It is no secret that student loan debt is growing at an unprecedented rate. In 2011 alone, “students borrowed $117-billion in just federal loans” bringing the total student loan debt to well over $1 trillion (Donaghue). The total debt exceeds credit cards and car loans (Yerak). Until recently, the issue has remained suppressed and ignored because of the struggling economy and the mortgage crisis, however, the United States is now in a place where it can no longer overlook the tragedy of student debt post-graduation. Whether the issue stems from an entitlement mindset or an overzealous spending spree is no longer relevant. Determining courses of action that will remedy the situation in the short and long-terms are finally at the forefront of the conversation.

Types of Loans

There are several different types of loans. The major difference between loan types pertains directly to interest: subsidized, unsubsidized, income-based or adjustable.

Federal Direct Stafford loans are loans which can be subsidized based on financial need. The Department of Education incurs the interest on these loans and students are not held responsible. Circumstances vary, but interest may be subsidized during the students’ time in school or for the life of the loan.

Federal Direct PLUS loans are loans in which financial need is not required. Interest rates are capped and underscore those from a private lender. Other loans include loans directly from universities, Perkins loans-where federal money is dispersed to participating universities, and loans from private lenders. (Williams)

Cost of Tuition Increase

As explained in Table 1, the growing cost of college tuition is exponentially greater than all other cost of living increases over the last decade. The increases are more than double that of housing, transportation and medical care since 2000. According to the National Center for

Education Statistics, the cost of public education for the 1980-81 school year was $2,373 (in today's dollars) and in the 2010-11 school year the cost totaled $13,564 (NCES).

Loan forgiveness

Student loan forgiveness is a new concept that has emerged with the growing issues surrounding loan repayment. Loan forgiveness currently applies to students who, post-graduation, participate in programs such as *Teach for America*, public employment for positions such as public safety, public health, military and public interest legal services, among many others (FinAid). When employed as a public servant, loan holders can make 120 consecutive on-time payments, or ten years, and will have the remaining interest and principal forgiven. This is a fairly new initiative – only beginning in 2007- so extensive research results are still not available.

Implications

A rise in student loan debt has resulted in pushing back of life choices such as marriage, child-bearing and entrepreneurship. According to Donaghue, for those who took out upwards of $150,000, "the average age of first marriages has risen by two years" and fertility rates decreased. $150,000 is certainly a small percentage of loan-holders but the trend is real and a growing problem. It is not uncommon for a twenty-something to move back in with their parents after college or graduate school. Not only is it difficult to find a job, but even successful employment does not guarantee successful management of student loan payments. This debt also forces millenials to decrease consumption and leaves them relying on credit cards and parents. This is a grueling drain on the overall economy.

Another implication is the cessation of lending by private companies. Because of the overall risk of default and the continued decline in private lending demand, interest rates for private loans have increased. Further, banks like Chase no longer grant loans to those who are not already customers (Yerak). This is a common trend.

Students are not the only ones bearing the burden of education-related debt. Parents are going broke from student loans, too. Because of the dependency clauses where parental income is considered in loan and financial aid requirements until age twenty-four, many parents take on the burden of co-signing on their child's student loans. The ramifications of this include delayed retirement, lowered standard of living and even bankruptcy.

Legislation

2012 has been a substantial year in terms of legislation proposed to assist with student loan debt increases. None of the proposed bills have presented legitimate remedies to reduce the amounts dispersed or the overall mountain of debt.

The 'Know Before You Owe Act' (2012) was proposed by Senator Durbin in an effort to amend the "Truth in Lending Act and the Higher Education Act of 1965 to require certain creditors to obtain certifications from institutions of higher education, and for other purposes" (govtrack). This significantly weighs on for-profit institutions that are profiting from loan disbursements to students who do not fully understand the cost they are committing to and leave their institution with a useless degree. As of right now, the bill has yet to pass. GovTrack gives a forecasted 4% chance of passing (govtrack).

The 'Understanding the True Cost of College Act' is another piece of legislation that was introduced in an effort to be more informative to loan seekers. With many legislators holding the belief that 'knowledge is power', this legislation was believed to be effective in educating students of the real consequences of student loans. As of today, the Bill has not passed.

The 'Fairness for Struggling Students Act' is another piece of legislation proposed by Senator Durbin of Illinois. The legislation provides that private loans (which often have higher interest rates) would be dischargeable in bankruptcy proceedings. Proponents of this piece argue that it would grant a bargaining tool if private lenders were in fear of a complete discharge of a loan. This, they said, would grant leverage and allow for negotiations (Yerak). Opponents claim it masks the larger problem of growing debt.

Finally, the "Student Loan Forgiveness Act" of 2012. This is still a work in progress, but a significant initiative taken on by President Obama. This legislation focuses specifically on 'restoring fairness' in higher education, offering loan forgiveness, interest rate caps, and refinancing opportunities. Though this legislation is yet to pass, it has significant strength and support across the country.

<u>Options</u>

There are several options when considering tackling the student loan crisis. While the ideal resolution is for complete repayment by every borrower, the probable resolution is likely a combination of several different options.

Option A is to make all public college education free. This of course rests on the notion that we should consider college education to be the same as K-12 education, and therefore, everyone must go. If education is free and available to all, there will be no need for student loans. Whether or not this is practical is a political issue.

Option B is to reduce the age of dependency for qualification purposes. However with age reduction come implications, such as students who will be granted financial aid because they 'qualify' even though they or their parents are willing and able to pay the tuition. This does beg the question of how to resolve financial aid fraud. It also demands that higher education policy advisors devise a way to ensure those who need financial aid receive it, as well as ensuring that it is repaid.

Option C would be to significantly increase the work study program at universities. If student loan debt is going to be reduced or forgiven, more stringent efforts should be made for students to work on campus, at state facilities or other government institutions in order to repay debt. Volunteer hours and community service where there is a visible benefit for the grantor would also make loan reductions more reasonable.

Option D is to eliminate subsidized loans to reduce the debt incurred on behalf of the Department of Education. If reducing the number of loans dispersed is simply not an option at this time, the cost of obtaining loans should be increased as a deterrent for excessive disbursement.

Conclusion

What many borrowers and proponents for student loan forgiveness forget to consider is the vicious cycle that student loan forgiveness is creating. The programs, and federal government for that matter, lack a bottomless pit for money. When money that is used is borrowed and not repaid, the burden is on the lender (which in many of these cases is State and Federal government). This debt incurred by the lender is then displaced on future debt holders who will not be able to afford their loan or interest after graduation. This is also why bankruptcy wipeout of loans would not be a plausible solution either. Forgiving and forgetting only leave lenders deeper in their own debt.

The obvious solution may not be the most cost-efficient resolution or the most popular solution, and will likely a combination of many options. A true realization is that student loans are not for everyone and extreme measures need to be taken. Students who can afford tuition need to pool resources and choose not to accept federal funding. Recipients who cannot afford the cost and would like to receive loans at a reduced rate need to consider working or volunteering to ‘work off’ debt.

What is known is that student loan debt is headed down a path of irreparable conditions if measures are not taken immediately. Significant attention needs to be paid to the real possibility that students will simply default and accept the repercussions of damaged credit and a fresh start. This is no longer a problem for students, but a crisis that will affect everyone.

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