Student debt

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Student debt

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Student loans can be used to meet financial need of students in higher education when personal resources, grants, and scholarships are insufficient for the cost of attendance. A student's debt is the sum of the amount borrowed and interest accrued minus payments made. While several countries offer students loans of various types, the size of student debt in the US has increased to what some consider crisis levels.

As of June 2018, Forbes reported that total US student debt was $1.52 trillion and that 44.2 million people owed debt. The average student debt is $38,390. The median student debt is between $10,000 and $25,000, while 2% of borrowers owe $100,000 or more. The table below shows the distribution of outstanding balances.

Student debt is so ubiquitous that 68 members of the U.S. Congress (13%) either owe debt themselves or have family members who owe student debt. According to Roll Call, “Collectively, the 44 Democrats and 24 Republicans have higher education liabilities of $2.5 million, according to recent financial disclosures. The median student loan debt is $15,000, while average debt is $37,000.” In this respect, Congressional borrowers mirror the general population.

The lent amount, often referred to as a student loan, may be owed to the school (or bank) if the student has dropped classes and withdrawn from the school. Students who withdraw from an institution, especially with poor grades, often end up disqualifying for further financial aid. For low and no-income students, student loans are the sole factor that enable them to go to school, as loans typically cover tuition, room and board, meal plans, text books, and miscellaneous necessities. During repayment of student loans, renegotiation and bankruptcy are strictly regulated.

As with most other types of debt, student debt defaults after a given period of non-response to requests by the school or the lender for information, payment or negotiation. At that point, the debt is turned over to a Student Loan Guarantor or a collection agency.

In the United States, Congress created a rule called the ‘Cohort Default rate’ [citation needed]. Annually, the Department of Education evaluates the proportion of students who have received student loans, withdrawn from college, and defaulted on their federal government backed loans. If that nonpayment (default) rate is too high, the college will be refused government financial aid. Financial aid may also be refused to individuals whose GPAs fall below a certain point, or if a lack of commitment is perceived. According to Adam Looney and Constantine Yannelis in the Brookings Papers on Economic Activity, in 2011, “borrowers at for-profit and 2-year institutions represented almost half of student-loan borrowers leaving school and starting to repay loans, and accounted for 70 percent of student loan defaults." The "Cohort Default rate" rule was an instantaneous achievement, as over fifteen hundred for-profit institutions were denied financial aid based on their proportions of defaulted students. Colleges have had to alter their funding habits to adhere to governmental guidelines. Many colleges are continuously forced to lower their nonpayment rates; but the number of defaulters has not changed, they are only tracked differently.

History

• If student debt had been rising with inflation since 1992, then graduates would not be facing this immense debt pressure.

• Private lenders do offer student loans, and these are generally more expensive than federal loans.

• From 2015 to 2017, the student loan debt in United States saw a steady ascension, where New Hampshire carried the highest average debt per student, at $27,167.

• Origin and Evolution of US Student Loans

Origin and Evolution of US Student Loans

In 1958, the National Defense Education Act established financial aid programs for students majoring in STEM disciplines, foreign languages, and teaching. This program included grants, scholarships, and loans. In 1965 the loan program was expanded to students who demonstrated financial need under the Federal Family Education Loan Program. Banks and private institutions offered the loans, which were subsidized and guaranteed by the federal government.

Between 1992 and 1993, the federal government began directly funding student loans and established unsubsidized Stafford loans for students whose financial needs were not fully met by the subsidized loan program. The financial turmoil of the Great Recessions caused most private lenders to stop making subsidized loans; the federal government became the main issuer of student loans. Finally, in 2010, the Health Care and Education Reconciliation Act of 2010 required all federal loans (Stafford loans) to be direct loans. Private lenders do offer student loans, and these are generally more expensive than federal loans.

The growing problem of student debt has become more prominent, inspiring numerous documentaries that examine its causes and effects. One factor that contributes to the amount of debt is the interest rates on the loans. Another factor is the new guidelines developed by the federal government, which now decides who qualifies for a loan and how much they qualify for. A third factor is that colleges and universities have been increasing the costs for students to attend schools, which subsequently increases the loan amounts that students take on. Reports have shown that borrowers who finished college in the early 1990s were able to manage their student loans without an enormous burden. The average debt increased by 58% in the seven years from 2005 to 2012. The debt for students in the United States rose from $17,233 in 2005 to $27,253 in 2012. Some blame the economy for the debt increases, but in the same 7-year period credit card debt and auto debt have decreased. According to the American Center for Progress' report on the Student Debt Crisis, within the past three decades the cost of attaining a college degree has drastically increased by more than 1,000 percent.

If student debt had been rising with inflation since 1992, then graduates would not be facing this immense debt pressure. From 2015 to 2017, the student loan debt in United States saw a steady ascension, where New Hampshire carried the highest average debt per student, at $27,167. Newer data, as of 2018, reflects an even larger crisis and cumulative level of student debt.

As of 2018, a total of 44.2 million borrowers now owe a total of over $1.5 trillion in student debt. According to Forbes Magazine, the total amount owed has more than doubled (up 250%) from $600 Billion to $1.5 Trillion in 10 years, and with the addition of new borrowers the rate of delinquency greater than 90 days, or default, has doubled to over 11% nationwide, according to the Federal Reserve.

The US "Student Loan Mess"

• In The Student Loan Mess: How Good Intentions Created a Trillion-Dollar Problem (2014), authors Joel and Eric Best identified four overlapping periods of crisis related to US student loans.

• The periods are: (1) 1958-1972 with the first federal student loans and the creation of Sallie Mae, (2) Mid-1960s-1978 with high rates of default to the near impossibility of student loan discharge in bankruptcy, (3) Mid-1990s-present and "crushing debt", and (4) 2012-the present with widespread economic damage.

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US student loan servicers

• US student loan servicers include Great Lakes Educational Loan Services, Navient, FedLoan Servicing (PHEAA), MOHELA, HESC/EdFinancial, CornerStone, Granite State - GSMR, OSLA Servicing, and Debt Management and Collections System.

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Statistics

Student loan debt rose from $480.1 billion (3.5% GDP) in Q1 2006 to $1,397.3 billion (7.5% GDP) in Q3 2016.

Distribution of student loan debt in the U.S.

United States

• In 2010, for the first time ever, student loan debt exceeded credit card debt and in 2011 student debt surpassed auto loans (both of which were decreasing).

• There were around 37 million student loan borrowers with outstanding student loans in 2013.

• Rising student loan debt is exacerbating wealth inequality.

There are two types of loans that students borrow in the US: Federal loans and Private loans. Federal loans have a fixed interest rate, usually lower than the interest of private loans, set annually by Congress. The direct subsidized loan with the maximum amount of $5,500 has an interest rate of 4.45%, while the direct plus loan with the maximum amount of $20,500 has an interest rate of 7%. As for private loans, there are more options like fixed interest rates, variable interest rates, and income based monthly plans whose interest rates vary depending on the lender, and on the credit history of the borrower and cosigners. The average interest rate for a private loan in 2017 was 9.66%. The Economist reported in June 2014 that U.S. student loan debt exceeded $1.2 trillion with over 7 million debtors in default. In 2014, there was approximately $1.3 trillion of outstanding student loan debt in the U.S. that affected 44 million borrowers who had an average outstanding loan balance of $37,172. As of 2018, outstanding student loan debt totals 1.5 trillion.

The interest rates are a major factor in the high debt numbers; however, the booming of prices of college in the U.S. is another major factor for student debt. Public universities increased their fees by a total of 27% from 2007 to 2012, or 20% adjusted for inflation. Public university students paid an average of almost $8,400 annually for in-state tuition, with out-of-state students paying more than $19,000. From 1992 to 2012, college costs rose 1.6% more than national inflation each year. Government funding per student fell 27% between 2007 and 2012. Student enrollments rose from 15.2 million in 1999 to 20.4 million in 2011, but fell 2% in 2012. Bloomberg reported in July 2014 that: "The biggest growth in the program came in the past decade, as student debt rose an average of 14 percent a year, to $966 billion in 2012 from $364 billion in 2004, according to New York Fed data."

There were around 37 million student loan borrowers with outstanding student loans in 2013. According to the Federal Reserve Bank of New York, outstanding student loan debt in the United States lies between $902 billion and $1 trillion with around $864 billion in Federal student loan debt. As of Quarter 1 in 2012, the average student loan balance for all age groups is $24,301. About one-quarter of borrowers owe more than $28,000; 10% of borrowers owe more than $54,000; 3% owe more than $100,000; and less than 1%, or 167,000 people, owe more than $200,000. Of the 37 million borrowers who have outstanding student loan balances, 14%, or about 5.4 million borrowers, have at least one past due student loan account. For every student loan borrower who defaults, at least two more borrowers become delinquent without default. In 2010, for the first time ever, student loan debt exceeded credit card debt and in 2011 student debt surpassed auto loans (both of which were decreasing). According to Mark Kantrowitz, publisher of FinAid.org, student loan debt is growing by $3,000 per second. According to a report by The Institute for College Access and Success, the average debt from those who graduated in 2013 topped $30,000 in six states and was only below $20,000 in one state. Data released by the Federal Reserve Bank of New York showed that in the fourth quarter of 2014 delinquency rates for students dipped to the point where approximately one in nine student loans is past due. As of 2015 over half of outstanding student loans are in deferral, delinquency or default. Rising student loan debt is exacerbating wealth inequality.

Student loan borrowers that attended for-profit and two year community colleges earn low annual salaries; an average of $22,000 for people withdrawing from schools as of 2010. Making payments on a loan, the full monthly amount and on time, is difficult with low salaries. Statistics suggest that default rates are essentially lower within the demographic of borrowers with large loans than within borrowers with small loans. However, the scenery of borrowing has changed. Currently, most borrowers are older and attended a for-profit or two year community college. About ten years ago, the standard borrower was an established student at a four-year university.

Tuition has been rising in recent years due to the cuts of government funding in education. As an example, the University of Pittsburgh has had an increase in tuition of 3.9 percent for the academic school year of 2014-15. In 2014, the U.S. Department of Education ranked Pitt as the most expensive public university for tuition and fees at $16,240, just ahead of Penn State University.

In 2005, the difference in median annual income between those with a bachelor's degree vs. those with a high school diploma was $16,638, though this varies considerably by field of study.

In January 2019, the Federal Reserve said that student loan debt has more than doubled in the last decade, and is forcing many in the millennial generation to delay buying homes. A 2019 survey by Bankrate found that student loan debt is also forcing millennials to delay other financial and life milestones, such as building emergency savings, saving for retirement, or paying off other debts. In April 2019, the Harvard Business Review reported that the student debt crisis is preventing many millennials from becoming successful entrepreneurs, with 60% considering themselves as such, but with only 4% of these actually being self employed.

Canada

• Also, students are relieved of their debt after 15 years.

• To temporarily help their low income struggling citizens with student debt, Canada has a program called "interest relief".

• As a nation, Canadians have accumulated more than $15 billion of student loan debt as they continue to fight tuition rates from further skyrocketing.

Canada ranks second in the world, behind Korea, for the percentage of people in the age group of 25-34 who have completed tertiary education . As of September 2012, the average debt for a Canadian leaving University was $28,000 Canadian dollars, and that accumulated debt takes an average of 14 years to fully repay based on an average starting salary of $39,523. To temporarily help their low income struggling citizens with student debt, Canada has a program called "interest relief". It grants 6 months free of mandatory payments, for a maximum of 30 months. The Canadian government pays for the interest on those loans during the grace period, so the loan amount is the same at the end of the grace period. Also, students are relieved of their debt after 15 years. As a nation, Canadians have accumulated more than $15 billion of student loan debt as they continue to fight tuition rates from further skyrocketing.

United Kingdom

• Student debt is the fastest growing type of borrowing and is rapidly becoming economically significant.”

• There is concern about the level of student debt in the United Kingdom.

• Sebastian Burnside NatWest economist, said “These latest figures show student debt is becoming of greater priority with every passing year.

There is concern about the level of student debt in the United Kingdom. There is also concern about possible changes in government policy forcing graduates to pay back more on their loans. Andrew Adonis claims most student loans will never be repaid, and also says that university leaders have failed to improve teaching standards but rewarded themselves handsomely with high salaries. The Institute for Fiscal Studies claims that 75% of graduates will never repay all their debts. Andrew McGettigan, a loans system expert, said, “Until the government removes their right to retrospectively change terms, then you as a borrower appear to be on the hook to future policy changes". Sebastian Burnside NatWest economist, said “These latest figures show student debt is becoming of greater priority with every passing year. Student debt is the fastest growing type of borrowing and is rapidly becoming economically significant.”

Germany

• Germany has both private and public universities with the majority being public universities, which is part of the reason their graduates do not have as much debt.

• The average debt at graduation is €5,600 which is US$6,680.

• The private universities have a smaller teacher to student ratio and tend to offer more specialized programs, which is why Germany is experiencing a boom in private universities enrollment in recent years for majors like law and medicine.

Germany has both private and public universities with the majority being public universities, which is part of the reason their graduates do not have as much debt. For undergraduate studies, public universities are free but have an enrollment fee of no more than €250 per year, which is roughly US$305. Their private universities cost an average of €10,000 a semester, which is about US$12,000. Private universities account for 7.1% enrollment with the rest attending the public universities. The private universities have a smaller teacher to student ratio and tend to offer more specialized programs, which is why Germany is experiencing a boom in private universities enrollment in recent years for majors like law and medicine. However, most students still prefer public universities due to the drastic difference in tuition cost. The only expense students take out loans for in public universities is the living cost, which ranges from €3600 to €8,200 a year depending on the university location. However, the repayment of this loan is interest free and no borrower pays more than €10,000 regardless of the borrowed amount. The average debt at graduation is €5,600 which is US$6,680. The chance to gain a bachelors degree through well respected universities at a reasonable price without interest packed loans attracts many foreign students, as seen through increased enrollment of students from all around the world.

France

• Students are able to take out loans in order to pay for these expenses.

• Only less than 2% students take out loans as there is financial assistance to pay for the full tuition or half of the tuition for low income families, depending on their needs.

The average tuition for a bachelor's degree in France is around 190 euros a year, around 620 euros a year for engineering degrees, around 260 euros a year for a master's degree and around 400 euros a year for a PhD. These prices are similar to its neighboring country, Germany. The cost of living in France is an average of 500 to 1250 euros a month depending on the city, which is not included in the tuition price. Students are able to take out loans in order to pay for these expenses. Only less than 2% students take out loans as there is financial assistance to pay for the full tuition or half of the tuition for low income families, depending on their needs.

Pakistan

• Student loans are an unknown concept in Pakistan, like most third world countries.

• Students attend college through the help of their parents who spend a majority of their income on their children's education, and some students work to help out with the tuition.

Student loans are an unknown concept in Pakistan, like most third world countries. Students attend college through the help of their parents who spend a majority of their income on their children's education, and some students work to help out with the tuition. The top universities in Pakistan are mostly located in the provinces of Sindh and Punjab. There are 177 universities in the country. To better understand this number, consider the U.S., which has a population 1.65 times the population of Pakistan and has 5900 colleges. That means the U.S. has about 3575 universities for the same population as Pakistan.

Pakistan has universities ranking in the top 250 and top 700 in the world. The average tuition cost for these universities is around 402,000 Pakistani Rupees ($3500). But this is not the only expense citizens have to pay for; most people pay for books, food, transportation and a tuition center for help with the tough curriculum, which adds up to about 130,000 Rupees ($1147). Even though this seems like a small total to someone from the first world, this is very expensive for Pakistanis as the average salary is about $7,800 a year. The majority of parents cannot afford college education for their children which is why only 12% of all 18–24 years olds are attending college.

Finland

• Besides student loans and grants, Finland also compensates its citizens, and others that qualify, with a meal subsidy, a school transport subsidy, and a student loan compensation for students who finish schooling in a target time.

• These loans are not through Kela itself but are guaranteed loans through the student's bank of choice.

• Through Kela, 40% of students take out student loans in addition to student grants.

Excluding students from outside Switzerland, the EU, or EEA, there is no tuition fee for students studying at Finnish Universities. There are, however, many exemptions for non-Finnish citizens studying at a Finnish University to not pay tuition as well. In addition to going to college for free, students also receive student grants from the government. These grants are generally used for housing and compensates for up to 80% of rent for students who live independently and/or are not qualified to receive child benefits. Through Kela, 40% of students take out student loans in addition to student grants. Student loans average to about 650 EUR a month for higher education within Finland and an average amount of 800 EUR a month for Finnish students studying abroad. These loans are not through Kela itself but are guaranteed loans through the student's bank of choice. Besides student loans and grants, Finland also compensates its citizens, and others that qualify, with a meal subsidy, a school transport subsidy, and a student loan compensation for students who finish schooling in a target time.

In August 2017, Finland saw student loan drawdowns double to 143 million EUR from August 2016 as a result of being able to borrow 650 EUR a month from the previous 400 EUR a month. The reform for financial aid resulted in students that qualify for government-guaranteed loans to increase to over 60%.

Social and political reactions

• In 2015, Central Saint Martins student Brooke Purvis announced that he would burn his student loan as a form of protest art, raising awareness about student debt.

• In particular, students all over the United States have posted their personal student debt testimonies.

• In April 2012, student loan debt reached US$1 trillion.

The growing problem of student debt has caused many reactions from young people throughout the United States. As a result, the Occupy Colleges and Occupy Student Debt movements merged in 2012 in an effort to gain support from students around the country. There have been significant efforts made via social media for the Occupy Student Debt campaign. In particular, students all over the United States have posted their personal student debt testimonies. While some success stories of students eliminating debt have been reported on, they are met with heavy skepticism. Since last October, Occupy Student Debt has provided a platform for over 800 students to share their stories. Because of this, other organizations such as Rebuild the Dream, Education Trust, and the Young Invincibles have joined in the effort and started similar platforms. The Occupy College movement itself has staged over 10 direct actions. They have also gathered over 31,000 signatures on the White House's petition site, “We the People”. As a result, President Obama announced the Pay as you Earn initiative. Another petition, titled 'Support the Student Loan Forgiveness Act of 2012' on MoveOn.org, which seeks similar relief for student borrowers, has gotten over one million signatures. HR 4170: “The Student Loan Forgiveness Act of 2012” would give relief to borrowers with both federal and private student loans. HR 4170 also includes the “10-10” programs, which allows borrowers to pay 10% of their discretionary income for ten years with the remaining balance forgiven afterwards.

In April 2012, student loan debt reached US$1 trillion. Severity of the student debt burden represents such a threat to the middle class that some have demanded a general bailout. Anthropologist David Graeber, author of Debt: The First 5000 Years, argues that student debt is "destroying the imagination of youth":

In 2014, a Chilean activist, artist Francisco Tapia, known as "Papas Fritas" (French Fries) "burned $500 million worth of debt papers" from Viña del Mar University, and displayed the ashes in a van as an art project. The University was being shut down due to financial irregularities. "It is a concrete fact that the papers were burned. They are gone, burned completely, and there's no debt," said Papas Fritas in his first U.S. broadcast interview. "Since these papers don't exist anymore, there's no way to charge the students."

On November 12, 2015, students organized rallies at more than 100 college campuses across the United States to protest crippling student loan debt and to advocate for tuition-free higher education at public colleges and universities. The demonstrations took place just days after fast food workers went on strike for a minimum wage of $15 an hour and union rights.

In 2015, Central Saint Martins student Brooke Purvis announced that he would burn his student loan as a form of protest art, raising awareness about student debt. It is argued the art work addresses the subject matter of the materialism of money and brings to light the political issues of the U.K student loan system.

Leon Botstein, president of Bard College in Annandale-on-Hudson, N.Y., contends that the next president elected in 2016 should push for all outstanding student loan debt to be forgiven.

A February 2018 research paper from the Levy Economics Institute of Bard College argues that government cancellation of student debt in the United States would result in rising consumer demand, along with economic growth and increased employment. Over the following decade, the GDP would increase by between $86 billion and $108 billion annually, which would result in an increase of between 1.2 and 1.5 million jobs and a decreased unemployment rate (estimated from 0.22 to 0.36 percent).

In April 2019, Elizabeth Warren, a U.S. Senator from Massachusetts seeking the nomination in the 2020 Democratic Party presidential primaries, added a proposal to her presidential platform to cancel student debt and make public colleges tuition free. In June 2019, U.S. Senator from Vermont Bernie Sanders, who is also seeking the 2020 Democratic nomination, offered a plan for the cancellation of all 1.6 trillion in outstanding student loan debt which would be paid for with a tax on Wall Street speculation.

US student loan resistance groups

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See also

• Student loan

• Student loans in the United States

• Student benefit

College admissions in the United States

College tuition in the United States

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Free education

Higher education bubble in the United States

Higher Education Price Index

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Student loans in the United States

Tuition

Tuition agency

Tuition center

Tuition fees

Tuition freeze

Refinancing

References

Further reading

• The Student Loan Mess: How Good Intentions Created a Trillion-Dollar Problem.

Best, J. and Best, E. (2014). The Student Loan Mess: How Good Intentions Created a Trillion-Dollar Problem. Atkinson Family Foundation.

External links

• Student finance (UK)

• Federal Student Aid (US)

• Canada Student Loans

Federal Student Aid (US)

Canada Student Loans

Student finance (UK)