer federal loans were available. Many students were devastated financially by this.

A final note of caution: Be careful about advice from your parents. Things were much simpler and easier a generation ago. Consider this quote from a Center for Economic and Policy Research report, "Student Debt: Bigger and Bigger", September 2005, available at http://www.cepr.net/publications/student_debt_2005_09.pdf,

"...To put this in perspective, back in 1981, a student could work full-time all summer at a minimum wage job and earn about two-thirds of his annual college costs, leaving less than \$2,000 (*in inflation adjusted 2004 dollars*) that he needed to pull together from grants, loans, working during the school year, or his parents."