College debts scupper start-up dreams

Millennials seem to be the new lost generation of entrepreneurs

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Saddled with $40,000 in college loans, Catherine Berendsohn, 29, struggled to get a web design business off the ground after graduating from Florida State University in 2010. Berendsohn, an artist-entrepreneur, wanted to rent a storefront and start a roving studio in Monterey, California. Her student loans, however, prevented her from getting the money she needed.

As she tried to expand her business, Berendsohn was denied a personal credit card. Her college loan payment was $400 a month at the time. She took on a website project and began to accept other clients in Carmel Valley Village, California. But then she lost a commission for a local mural project. Unable to continue to pay her monthly expenses, she shut down her business after three months and moved back home to Miami.

Because of the corrosive impact of student debt on start-ups, millennials seem to be the new lost generation of entrepreneurs.

Although it is difficult to pin down a direct relationship between college loans and entrepreneurial activity, the weight of student debt appears to be deterring some would-be business owners.

Arnobio Morelix, a senior research analyst with the Kaufmann Foundation, co-wrote a study with E J Reedy that found that the rise in student debt in recent years coincided with a decline in start-ups.

The study found that fewer young people were entering the world of entrepreneurship. The share of new entrepreneurs in the 20- to 34-year-old age group fell to 25 per cent in 2014, from nearly 35 per cent in 1996.

A study has found that fewer young people are entering the world of entrepreneurship. The share of new entrepreneurs in the 20- to 34-year-old age group fell to 25 per cent in 2014, from nearly 35 per cent in 1996 PHOTO: iSTOCK

Total student loans rose from around $510 billion in 2007 to more than $1.3 trillion today. Despite an uptick in recent years, "overall start-up activity for adults under 35 years of age has been on the decline" since 1996, Morelix found.

"Young adults, who used to be the largest age group involved in new companies in 1996", Morelix and Reedy wrote, "are now among the smallest demographic group".

Many young entrepreneurs are unlikely to go to venture capital firms or business incubators, preferring to "bootstrap" — finance their companies with their own money or funds from friends and family members. But being in debt for student loans makes self-financing that much tougher.

Even graduates who have begun promising start-ups have found that securing financing when carrying student loans was brutally difficult.

Austin Dean, 28, based in Grand Rapids, Michigan, started his first business repairing computers in 2007 while he was a student at Grand Valley State. He later had to it shut down after having cash-flow problems.

A second business, started in 2012 while he was pursuing an MBA, focused on corporate event hosting. But his $40,000 of college loan debt for his undergraduate degree forced him to make some sacrifices along the way, including eating cheap meals.

"Every month the question was, 'Do I have enough to make my student loan payment'," said Dean.