

A U B U R N S T U D I E S



THE GATHERING STORM

THE EDUCATIONAL DEBT OF
THEOLOGICAL STUDENTS

ANTHONY RUGER, SHARON L. MILLER AND KIM MAPHIS EARLY / SEPTEMBER 2005

About this Issue

This issue on the educational debt of theological students revisits a topic first studied ten years ago by the Auburn Center for the Study of Theological Education. The 1995 report found that debt was indeed becoming a problem for a significant, although small, proportion of students. A majority of students now carry educational debt, and they are borrowing larger amounts than in the past. As a result, many theological school graduates report that their level of debt is affecting their career choices, holding them back from purchasing homes, preventing them from saving for their children's education, limiting their retirement savings, causing them to delay health care needs, and creating stress in their personal and professional lives. Some students, schools, denominations and congregations have, in response to the signs of impending trouble, found ways to keep debt under control. All resources of the church—educational, institutional, theological, financial—need to be brought to bear to avoid the gathering storm of debt that threatens the next generation of clergy and lay church professionals.

The previous report on theological student debt, "Manna from Heaven: Theological and Rabbinical Student Debt," as well as all back issues of Auburn Studies may be found on the Center's website: www.aubumsem.org/study.

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There is alarming news about the indebtedness of theological students. In the last decade, the percentage of students who have debt has increased, and the average amount of debt has increased dramatically. Some graduates have found the repayment difficult. The situation creates stress and may affect their persistence in ministry. There is, however, some encouraging news as well. Some graduates, theological schools, and church groups have found ways to enable students to avoid debt or to keep debt manageable.

Introduction

Ten years ago, the Auburn Center for the Study of Theological Education began to hear stories from seminary and church leaders of students who were borrowing to fund their theological education at levels that might prove difficult for them to repay. The anecdotes

were numerous; some of them were sad accounts of graduates caught in extreme financial straits. Because evidence of this had not been systematically gathered, however, it was not possible to verify the prevalence or levels of educational debt of those enrolled in theological schools.

Auburn launched a comprehensive study of the problem in 1993, the results of which were published in 1995, in an issue of *Auburn Studies*, titled “Manna From Heaven?,” by Anthony Ruger and Barbara G. Wheeler. The report revealed that debt was indeed becoming a problem for a significant, albeit small, proportion of students. Although theological students were much less dependent on borrowed funds than many college and university students, the trend seemed to be in the direction of more borrowing and larger loans. The report concluded with a warning to theological schools: Unless the schools moved to help students restrain borrowing, future graduates might find themselves indebted at levels that would hamper their vocational freedom and create hardship for their families.

A decade later, the developments of which the report warned have become a reality. A higher percentage of students are borrowing, and they are borrowing larger amounts. As a result, an increasing

number of theological school graduates report that their level of debt is affecting their career choices, holding them back from purchasing homes, preventing them from saving for their children’s education, limiting their retirement savings, causing them to delay health care needs, and creating stress in their personal and professional lives. Denominational officials report a rising chorus of distress from recent graduates facing heavy repayment obligations from their modest church salaries.

This report documents the rise in educational debt. It also shows that some students, schools, and churches have, in response to the signs of impending trouble, found ways to keep debt under control. There are few easy answers, however. All resources of the church—educational, institutional, theological, financial—need to be brought to bear to avoid the gathering storm of debt that threatens the next generation of clergy and lay church professionals.

What Do the Data Show?

THE RESEARCH METHOD

Data for this report were collected via several research activities. Information on educational borrowing was collected from participating schools.¹ The schools’ financial aid officers provided data on undergraduate and graduate borrowing for 4,912 theological school masters degree recipients who graduated in 2001.² Those data are henceforth referred to as the *graduates data*.

This data set provides a quantitative profile of borrowing, but it does not

reveal the qualitative effects of borrowing for graduates after they have left theological school. For this information, in 2003, Auburn surveyed the masters degree classes of 1994 and 1999, four and nine years after their graduation. Graduates ($n = 1,360$) received a survey that asked not only how they had financed their theological education, but also about their current financial status

and repayment history. This questionnaire is referred to as the *alumni survey*.

The graduates data and the alumni survey provide data similar to that collected a decade earlier. The participating schools, however, changed from 1991 to 2001. Comparisons of data between 1991 and 2001 in this report are thus between different but overlapping sets of schools.

Information about financial aid policies and practices in schools was collected through a survey sent to financial aid

In 1991, more than half of Master of Divinity graduates had not borrowed for their seminary education; only 37 percent of graduates from 2001 had no debt.

officers. In addition, project staff visited several campuses to examine in detail how particular schools approached issues of financial aid and student borrowing. These visits involved interviews with principal administrators, focus groups of students, and a review of the school's financial aid documents. All data and visits were confidential.

WHAT DEBT IS BEING MEASURED?

The graduates data include only *educational* loans. Most of these are federal Title IV education loans such as the Perkins or Stafford loans. Some schools, in addition, reported small amounts of denominational or school loan funds that they administered. Most of the loans, however, were federal Stafford loans.

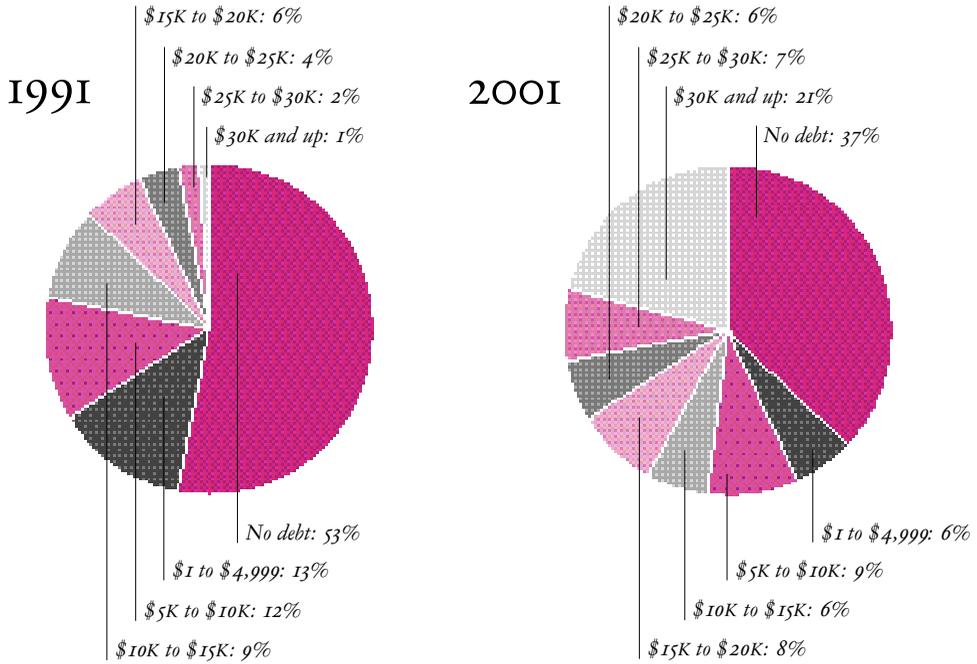
Information about private or personal loans, including loans from friends and family, was not available to financial aid officers, and therefore was excluded from the graduates data. For the same reason,

other consumer debt—credit cards, automobile loans, and mortgages—was not included in the graduates data. Anecdotes abound, however, of students entering seminary with high credit card debt or incurring new charges while in school. Part of the educational debt of some students, we were told, was incurred to pay off preexisting high interest rate credit card debt. In any case, the graduates data are limited to federal and denominational educational debt. The actual financial liabilities of the graduating students may be much higher.

HOW HAVE DEBT LEVELS CHANGED?

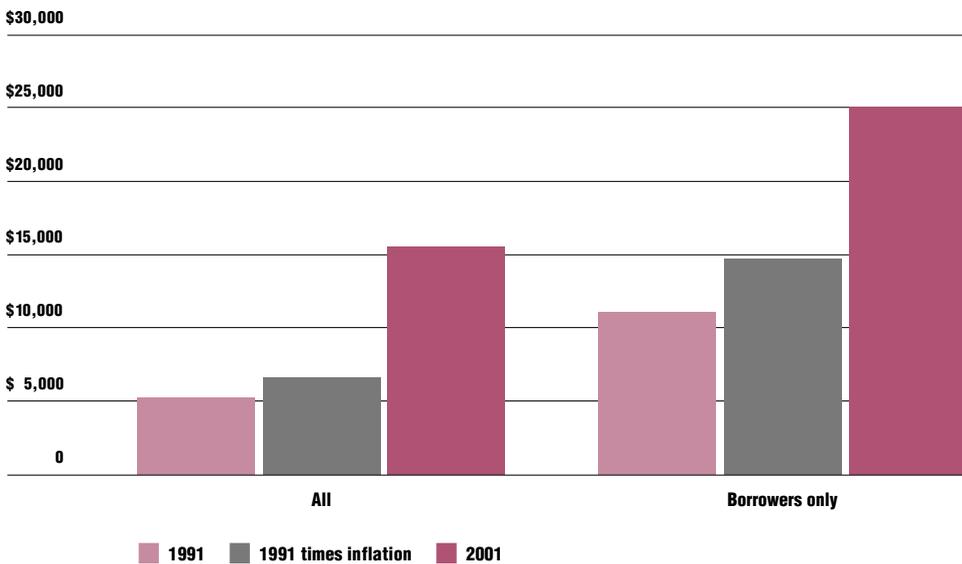
Student borrowing for theological education has grown steadily over the last ten years, both in terms of the extent of borrowing and the level of borrowing. In 1991, more than half (53 percent) of Master of Divinity graduates had not borrowed for their seminary education; however, only 37 percent of graduates from 2001 had no debt. The most dramatic contrast between the graduates of 1991 and 2001, shown in Figure 1, is the percentage of students borrowing at high levels. In 1991, only 7 percent of Master of Divinity graduates borrowed \$20,000 or more; in 2001, those borrowing \$20,000 or more were 33 percent of the total. In 1991, only 1 percent of Master of Divinity graduates had borrowed \$30,000 or more, while 21 percent of the graduates in 2001 had borrowed at that level. Six percent of the Master of Divinity graduates had

Figure 1: Distribution of Master of Divinity Graduates' Theological Debt



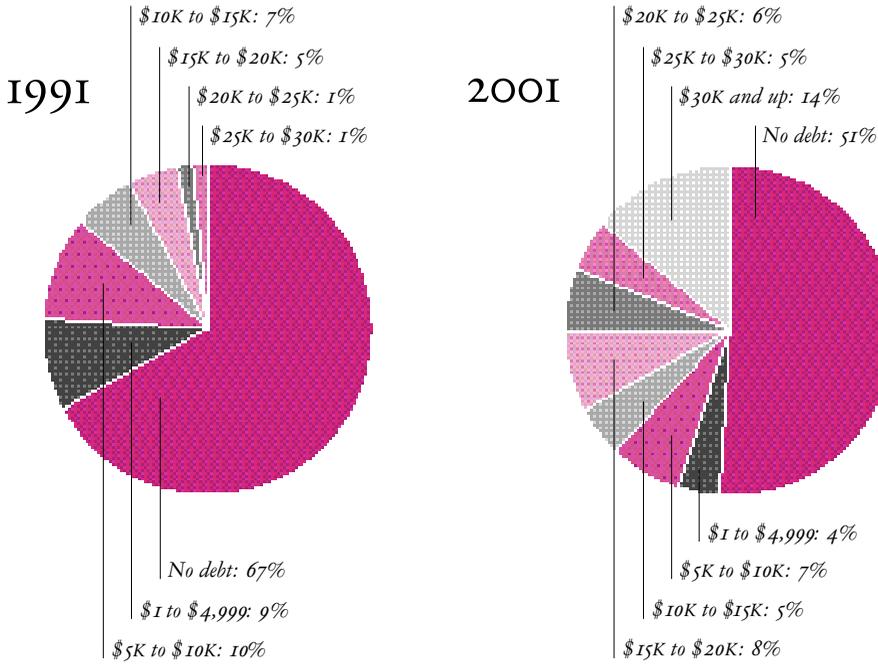
Source: Graduates' data

Figure 2: Average Reported Theological Debt of Master of Divinity Graduates



Source: Graduates' data

Figure 3: Distribution of Two-Year Masters Graduates' Theological Debt



Source: Graduates' data

more than \$50,000 in educational debt for seminary alone. A few borrowers had more than \$100,000 in debt.

Comparing the average borrowing of these different sets of students also shows the acceleration of debt. The average, or mean, amount borrowed by Master of Divinity students for their theological education doubled. As shown in Figure 2, the average level of theological debt for all reported Master of Divinity graduates in 1991 was \$5,267, or \$6,893 when adjusted to 2001 dollars. The comparable borrowing of all Master of Divinity graduates for 2001 was \$15,599. If the nonborrowers are subtracted from both these figures, the average level of debt for the Master of Divinity borrowers in 1991 was

\$11,043, or \$14,453 when adjusted to 2001 dollars. The average level of debt for Master of Divinity borrowers in 2001 had risen to \$25,018.

Borrowing by students enrolled for a two-year masters degree has risen as well. As shown in Figure 3, 67 percent of the 1991 two-year masters graduates reported no theological debt. In 2001, the percentage *not* borrowing had shrunk to 51 percent. As in the case of Master of Divinity students, those borrowing large amounts increased exponentially. In 1991, less than 1 percent borrowed more than \$30,000, compared with 14 percent of 2001 graduates.

Figure 4: Average Reported Theological Debt of Two-Year Masters Graduates

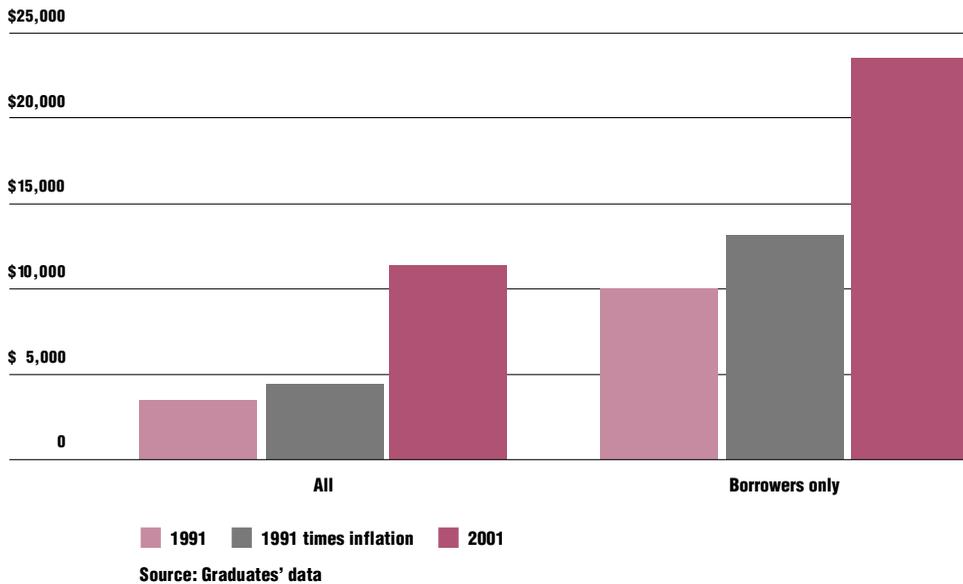


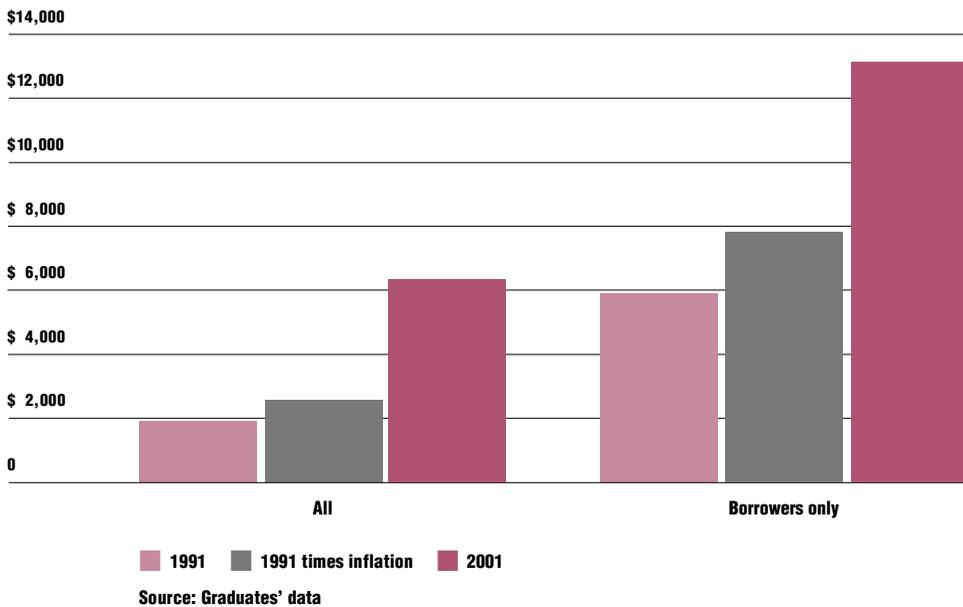
Figure 4 shows the change in average debt. In 1991, average theological debt for two-year masters-level students was \$3,397, or \$4,446 when adjusted to 2001 dollars. In 2001, these students averaged \$11,387 in theological loans. If we examine only the borrowers, average debt was \$13,110 in 1991 when adjusted for inflation. In 2001, the comparable figure had nearly doubled to \$23,435.

Even though two-year masters degree programs typically require a year less residency than a Master of Divinity degree, two-year masters borrowers have borrowed at levels nearly equal to those of their Master of Divinity classmates. These two-year students averaged \$23,435 in loans compared with \$25,018 for Master of Divinity graduates, a difference of only \$1,583. The comparable levels of debt upon graduation suggest

that students borrow most heavily in their first and second years of graduate theological studies.

The figures cited above reflect only debt incurred during enrollment in a theological school. Prior debt—usually from undergraduate education—adds to the burden. Undergraduate debt of theological students appears to have risen even faster than graduate debt. Figure 5 shows that the average undergraduate level of debt for seminary graduates in 1991 was \$1,978, or \$2,589 when adjusted to 2001 dollars. In 2001, the nominal figure had more than tripled to \$6,328. For borrowers only, the average level of debt in 1991 was

Figure 5: Average Reported Undergraduate Debt



\$7,810 when adjusted for inflation. In 2001, this figure had nearly doubled to \$13,584. This level of borrowing, although it may appear to be high, is still well below the national average of indebtedness for undergraduate students. Nellie Mae reported that the average undergraduate debt in 2002 was \$18,900, up 66 percent from \$11,400 in 1997.³ Part of the reason that theological students have lower undergraduate debt is that more than 70 percent of theological students are thirty years of age or older.⁴ Many of those students do not come directly to theological school from college and thus may have already paid off undergraduate loans. Since many schools wish to recruit and retain younger students, if they are successful in that effort, they will likely be confronted with students entering with considerable debt.

The data show a significant positive correlation between borrowing for undergraduate education and borrowing for graduate education. That is, students who borrow for their undergraduate education are much more likely to borrow for their seminary education as well. They do not, however, borrow more for their theological education than those without undergraduate loans: there is no significant difference in overall theological school borrowing between those with and without undergraduate loans.

When total educational debt—the sum of undergraduate debt, other graduate educational debt, and educational debt incurred in theological

school—is computed, the average level of debt for 2001 Master of Divinity graduates *who took educational loans* was \$31,376. The median was \$27,475; that is, half the 2001 Master of Divinity graduate borrowers in our data set graduated with educational debts less than \$27,475, and half with more. The growth in debt is not unique to theological schools.

A Nellie Mae study found that borrowing is even more extensive in professional programs generally than in theological schools. Eighty percent of those enrolled in professional degree programs (social work, law, business, medicine, theology) borrow.⁵ Auburn's 2001 sample, as shown in Figure 1, showed 63 percent borrowing.

The Dynamics of Debt

WHAT ACCOUNTS FOR THE INCREASE IN THEOLOGICAL DEBT?

Why have debt levels risen so high? Several factors seem to contribute to the acceleration of debt.

Availability of funds and low interest rates.

The increase in borrowing can be attributed, at least in part, to the increase in the availability of funds and low interest rates over the last several years. Under federal guidelines, 1991 graduate students were able to borrow up to \$7,500 per year in subsidized Stafford loans. With the advent of unsubsidized Stafford loans, the total loan limit in 2001 had risen to \$18,500 per year in Stafford loans (no more than \$8,500 could be subsidized), or a total of \$138,000 over the course of one's education (this includes both undergraduate loans as well as graduate loans).⁶

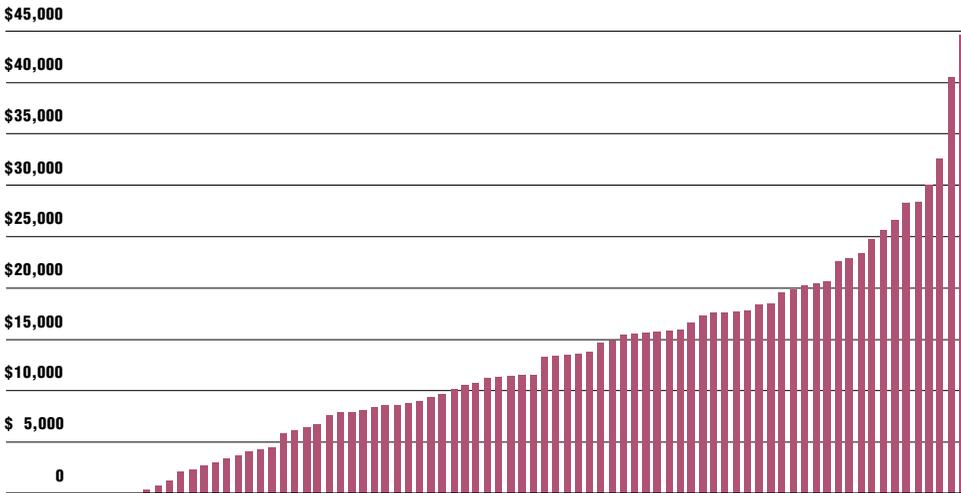
Tuition increases. Tuition increases and other seminary charges have played a part in the increasing demand for loans, although likely a modest part. From 1991 to 2001, average tuition for students in Master of Divinity programs increased 74 percent, from \$4,968 to

\$8,627.⁷ Inflation (as measured by the Consumer Price Index) was only 30 percent for the same decade. Student aid levels were fairly constant, thus resulting in most students at most schools paying 25 to 50 percent more than their counterparts ten years before. Tuition increases, however, do not account for the entire increase in debt level, which rose, on average, almost 200 percent in the last decade. The most expensive part of theological education is not the amount of tuition a student pays after grants are awarded, but rather living expenses, especially if the student attends school full-time.

Living costs and demographics. Many clergy who went through seminary before the 1970s remember an era when attending theological school cost very little. Tuition costs were often covered by generous grants and scholarships and, since most students were young single men, they could be accommodated

Figure 6: Average Debt per School – 2001 Master of Divinity Graduates

Each vertical bar equals one school



Source: Graduates' data; schools with five or more graduates

relatively inexpensively in few-frills dormitories. Contemporary students' lifestyle and habits may or may not be as spartan, but more significant, the changing demographics of seminary students—many of whom are married with children and most well beyond the age when they would consider living in a dormitory—has meant a sharp increase in the cost of living for students. These demographic changes certainly must be considered a factor in the increasing demand for loans.

School characteristics. Auburn's first study of theological student debt found that the amount of educational debt a student was likely to incur depended, to a large degree, on which school the student attended. This finding is reaffirmed in the current study. Figure 6

shows the average theological debt by school for 2001 Master of Divinity graduates, in order from the schools with the lowest levels of reported debt (zero) on the left, to those averaging more than \$40,000 on the right.

Why do students in some schools have high debt and those in others little or none? A few schools choose not to participate in federal loan programs, so their graduates, of course, have no formal theological school debt. In other cases, however, no single characteristic of particular schools' accurately predicts the debt level of students at a school. We found that the school's attitude and approach to debt, tuition costs and

Table 1: Debt Levels for Master of Divinity Programs in 1991 and 2001.

	<i>Schools (No.)</i>	<i>Percentage</i>
Average debt decreased during the decade	3	8
Average debt increased less than \$5,000	9	25
Average debt increased \$5,000 to \$9,999	10	28
Average debt increased \$10,000 to \$14,999	6	17
Average debt increased \$15,000 to \$19,999	4	11
Average debt increased \$20,000 or more	4	11

Source: Graduates' data

living expenses, the level of financial aid awarded, the structure of the educational program, and the nature and quality of financial counseling services all play an important role in determining the debt level at a school. These factors are discussed later in this report in the section titled *What Can Be Done?*

Some schools have managed to decrease, or at least limit, the rise in debt. Table 1 compares the 1991 and 2001 debt levels of schools that participated in both studies. Three schools actually lowered the average debt over the decade, while another nine held the average increase to less than \$5,000. A few schools showed a sharp acceleration of debt.

WHY DO STUDENTS BORROW?

Most students borrow because they need the money. Some, however, do not. Evidence shows that some theological students borrow for convenience rather than genuine need. In the alumni survey, 25.5 percent of borrowers agreed with the statement “Student loans served as a replacement for the dollars my parents or spouse otherwise could have provided.” Similarly, 22.8 percent

agreed that “Student loans served as a ‘backup’ or reserve rather than as a primary source in financing my studies.” In addition, 25.5 percent disagreed with the statement “Educational loans played an essential role in allowing me to attend theological school.” These survey responses strongly suggest that some borrowers—roughly a quarter of the total—have financial means, assets, or access to family resources that could have been used instead of student loans. It is likely that the terms of the student loan—a low interest rate, no collateral—make it more attractive than other financing methods such as drawing upon home equity, liquidating retirement accounts, or requesting help from relatives. These findings confirm the tales that Auburn researchers heard about some students taking out loans who are well-off or have spouses or partners who are financially successful. In these instances the loans are used for a variety of purposes, including the

purchase of high-end consumer goods. It is important to remember, however, that while about one-quarter of borrowers take loans in part because of their convenience, the other three-quarters affirm the necessity of loans.

Sixty-nine percent of borrowers agreed or strongly agreed with the statement, “Educational loans allowed me to attend the theological school of my choice.” Similar sentiments were expressed in a 2002 survey conducted by Nellie Mae, a leading national provider of federal and private educational loans: 72 percent of graduate students said loans were very or extremely important in allowing them to pursue graduate studies.⁸ Many students and theological schools consider educational loans a necessary, albeit an unwelcome, fact of life. Borrowing has become a part of the fabric of U.S. higher education, and many students’ lives.

WHAT ABOUT REPAYMENT?

Terms. The interest rate on a Stafford loan is set at the time of borrowing. Rates have been low in recent years, reflecting low commercial interest rates. The typical or standard repayment plan is a ten-year repayment of a fixed amount per month. For example, repaying a \$30,000 loan at 4 percent over ten years would require a payment of \$304 every month. In recent years, borrowers have been given additional options for repayment, including, under some circumstances, the right to extend the repayment term.⁹ Extending the \$30,000 repayment period to twenty years at 4 percent interest decreases the

payment to \$182 per month. Of course, any extension of a loan requires the borrower to pay more interest. In the example given, the borrower of a ten-year, \$30,000 loan at 4 percent would pay a total of \$36,448. Extending the loan to twenty years more than doubles the interest, resulting in total payments of \$43,630.

Are theological graduates’ debts manageable?

The ability to manage the repayment of student loans varies with the financial circumstances of the borrower. Many borrowers have family or partners willing to support the borrower both in school and after graduation. The amount of savings, investments, and home equity

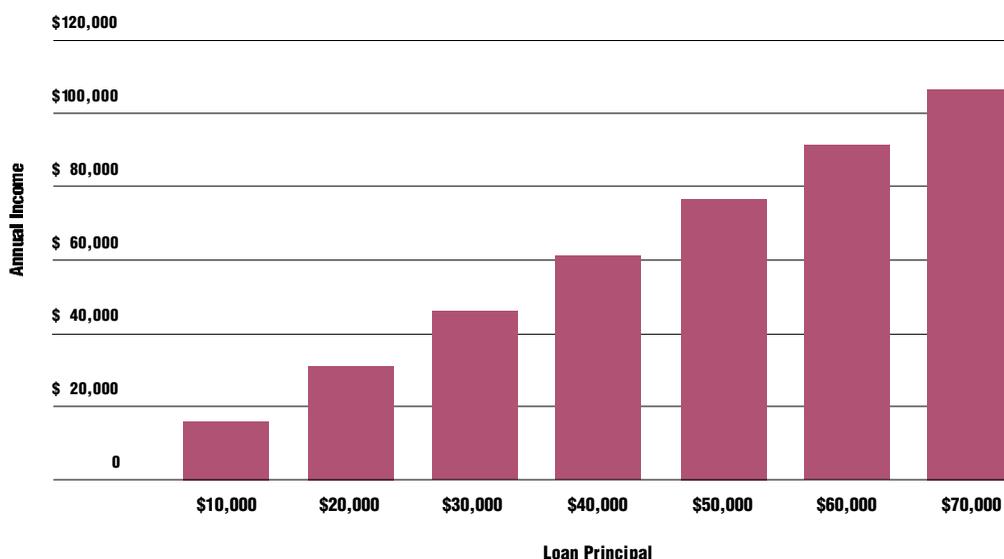
Sixty-nine percent of borrowers felt that educational loans allowed them to attend the theological school of their choice.

that may be called upon to finance theological education and ministry is variable from one person to the next. Lifestyle choices and personal management skills also play a role. Experts acknowledge that it is difficult to predict anyone’s tolerance for repayment of loans.

The lending industry, however, cares a great deal about predicting a borrower’s tolerance for debt, because the lender wants to be reasonably sure that the loan will be repaid. In the

Figure 7: Annual income required to service educational loans using the “eight percent of income” affordability rule of thumb

(Loans for ten years at four percent interest)



not so distant past, lenders evaluated the creditworthiness of mortgage applicants by calculating, for instance, the mortgage payment-to-income ratio of a potential mortgager. High levels of consumer debt (car loans, credit cards, student loans, and similar borrowing) send up red flags. One former rule of thumb in the lending industry is that no more than 8 percent of an applicant’s income should be devoted to student loan repayment; creditworthiness may be put at risk at levels above 8 percent. The old rules of thumb have been largely replaced by credit rating agencies and reports, but nevertheless, it is instructive to estimate the manageability of the loan by using the rule of thumb.

Figure 7 shows the income needed (on the vertical scale) to service increasing levels of student loans using 8 percent of income. Approximately \$15,000

of income is needed to service student loans of \$10,000 at 4 percent using the standard ten-year repayment. For the \$30,000 loan mentioned earlier, a ten-year standard repayment would require an income of approximately \$45,560 if the borrower wished to meet the 8 percent rule.

It is hard for schools to know whether their graduates can afford the loans they took out when they were in school. Few theological schools keep track of the compensation of their recent graduates—only 28 percent of financial aid officers said their school collected these data. How, then, might we estimate an affordable level of debt? The Pulpit and Pew Report from

Duke University compiled data on clergy salaries for the year 2000. It reported that about 60 percent of Protestant pastors serve in small churches with an average weekly attendance of 100 or fewer congregants. The median compensation, including housing, for Methodists, Episcopalians, Lutherans, Presbyterians, and other “connectional” polity churches in these small parishes was \$36,000.¹⁰ The median compensation for all Protestant clergy, including housing, was \$40,000 in 2000.¹¹ According to the rule of thumb calculation, a \$40,000 salary could support no more than \$26,300 in student loans at 4 percent in a standard ten-year repayment. New clergy—recent graduates—may be less likely to earn as much as the median.

The alumni survey in the prior research showed that of the Protestant borrowers graduating in 1984, 40 percent paid more than 8 percent of their income to repay student loans.¹² Their counterparts from the classes of 1994 from the set of schools surveyed ten years later fared similarly, with 37 percent failing to meet the 8 percent rule of thumb.

What is the repayment experience? The effects of debt are minimal while one is still a student, because repayment is deferred until six months after graduating from or dropping out of school. Repayment may be deferred again if the individual returns to school on a full-time basis. But sooner or later the loans and interest must be paid. It is then that repayment sometimes begins to take a personal and financial toll. For some it is a heavy burden.

When 1994 and 1999 graduates were asked how they felt about their loans, nearly half (49 percent) said that they now wished they had borrowed less. They reported several kinds of financial stress in their daily life. Forty percent agreed that their current financial situation is not comfortable. About one-fourth, or 26 percent, report that either they or their spouse have had to moonlight in order to make ends meet. Twenty-one percent have postponed health care. They report that their debt has affected their career choices, making it necessary that they take a higher-paying job (24 percent). These and other effects of debt are listed in Table 2. Perhaps most

Table 2: The Effects of Debt on Borrowers

	<i>Agree (%)</i>
I now wish I had borrowed less:	52
My financial situation is NOT comfortable:	40
Debt has influenced my career choices:	30
I or my spouse have had to moonlight:	26
I have had to accept higher-paying employment:	24
I have missed a payment because I did not have the money:	24
I have had to postpone health care:	21

Source: Alumni Survey

tellingly, we asked, “Have you ever been late with an educational loan payment or missed a payment because you did not have enough money to make the payment?” Nearly one-quarter of responding borrowers—24 percent—answered “Yes.” Nearly one in four borrowers struggles to make the payment, and sometimes fails. The stress associated with repaying debt on modest salaries is evident by the quotes in the accompanying box.

Forty-six percent of borrowers say that they did not have accurate information about their future compensation levels when they took out their loans. Such knowledge may, at least theoretically, have led them to borrow less while in seminary.

WHOSE PROBLEM IS

THEOLOGICAL STUDENT DEBT?

The student borrows the money, spends the money, and is obligated to pay it back with interest. The student borrower bears principal responsibility for her or his decisions; without any doubt, repayment of loans are the borrowers’ problem. For most successful professionals this is not a major challenge. For them, student loans represent an investment in education whose return is usually provided in the higher earnings associated with professions such as law, medicine, and for-profit business. In the case of theological education and ministry, however, the financial return from the profession—even for the gifted and successful—is almost always modest.

Student borrowing for theological education may inadvertently cause

Comments from Alumni Survey Respondents

“I left the ministry, at least in a large part, due to financial considerations.”

“I am no longer in the pastoral ministry, in part because of the debt.”

“I couldn’t even consider taking a job in ministry once the student loans became due. I had to return to my previous profession . . . in order to pay the student loan debts.”

“The main issue . . . is that the mountains of debt many graduates labor under precludes clergy serving in settings to which they may be called, but cannot afford. This is a theological concern that isn’t being dealt with very well.”

“We are unable to get a mortgage because of our student loan.”

“I still carry anger . . . concerning my seminary debt. It has affected my call, my outlook, and my willingness to recommend seminary to many who have the potential.”

“Thank you for caring about this silent clergy-killer. Most parish salaries cannot even scrape the top off and provide relief . . . ”

problems for the theological school and for the churches and emerging faith communities that seek to employ the graduates. Extensive student loans may hinder graduates from accepting calls to challenging positions that do not pay well. Denominations sponsoring traditional missionary appointments find their candidate pool shrinking, as candidates must be largely debt-free to serve in subsistence settings. Small churches, “start-up” churches, social action ministries, nonprofit organizations, and other innovative forms of service may similarly be unlikely to provide compensation generous enough to service substantial student loans. Loans provide a hidden incentive to pursue higher-paying forms of ministry.

Graduates with extensive loans may delay entry into ministry, working instead in a better-paying profession (if such opportunities are available to them) until their debts are manageable.

As some of the quotations above indicate, some borrowers leave active ministry and attribute their departure partly to financial pressure. Many who remain have to cope with the psychological stress of managing on a tight budget.

In summary, financial pressure from student loans may have deleterious effects on the church and other communities served by the graduates. Those communities may find fewer candidates willing to pursue lower-paying positions, may find good candidates delaying their entry into ministry, and may lose the service of some borrowers altogether. Stress associated with debt

and tight personal finances may impede ministerial performance.

Debt is also a problem for theological schools. The purpose of the theological school—to educate for ministry and other forms of religious leadership—is partially unfulfilled if some graduates cannot afford to serve. In addition,

Graduates with extensive loans may delay entry into ministry, working instead in a better-paying profession (if such opportunities are available to them) until their debts are manageable.

some of the negative emotions associated with student loans may affect ministerial performance, but this may also take the specific form of making graduates less willing to recommend ministry in general and their theological school in particular, if they believe the combination of low compensation and large student loans create too much of a burden.

High debt levels can also affect the competitive recruiting position of the school. Prospective students who are sophisticated about personal finance may shop for and find a better deal—some combination of lower tuition price, lower living costs, and higher aid or increased employment possibilities—which reduces the likely amount of debt they will incur.

What Can Be Done?

WHAT SCHOOLS CAN DO

Schools that want to restrain student borrowing must first examine their attitude or posture toward debt. Some schools unhesitatingly package loans to students as a routine part of recruitment and financial aid processes. Such packaging is efficient, requiring minimal staff time for busy administrators. Little time or initiative is taken with students to help them consider whether alternatives to loans are available. Such practices, in effect, promote the acquisition of debt.

Another posture is a *laissez-faire* approach. A school using this approach would not routinely package loans for its students; rather, it would make loans easily available, and leave the decision to borrow entirely to the student. Many students do not take much time for personal financial planning, and discover after enrollment that scholarships, grants, earnings, other family resources, and savings are insufficient to meet all expenses. They readily apply for loans in order to begin the next semester.

Each of these approaches assumes that students are adult, rational decision makers, fully capable of understanding the terms and conditions of the loans. Few would disagree with the premise that theological students are capable and rational adults. On the other hand, the evidence of repayment stress and the multifaceted burden of loans—as well as the testimony that half of borrowers now wish they had borrowed less—clearly implies that the decision to borrow was not as fully informed as it should have been. We found that a few

students on every campus, largely on their own, produced well-thought-through personal financial plans that included borrowing but also included a plan regarding how the debt was to be managed after graduation. These

The short-term passivity of many students' financial planning combines with the *laissez-faire* posture of school administrations to produce debt. It is the easiest short-term solution for everybody.

students are admirable, but they are not typical of the student population.

We suspect that students do little personal financial planning beyond the coming year or even the next semester. This leads to the acquisition of debt not as the outcome of thorough planning but as the default means to stay in school and keep studying. We met several senior students who borrowed but were beginning to experience the sticker shock of looming repayment. The short-term passivity of many students' financial planning combines with the *laissez-faire* posture of school administrations to produce debt. It is the easiest short-term solution for everybody.

The alternative is an active approach toward student debt. A prerequisite to any activist approach is that the school monitor the acquisition of debt. A sizeable number of schools—37 percent of our respondents—do not compile reports on student debt either for senior

management or the board. Tracking and analyzing debt brings the issue to the attention of administration and board, and can lead to more sensitive and ameliorative financial aid policies.

Beyond monitoring, however, what can a school do? The list that follows is not exhaustive, and it contains suggestions that, in some instances, will be judged to be untenable. But all of these approaches have been employed successfully at one or more theological schools.

Eliminate access. One radical approach is to cease participation in federal loan programs. The source of money disappears; no federal student loan debt can be incurred. Southern Baptist institutions decline to participate in federal loan programs for reasons of religious principle. Their students, as a result, have low levels of federal student debt. Nonparticipating institutions, however, compensate for the lack of loans; they may charge very low net tuition because they pass along to students the substantial support they receive from the sponsoring denomination or endowments. These situations are not free of problems, however. When federal loans are not an option, needy students may turn to higher-interest credit cards and other forms of consumer credit.

Limit the speed and convenience of access to loans. Short of a complete cutoff, schools may take legitimate procedural steps and interventions to discourage debt and thereby make loans more difficult to obtain. This approach has slowed debt in many instances. Although students feel entitled to federal loans, and denying a loan places a burden of proof on the school, the school may nevertheless

require forms, counseling, and other educational steps before approving the loan.¹³

Substitute grants for loans. An obvious way to reduce borrowing is to give students grants and scholarships so that they do not have to borrow. Some institutions have endowments or other funding that permit them to give grants to Master of Divinity students covering full tuition and a substantial portion of living expenses, but these institutions are few. The obvious problem with this suggestion is that substituting grants for all loans would cost many schools hundreds of thousands of dollars, if not millions, per year. Nevertheless,

Some schools have made considerable progress in reducing debt levels through intensified efforts at student financial planning.

new scholarships and grants have broad appeal to donors, and such funds are part of significant fundraising campaigns in both schools and denominations. Increased scholarship aid never hurts students, and may be one element of a school's or a denomination's plan to manage educational debt.

Student financial planning. Some schools have made considerable progress in reducing debt levels through intensified efforts at student financial planning. To this end, a member of the administration is identified as the student financial planning officer. The position of the person so designated varies with the

circumstances of each school. Schools have used the dean of students, the admissions officer, the business officer, and the financial aid officer in this role.

How does the student financial planning officer help manage student borrowing? The officer may work intensively with the student in seeking gifts and grants from friends, family, churches, denominations, and other philanthropic sources. In addition, the officer might assist students and spouses in finding employment opportunities. The financial planning officer would help the student build and understand a realistic expenditure budget. The financial planning officer can also work with the student to project a postgraduation budget based on realistic estimates of the income she or he may expect in the parish or other chosen occupation. The likely amounts of income devoted to student loan repayment, rent, transportation, and so forth can be estimated as well. The danger of high student loan balances and consumer debt to the student's creditworthiness can be shown.

This kind of thorough planning requires that the planning officer and the student devote considerable time to constructing and reviewing the student's budget, thus the financial planning officer should not be evaluated on the basis of speed and efficiency in processing grants and loans. The goal, rather, should be to make sure that students most in need of financial counseling develop appropriate and realistic financial plans. Results from the alumni survey show that the most significant predictor of lowered financial stress in graduates

is the quality of financial advice given by the theological school. The second most significant predictor is accurate knowledge of future compensation. If schools are to be successful in controlling student debt—and producing grateful alumni—it is important that an officer be assigned the task of providing adequate financial planning resources and counseling. Although personal financial planning takes considerable time and effort, a number of institutions have found that students benefit, and debt

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levels are reduced when prospective borrowers have a full awareness of the repayment obligations, an understanding of the affordability of any future loans, and help in finding ways to avoid debt.

One simple and effective technique to raise awareness of the burden of loan debt is to require students to memorize the monthly amount they are obligated to repay. Many do not know their future obligations. Half the borrowers responding to the national survey disagreed with the statement “I was aware of the monthly amount that would have to be repaid at the time I took out my loans.” Another effective technique for raising awareness is to require students to submit

a business plan detailing how they intend to pay back the loan from their future salary or assets, just as if the transaction were a small business bank loan. The occasion of the loan is an opportunity to discuss the feasibility and realism of a student's financial plan.¹⁴

Educational tracks for working students.

Some schools encourage students to work full time and attend school when they can. Students who work full time can meet living expenses from their employment earnings, thereby lessening or limiting the need to borrow. To accommodate such students, schools arrange night and weekend classes, intensives, and other special schedules to permit working students to attend class when they are able. Schools with strong commitments to residential full-time education are usually hesitant to institute such measures for fear that part-time students, who may largely commute to campus, will not be as thoroughly formed as those immersed in traditional full-time study and campus life. Schools with such programs often take additional programmatic steps directed to assuring that part-time students are full members of the seminary learning community.

Screen applicants for financial viability.

Some students apply to theological school lacking a workable plan to finance their education. Some may, moreover, apply to theological school already carrying considerable debt. The debt may be for prior education, or it may be in the form of large credit card balances—balances that are unlikely to be

reduced once the debtor undertakes full-time study.

After enrolling such students, some schools must stand by and watch the students' painful financial struggle during school and their financial stress after graduation. A few have taken steps to avoid repeating that experience, through the thorough screening of applicants. The schools intensely review the applicant's financial information. Those with substantial prior educational debt, substantial credit card balances, or substantial projected expenses with minimal income, are especially scrutinized. After discussing the situation with the applicant, the school determines whether the applicant has a realistic plan for managing the financial problems either before entering theological school or after graduation.

Some schools encourage students to work full time and attend school when they can, thereby lessening or limiting the need to borrow.

Absent a satisfactory and realistic plan to address the financial burdens carried by the prospective student, the school denies or defers admission.¹⁵

This practice does raise questions: Does it shrink the size of the entering class? Yes. Does it compromise the idea of need-blind admissions? Yes. Does it exclude needy students? To a degree. It would exclude the most financially

fragile, most indebted students, expressly because admitting those students would worsen their frail financial condition. Would screening the applicants help avoid train wrecks of unmanageable debt? Yes.

WHAT DENOMINATIONS AND CONGREGATIONS CAN DO

Encourage financial planning by candidates.
A denomination can encourage prospective inquirers and candidates to think about and attend to the educational costs they will encounter. Some denominations include questions about financing theological education on the forms and questionnaires that new prospects fill out. The answers are not used to evaluate the calling or vocation of the candidate,

Some denominations have strong programs of financial planning, including educational material about the costs of theological education and compensation in the ministry.

but rather as a prompt for discussion and a means to encourage the candidate to save, avoid unnecessary debt, begin to search for financial assistance, and plan responsibly. Other denominations have strong programs of financial planning, including educational material about the costs of theological education and compensation in the ministry. All of these are helpful. Each denomination has its own complexities of organization, so lodging the responsibility for

candidates' financial planning may require the coordination of those who deal with candidates, colleges, seminaries, clergy, compensation, pensions, and other matters. Whatever the structure, the early encouragement of financial planning for candidates would help to address the problem of debt.

Encourage the continued development of educational and theologically based resources.

A strong theological tradition can promote responsible financial behavior and help church institutions and individuals to evaluate debt and the role of financial health in pastoral leadership.

Encourage the development of scholarships.

Some denominations are engaged in major fundraising campaigns that include scholarship funds or endowments as a major component of the appeal. Local judicatories may be encouraged to financially support their candidates; often, congregations offer at least some support to its members if they enroll in seminary. A scholarship gift to the denomination or a theological school is another route. Over the years, a number of local churches have endowed scholarships in theological schools, sometimes in honor of a retiring pastor or a member of the congregation who has served as a seminary trustee.

Encourage higher compensation of clergy.

Denominations may be in a position to offer guidance and encouragement regarding levels of compensation for clergy. Denominations of course vary on compensation rules, procedures, and required benefit packages. There is also a wide range of policies that regulate

the decision-making roles of the local congregation, the local judicatory, and the local superintendent, bishop, or other executive in matters that affect compensation. Despite this complexity, the problem of debt may be addressed in part by finding ways of increasing the compensation of church professionals.

One proven way of reducing the burden of student loans is to promote better negotiation of compensation packages. Many churches have been willing to increase the candidate's salary package in consideration of the candidate's educational loan repayment. Sometimes the opportunity arises only once, when the candidate is first hired, and the salary, housing, and other terms of employment are being settled. In other cases, the issue can be raised as part of the annual budgeting

process and personnel review, sometimes with an encouraging nudge from the denominational executive.

Assistance programs. Some denominations allocate funds to clergy hard-pressed by their educational loan repayments. These may be straightforward gifts, given to the neediest of those who apply, or they may be tied to service in a particular place or field. These programs raise questions as well: Do the programs help the recipients? Yes. Do they meet all the needs? Certainly not. Is it possible to determine who is the most needy and deserving? It is difficult; the distribution of funds may be imperfect and seem unfair from some points of view. The programs are helpful and nobly motivated, but should be carefully evaluated for their efficacy and fairness.

What General Recommendations Follow from This Research?

We have two general recommendations to all who participate in the preparation of persons for ministry:

- Those who pursue theological education and ministry should be fully informed and fully aware of the financial costs of education for ministry and aware of the economic realities of professions in ministry.

- Complete financial aid information, personal financial planning resources, and vocational counseling are needed for persons inquiring about ministry, for those currently in seminary, and for those in the early years of ministry.

Unless and until a substantial increase in seminary graduates' compensation occurs, the best defense against the gathering storm of debt is to prepare the borrowers carefully, so that they understand how affordable their debt may be.

The Future

This study suggests that a significant amount of the increase in theological debt is attributable to pent-up demand that the increase in loan limits has supplied. If this is the case, it is possible that theological educational debt will not accelerate at the rate that it has over the past ten years. Moreover, if schools, churches, and denominations were to approach the problem of debt with increased determination and sophistication, excessive and unmanageable debts would decline.

But future circumstances are difficult to predict. Adverse financial circumstances could push the debt curve higher. If the trends mapped in this study were to continue unabated for the next decade, the consequences would be severe: 84 percent of Master of Divinity graduates in 2011 would have taken loans in theological school. The average amount borrowed would be more than \$54,000.

Such financial burdens would mean that fewer students of modest means and assets could afford full-time residential theological education. Financially pressed churches might forego calling heavily indebted, seminary-educated graduates. Rising debt could lead to the impoverishment of many clergy, the weakening of theological schools, and a crisis for ministry, especially in small congregations and in new or poorly funded ministry sites. The prospects are sufficiently dire to impel schools, denominations, and congregations to immediately take the steps outlined in this report that have proven to restrain and reduce debt. There are ports that offer protection from the storm of debt, and all those who care about the future of religious institutions and their leadership should seek them. ■

Endnotes

1. Letters inviting participation in the study were sent to all theological institutions in the United States that are accredited by the Association of Theological Schools ($n = 213$). A total of 95 schools agreed to participate in the current study (117 schools participated 10 years ago). In addition to the graduates data and the alumni survey, financial aid officers at the participating institutions completed a questionnaire on the school's financial aid policies and practices, as well as data on total grants, scholarships, and loans distributed by the theological school in 2000/01.
2. A few schools reported 2002 graduates data instead of 2001. We included these data to broaden the sample.
3. Sandy Baum and Marie O'Malley. *College on Credit: How Borrowers Perceive their Educational Debt: Results of the 2002 National Student Loan Survey*. Nellie Mae Corporation; February 6, 2003. Available at: http://www.nelliemae.com/library/research_10.html
4. The Association of Theological Schools. *Fact Book*, Table 2.14. Available at: <http://www.ats.edu>.
5. Sandy Baum and Marie O'Malley. February 6, 2003. Data on the extent of borrowing was from 1999 to 2000.
6. The interest rate of subsidized loans is deferred until repayment begins, whereas the interest rate for unsubsidized loans begins to accrue from the time the loan is disbursed. Thus for heavy borrowers, if they are not paying the interest on unsubsidized loans while still in school, their overall loan amount continues to grow.
7. Anthony Ruger. "Seek and Find." *Auburn Studies* No. 11. New York: Auburn Theological Seminary; April 2005.
8. Sandy Baum and Marie O'Malley. February 6, 2003.
9. Borrowers may have the option of graduated repayment (i.e., beginning with lower monthly payments, which gradually increase over the ten-year repayment term). There is also an income-sensitive repayment arrangement, in which the monthly payment varies according to the borrower's income and the loan amount. In either case the payment must minimally equal the accrued interest. The extended repayment option may permit new borrowers with federal student loans totaling \$30,000 or more disbursed after October 7, 1998 to consolidate the loans and extend the repayment period for up to thirty years. Under special conditions the loan may be canceled in part or in full, including cases in which the borrower serves as a teacher in a designated school serving low-income families. The www.studentaid.ed.gov web site provides explanatory material on these and other options under the "Repaying" tab.
10. Beverly R. McMillan and Matthew J. Price. *How Much Should We Pay The Pastor? A Fresh Look at Clergy Salaries in the 21st Century*. Pulpit and Pew Research Reports. Durham, NC: Duke University; Winter 2003, p.6.
11. *Ibid*, p.4.
12. Anthony Ruger. *An Analysis of Educational Debt Among Theological and Rabbinical Students*. Auburn Center Background Report No. 5. New York: Auburn Theological Seminary; November 1995.
13. A school may deny a federal loan to a student if the school believes—and is willing to present evidence—that the loan will not be repaid.
14. The analogy to a small business loan stops at the point of loan approval; the financial aid officer may not deny the loan unless, as noted in the previous footnote, the school firmly believes and has the evidence to demonstrate that the loan will not be repaid.
15. Admission could be denied if the financial information is obtained and reviewed in a timely manner. This would be the strongest check on compounding students' financial problems through incurring more debt as a student. In many cases, however, the decision to admit is made before the receipt of financial information. In those instances, schools could encourage students to defer entry until their financial situation improves. This is not certain to avoid debt if students choose to attend despite this advice. To avoid this, schools may change their admissions policy to admit students on the condition that they complete a financial review and develop an acceptable financing plan. The school would then be able to require a delay in enrollment if the plans proved to be unrealistic.

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As a free-standing seminary working in close cooperation with other institutions, Auburn found new forms for its educational mission: programs of serious, sustained theological education for laity and practicing clergy; a course of denominational studies for Presbyterians enrolled at Union; and research into the history, aims and purposes of theological education.

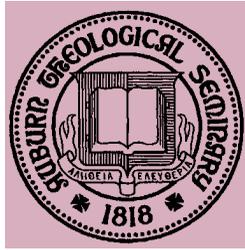
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