A Degree of Practical Wisdom: The Ratio of Educational Debt to Income as a Basic Measurement of Law School Graduates' Economic Viability

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Abstract

This article evaluates the economic viability of a student's decision to borrow money in order to attend law school. For individuals, firms, and entire nations, the ratio of debt to income serves as a measure of economic stability. The ease with which a student can carry and retire educational debt after graduation may be the simplest measure of educational return on investment.

Mortgage lenders evaluate prospective borrowers' debt-to-income ratios. The spread between the front-end and back-end ratios in mortgage lending provides a basis for extrapolating the maximum amount of educational debt that a student should incur. Any student whose debt service exceeds the maximum permissible spread between mortgage lenders' front-end and back-end ratios will not be able to buy a house on credit.

These measures of affordability suggest that the maximum educational back-end ratio (EBER) should fall in a range between 8 and 12 percent of monthly gross income. Four percent would be even better. Other metrics of economic viability in servicing educational debt suggest that the ratio of total educational debt to annual income (EDAI) should range from an ideal 0.5 to a marginal 1.5.

EBER and EDAI are mathematically related ways of measuring the same thing: a student's ability to discharge educational debt through enhanced earnings. This article offers guidance on the use of these debt-to-income ratios to assess the economic viability of students who borrow money in order to attend law school.

Keywords: law school, education, debt, EBER, EDAI

JEL Classification: K00, I22, J60, N30

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