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The Student Debt Crisis

Anne Johnson, Tobin Van Ostern, and Abraham White October 25, 2012

Introduction and summary

Higher education is an integral part of the American Dream. But today more and more young people increasingly have to finance their education through student loans.

In the past three decades, the cost of attaining a college degree has increased more than 1,000 percent.[1] Two-thirds of students who earn four-year bachelor's degrees are graduating with an average student loan debt of more than $25,000,[2] and 1 in 10 borrowers now owe more than $54,000 in loans.[3]

African American and Latino students are especially saddled with student debt, with 81 percent of African American students and 67 percent of Latino students who earned bachelor's degrees leaving school with debt.[4] This compares to 64 percent of white students who graduate with debt. With $864 billion in federal loans and $150 billion in private loans, student debt in America now exceeds $1 trillion.[5]

Many factors have contributed to the dramatic increase in student debt, including the global economic recession of 2008, which led to a dramatic rise in college enrollment and consequently more students borrowing to pay for school.[6]

One of the major self-inflicted causes is the consistent decline in state funding for higher education,[7] which had helped colleges keep tuition affordable. The steadily and rapidly increasing cost of college nationwide prompted a dramatic rise in student borrowing—a natural result as families could no longer rely on scholarships, grants, and personal savings, which cannot keep up with the rapidly increasing tuition costs that have far outpaced the rise in other basic costs like those of health care, gas, and food.[8]

Beyond the job losses and decreased savings, the recession also had a major impact on state colleges and universities directly. One major effect was a drop in colleges and universities' endowment values,[9] which meant that they had fewer dollars to distribute in grants and scholarships to the students who rely on them to pay for school. The recession also led to significant cuts in state higher education funding[10] and consequently a further uptick in tuition.

Another cause has been the rise of the for-profit college sector. Students at non-four-year, for-profit colleges have seen the largest increase in student loan debt among any group of student borrowers. In 2001, 62 percent of freshmen at these schools took out student loans—and just eight years later, that number jumped to 86 percent.[11] These trends are a result of a lack of oversight of private lenders and the marketing practices of these loans by for-profit schools in particular.

These practices include direct marketing to borrowers who are often unaware of all their options, a tactic that has been widely criticized for the part it's played in saddling borrowers with unmanageable levels of debt.[12] Additionally, these schools have made a concerted effort to market to and recruit veterans, even relying on third-party marketing firms who create the illusion that they are part of or endorsed by the federal government—using websites like GIbill.com—and that these for-profit colleges are the only ones accepting Post-9/11 G.I. Bill education benefits. The result is often exhausted benefits and unnecessary student debt.[13]

One of the most troubling segments of student lending, however, is the private student loan sector. Defaulted private loans alone currently total more than $8.1 billion, representing 850,000 individual loans.[14] Because these loans often carry high and variable interest rates, many students can end up paying far more than the cost of tuition.

Private student lending has become so great a concern among students, schools, and higher education advocates that the Consumer Financial Protection Bureau dedicated an entire report to the subject.[15] Over the last decade, the demand for securities backed by these loans led to a dramatic growth in private student lending.[16] From 2005 to 2011 alone, total private student loan debt more than doubled from $55.9 billion to $140.2 billion.[17]

Regardless of which kind of loan students take out (federal or private), all student borrowers face the challenge of repaying their loans—specifically, navigating the bureaucracy involved with the private companies contracted by the original lender (federal and private) to oversee and facilitate repayment. But the problem is more than these loan servicers being unresponsive or unhelpful. Over the last year 1 million borrowers saw their loans arbitrarily assigned (some only notified after the fact) to a new company, which has resulted in fluctuation of their payments, being put in forbearance, and other inaccuracies in their statements.[18]

Major progress was made with the student loan reforms President Barack Obama signed in 2010, which eliminated $60 billion in unnecessary subsidies to private lenders. Those funds were put toward grants for low-income students and the federal government began making fixed, low-interest loans directly to students.[19]

Behind these stark national numbers is the impact these trends are having on students. In fact, the impact often extends beyond the students, burdening their families for decades. This threatens the ability of current and future generations to build successful careers and contribute to the economy, and it affects the ability of previous generations to save for their own future.

Indeed, the overwhelming debt many students face leave them unable to wait for higher-paying jobs and forces them to take lower-paying jobs in order to stop the payments and interest from ballooning.[20] This results in fewer graduates starting their own businesses and negatively impacts the economy. Though many with federal student loans have the option of income-based repayment—a recently expanded program which caps borrowers' required monthly payments at an affordable amount based on income and family size[21]—the majority of borrowers with federal student loans[22] are either unaware or do not understand the program. Additionally, this is not even an option for those with private student loans.

Furthermore, the escalation of college costs has resulted in many students and families barely scraping by, having to turn down admissions to their top-choice schools they couldn't afford, or delaying college altogether.[23] Worse still, some students leave school with debt and no degree.[24]

Despite these issues, higher education remains critical for millions of students and their families. Recent reports from the Bureau of Labor Statistics now show that college graduates are nearly twice as likely[25] to find work as those with only a high school diploma. The current unemployment rate for those with a college degree—4.1 percent—is about half of the national average. For individuals, it provides a clear path to the middle class, a higher likelihood of gainful employment, and life-long financial and personal benefits. An advanced degree also provides for a skilled workforce that is crucial to rebuilding the American economy.

This report will provide an overview and analysis of:

- Existing student debt
- The factors contributing to the rise in student debt
- Changes in student debt over time
- The role lenders have played in the current student debt crisis
- Who has the debt
- The impact of student debt

We begin with student loans.

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