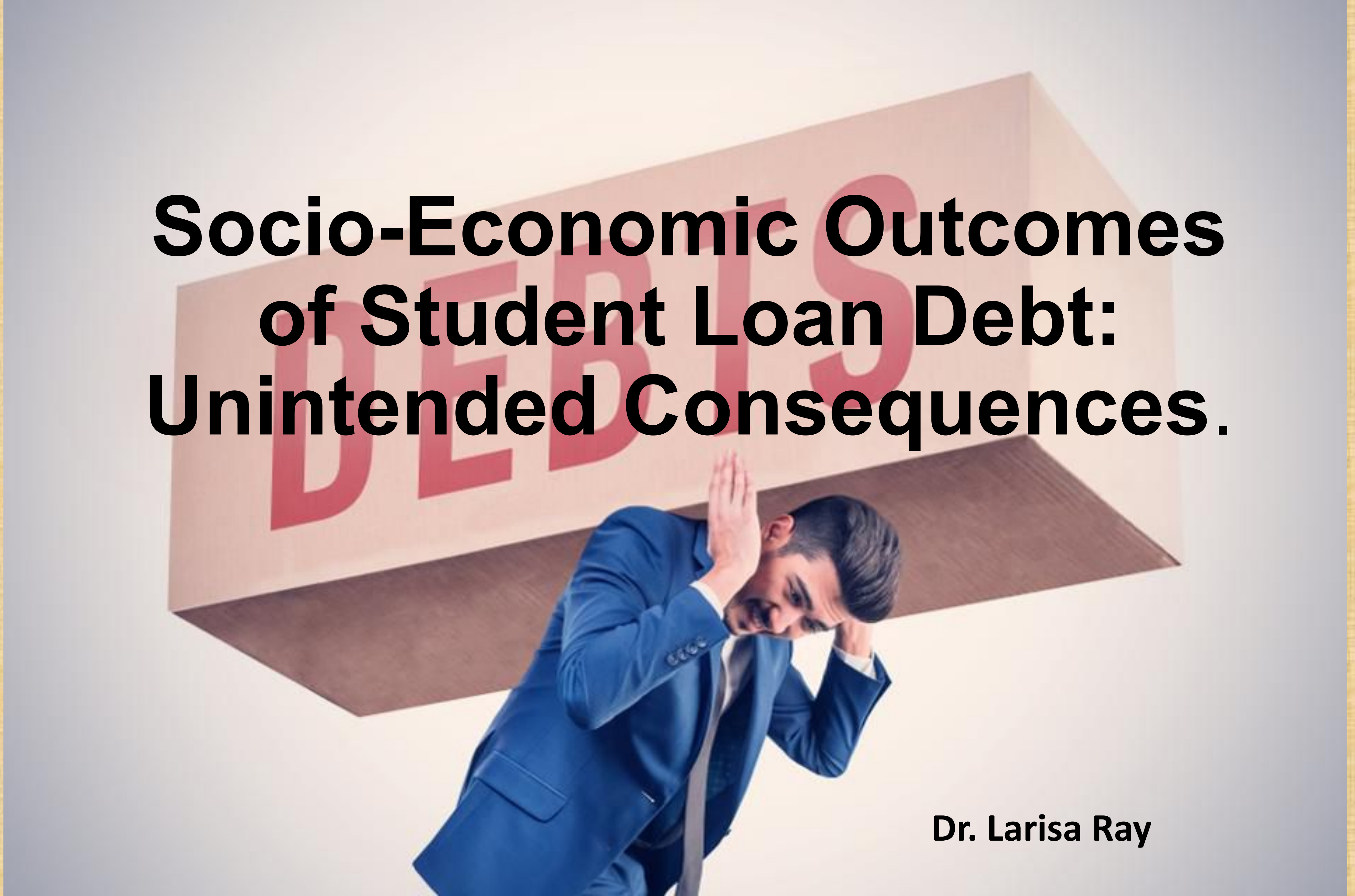
Socio-Economic Outcomes of Student Loan Debt: Unintended Consequences.



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Introduction

- In the US economy, student loan has growing as tuition has risen over several decades. There has been a debate as to whether student loans have a positive outcomes and more education has led to higher earnings in the future, or student loans debt have more negative than positive effect on the US economy and student loans debt has led to a massive exacerbation of income inequality among young adults. The student loan debt has been the subject of many policy discussions and political debates. Even though student loan is growing rapidly, the federal government assumes that student loans support greater postsecondary attainment which could improve socioeconomic outcomes for the entire economy(Julie M Morgan and Marshall Steinbaum, 2018)
- A new identification approach needs to be proposed to determine positive and negative effects of subsidized and unsubsidized federal student loans on the US economy.
- It is important to analyze the correlation between the student credit expansion and the rise in college tuition.
- In fact, the growing student loan doesn't always lead a higher earnings for young adults in the short-run and threatens the US economy in the long-run by deepen the national debt crisis.
- The basic assumption about the role of student loans debt will be corrected in terms of unintended consequences of debt financed education.

Understanding Subsidized and Unsubsidized Federal Student Loans

Student loans did not exist in their present form until the federal government passed the Higher Education Act of 1965, which had taxpayers guaranteeing loans made by private lenders to students. While the program might have had good intentions, it has had unforeseen unintended consequences.

Subsidized loan can be determined as a loan that partially supported by the government.

Unsubsidized loan is also provided by the government but does not offer any additional financial support, and the borrower pays the full debt with interest (from 4.5% to 6%).

Positive effect: subsidized loans provide extra benefits to students from low-income families. So, subsidized loans help to reduce inequality in access to colleges.

Negative effect: subsidized loans cost the government 25 cents for every dollar disbursed, compared to 16 cents on the dollar for unsubsidized loans.

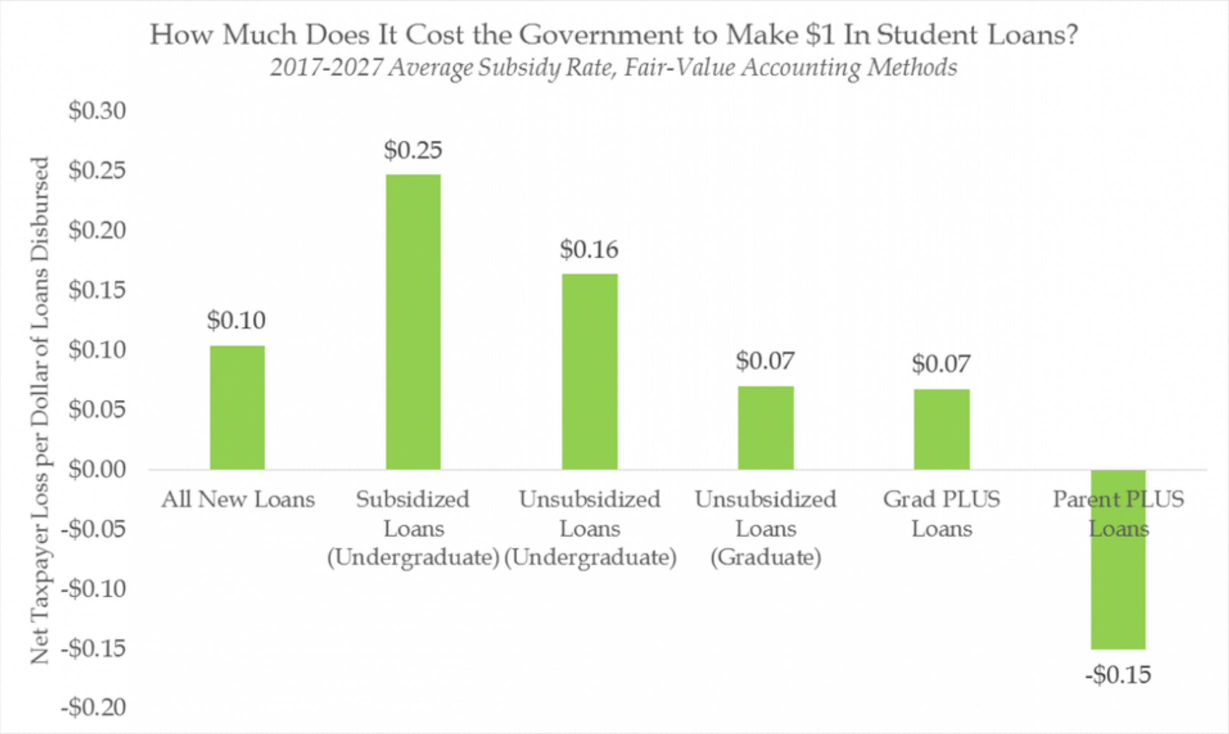
Subsidized loans themselves may be responsible for tuition hikes. Unsubsidized loans also drive up tuition, but to a lesser degree.

Understanding Subsidized and Unsubsidized Federal Student Loans

The main difference between subsidized and unsubsidized loans is interest accrues on unsubsidized loans while the borrower is still in school.

For subsidized loans, interest does not accrue until the borrower leaves school, meaning that taxpayers forgive several years' worth of interest while borrowers complete their studies.

Not everyone is eligible for subsidized loans. To determine eligibility, the federal government calculates each student's "expected family contribution" to the cost of college based on his family's income, wealth, and other factors [(Preston Cooper, 2017).]



Analyzing the Correlation Between the Student Credit Expansion and the Rise in College Tuition

The design of the subsidized loan program allows higher-income students also be eligible, provided they attend a college with a high cost of attendance. Expensive colleges boast prices that exceed the expected contributions of most families, meaning students of many different economic backgrounds are eligible for a program supposedly meant to help low-income students. For example, one study shows that a dollar of subsidized federal student loans increases published tuition by 58 cents (David O. Lucca, 2017).

Relentless increases in college prices mean that 85% of undergraduate borrowers receive subsidized loans.

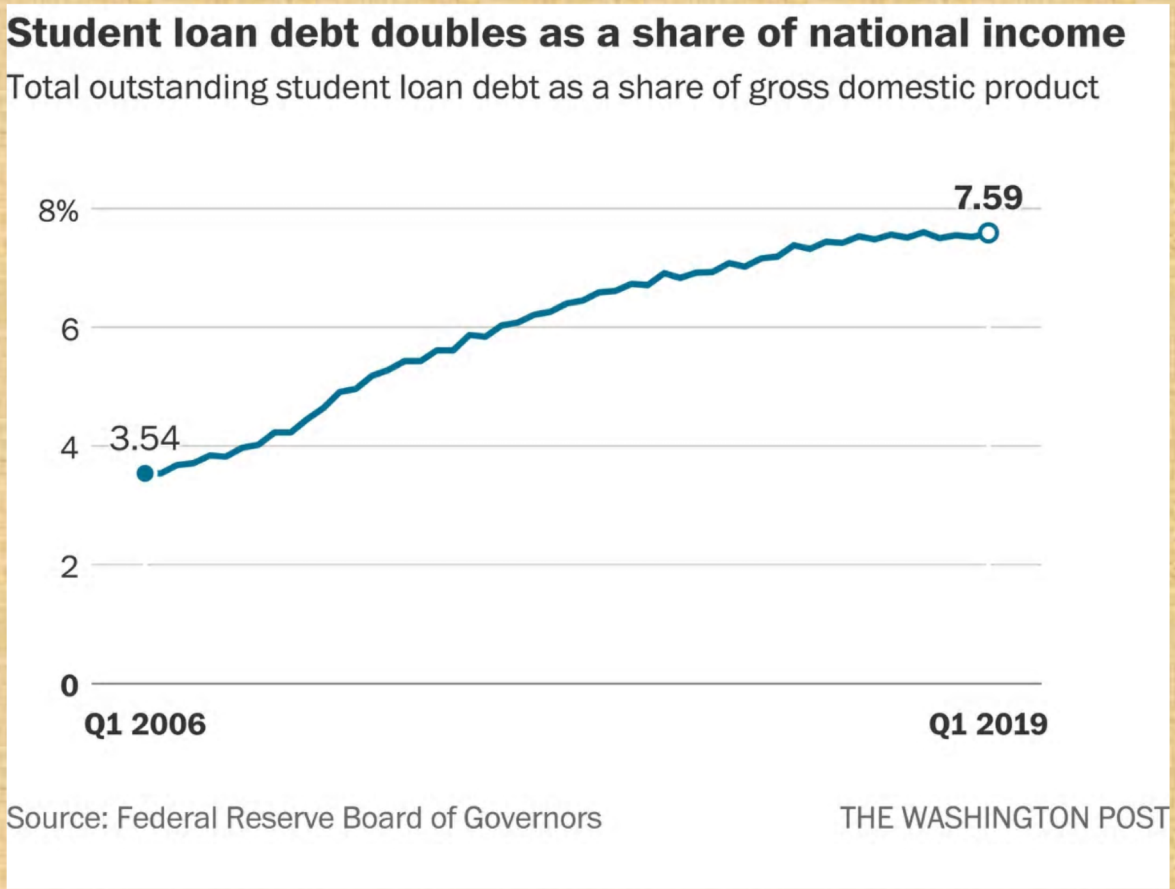
Applying the Law of Demand

Federal government financing of student loans resulted in a surge of students applying for college which means an increase in demand for higher education. To meet the demands of students colleges and universities expand their academic programs in the arts and humanities to suit students not interested in math and sciences. In 1980, there were 3,231 higher education institutions in the United States. By 2016, that number increased by more than one-third to 4,360 (Daniel Kowalski, 2019) While government subsidies to student loans have increased demand for higher education, the supply of higher education has not increased. As a result, the cost of tuition has risen dramatically.

According, to *Forbes*, the average price of tuition has increased eight times faster than wages since the 1980s.

In 2018, the Federal Reserve estimated that there is currently $1.5 trillion in unpaid student debt.

The Institute for College Access and Success estimates that in 2017, 65 percent of recent bachelor’s degree graduates have student loans, and the average is $28,650 per borrower.



Do the Math…

- According to the Money survey, borrowers owed an average of **$87,500** in debt but made an average annual income of **$60,000.**
- Would it make sense to take a **$165,000** loan for a master's degree that leads to a job where the average annual salary is **$38,000?**
- Thousands of young people are making this choice. Only when they graduate do they understand the reality of their situation as they live paycheck-to-paycheck and find it next-to-impossible to save for a home, retirement, or even a rainy-day fund.
- **Note:** student loans cannot be discharged by filing for bankruptcy. Prior to 1976, student loans were treated like any other kind of debt with regard to bankruptcy laws, but as defaults increased, the federal government changed the laws.

Student Loan Statistics: Overview

- According to Make Lemonade, there are more than **44 million** borrowers who collectively owe **$1.5 trillion** in student loan debt in the U.S. alone.
- **Total Student Loan Debt:** $1.52 trillion
- **Total U.S. Borrowers With Student Loan Debt:** 44.2 million
- **Student Loan Delinquency Or Default Rate:** 10.7% (90+ days delinquent)
- **Total Increase In Student Loan Debt In Most Recent Quarter:** $29 billion
- **New Delinquent Balances (30+ days):** $32.6 billion

How Much Do You Have to Pay?

- MBA = $42,000 (11% of graduate degrees)
- Master of Education = $50,879 (16%)
- Master of Science = $50,400 (18%)
- Master of Arts = $58,539 (8%)
- Law = $140,616 (4%)
- Medicine and health sciences = $161,772 (5%)
- Other master's degrees = $55,489 (15%)
- Many studies show that most Americans (about 44 million) who have had student debt have delayed important financial life decisions such as buying a house, having children, getting married, etc.
- For example, a new Bankrate survey(conducted in Feb. 2019 among 3,885 US adults) shows that 34% of responders are delaying savings, 27% are putting of paying credit cards debts (or other forms of debt), 31% are currently having student loan, etc.

Who Gets Student Loan?

- **Here is breakdown by age**

30-years-old: 16.8 million

30-39: 12.3 million

40-49: 7.3 million

50-59: 5.2 million

60+: 3.2 million

- **Breakdown by income level**

Under $30,000: 27 percent.

$30,000-$49,999: 30 percent.

$50,000 to $79,999: 31 percent.

$80,000 and over: 39 percent.

- Note: Among 1,580 U.S. adults who have had student loan debt. Respondents could select all that apply. 3% responded, "Something else."
- Source: Bankrate student loan survey, Feb. 6-11, 2019

Student Loan Debt Balance By State

State	Student Loan Balance ($ billions)	Borrowers (millions)
California	$111.7	3.4
Texas	$85.4	2.9
New York	$73.5	2.2
Florida	$72.8	2.2
Georgia	$50.7	1.4
Pennsylvania	$50.3	1.6
Illinois	$49.0	1.5
Ohio	$49.0	1.6
Michigan	$40.8	1.3
North Carolina	$36.3	1.1

Source: U.S. Department of Education

Highest Average and Lowest Average Student Loan Debt By State

	Highest Average Debt States	Average Student Loan Debt
1	Connecticut	$38,510
2	Pennsylvania	$36,854
3	Rhode Island	$36,250
4	New Hampshire	$34,415
5	Delaware	$34,144
6	New Jersey	$32,247
7	Massachussets	$32,065
8	Alabama	$31,899
9	Minnesota	$31,734
10	Maine	$31,364

	Lowest Average Debt States	Average Student Loan Debt
1	Utah	$18,838
2	New Mexico	$21,237
3	Nevada	$22,064
4	Wyoming	$22,524
5	California	$22,785
6	Washington	$23,936
7	Arizona	$23,967
8	Florida	$24,041
9	Hawaii	$25,125
10	Tennessee	$25,252

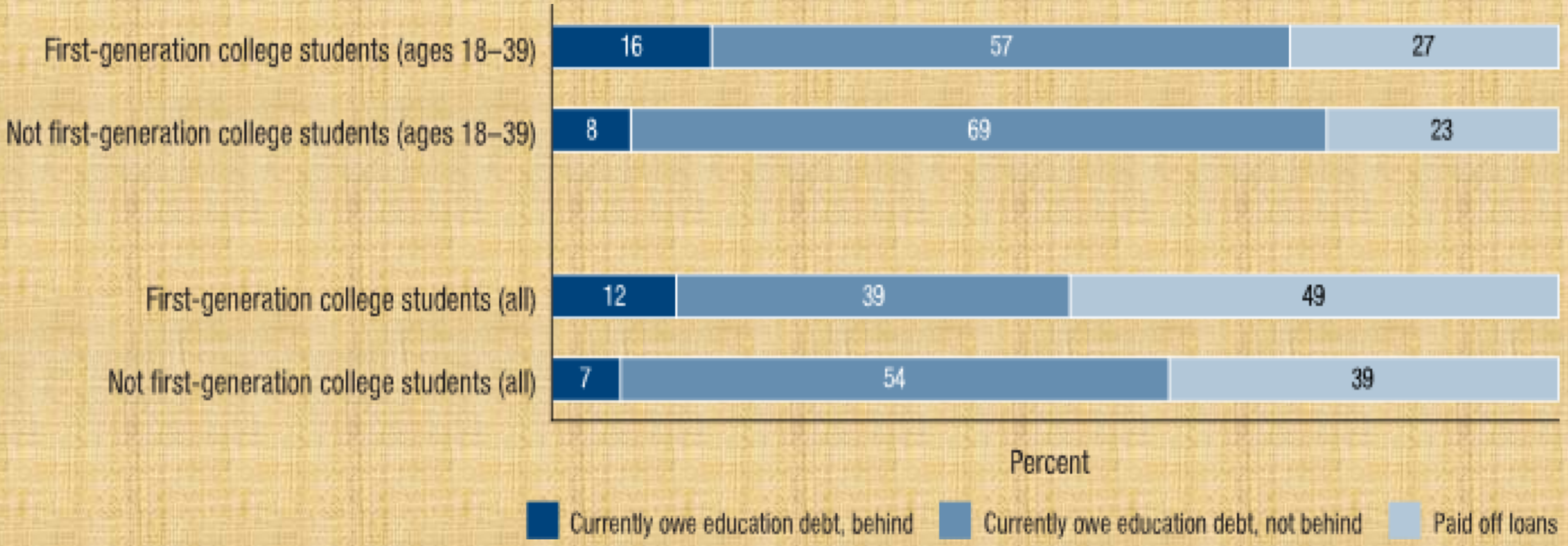
Source: U.S. Department of Education

Distribution Of Student Loan Borrowers By Balance

Student Loan Balance	Number of Borrowers
$1 - $5,000	8,547,500
$5,000 - $10,000	7,425,400
$10,000 - $25,000	12,277,200
$25,000 - $50,000	8,609,700
$50,000 - $75,000	3,681,000
$75,000 - $100,000	1,612,600
$100,000 - $150,000	1,347,400
$150,000 - $200,000	604,900
$200,000+	609,800
TOTAL	**44,715,500**

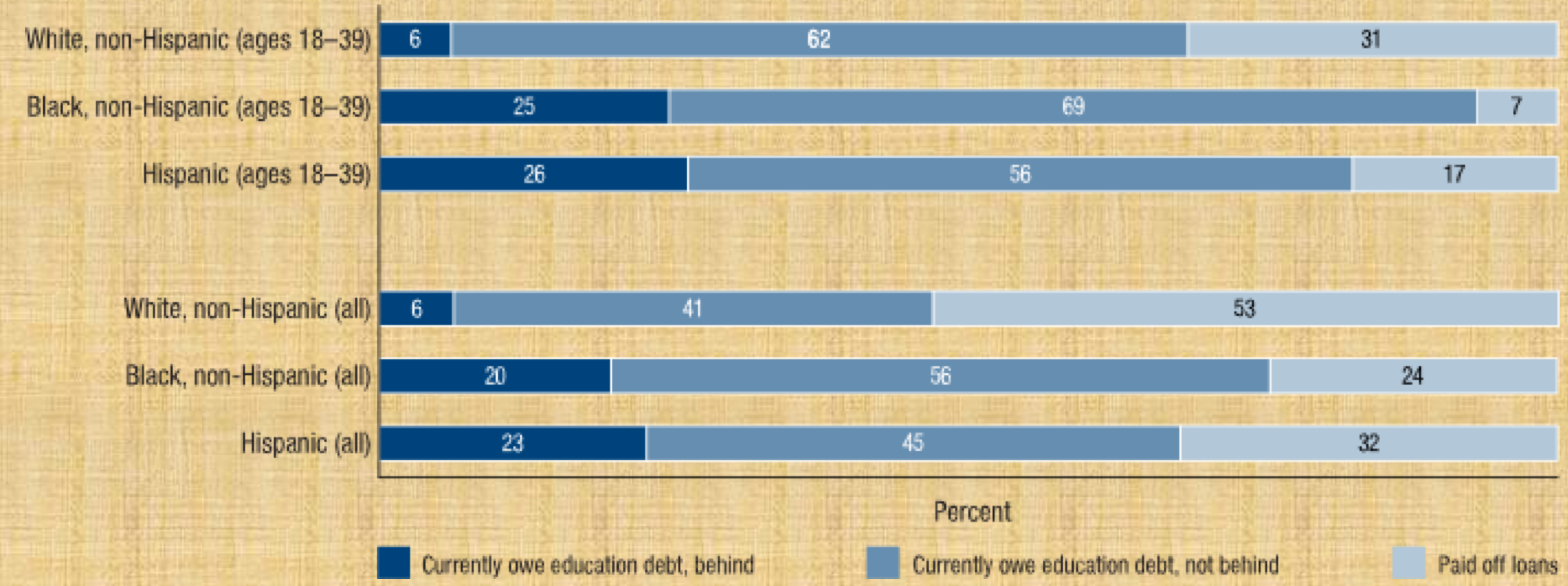
Source: U.S. Department of Education

Payment status of student loans acquired for own education (by age and parents' education)



Source: The Federal Reserve
https://www.federalreserve.gov/publications/2017-economic-well-being-of-us-households-in-2016-education-debt-loans.htm

Payment status of student loans acquired for own education (by age and race/ethnicity)

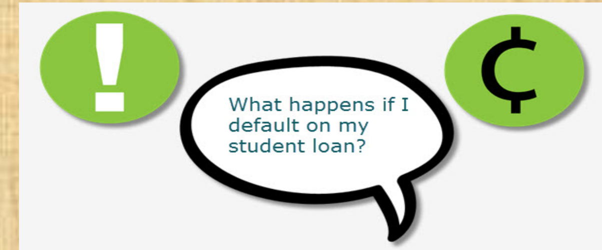


Source: The Federal Reserve
https://www.federalreserve.gov/publications/2017-economic-well-being-of-us-households-in-2016-education-debt-loans.htm

Positive Effects

- College degrees increase productivity. “The main macroeconomic impact of student loans, particularly over the longer run, is via the boost to output and productivity from a more educated workforce,” the White House said in its 2016 report Investing in Higher Education.
- College degrees increase income. Workers who attain a bachelor’s degree gain $1 million in lifetime earnings, according to the White House report.
- College degrees reduce unemployment rate. The White House report also showed that “Individuals with college degrees also see lower unemployment rates and have increased odds of moving up the economic ladder.”
- Federal student loan forgiveness programs increase tax revenues. “Graduating from college rather than ending schooling with some college was associated with the largest increase in tax payments,” according to a research brief from the RAND Corporation.

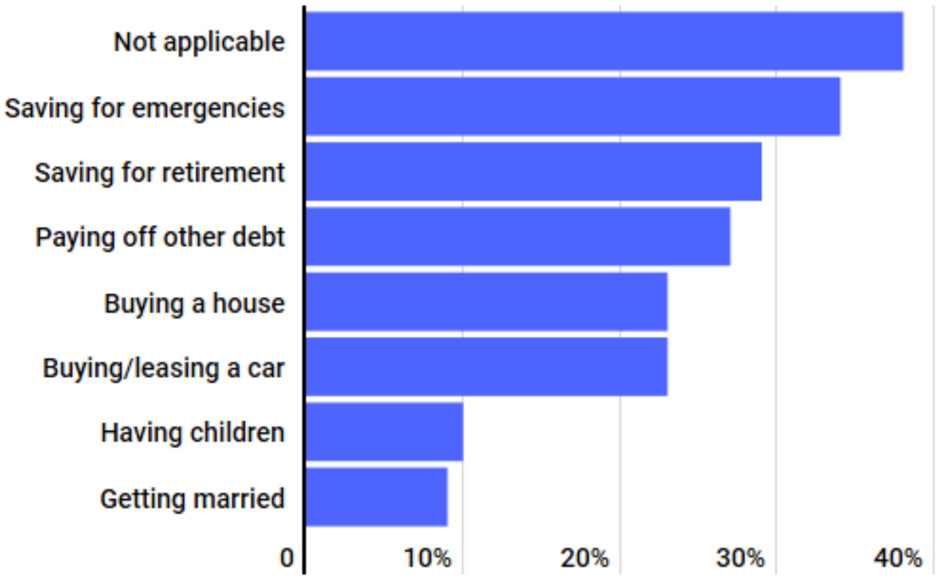
Negative Effects



- *Student debt crisis increases* income inequality among young adults. Minority groups are hit the most. In 2013, the median net worth of blacks in the United States was $11,030 — far below the median net worth of whites at $134,230, according to data from the Economic Policy Institute. Black college graduates had a median net worth of $23,400, while white college graduates had a median net worth of $180,500. Among blacks with a graduate or professional degree, the median net worth was $84,000 in 2013, compared to $293,100 for whites (Kelsey Ramiraz, 2018).
- Many people are not prepared for a four-year college degree. In fact, the Institute of Education Statistics estimates that 40% of attendees at a four-year college drop out before completing their degree. The 60% that do complete their degree, a whopping 64% take longer than four years to graduate, costing themselves nearly *$70,000 in lost wages and educational expenses per year*, according to U.S. News.
- Defaulting on student loans impacts credit history and *puts business, mortgage, marriage plans on hold*. The average household's student-loan debt has tripled since 1989.

Americans delaying major financial milestones because of student debt

We asked: Which of the following have you ever delayed specifically because of your student loan debt?



Note: Among 1,580 U.S. adults who have had student loan debt. Respondents could select all that apply. 3% responded, "Something else."
Source: Bankrate student loan survey, Feb. 6-11, 2019

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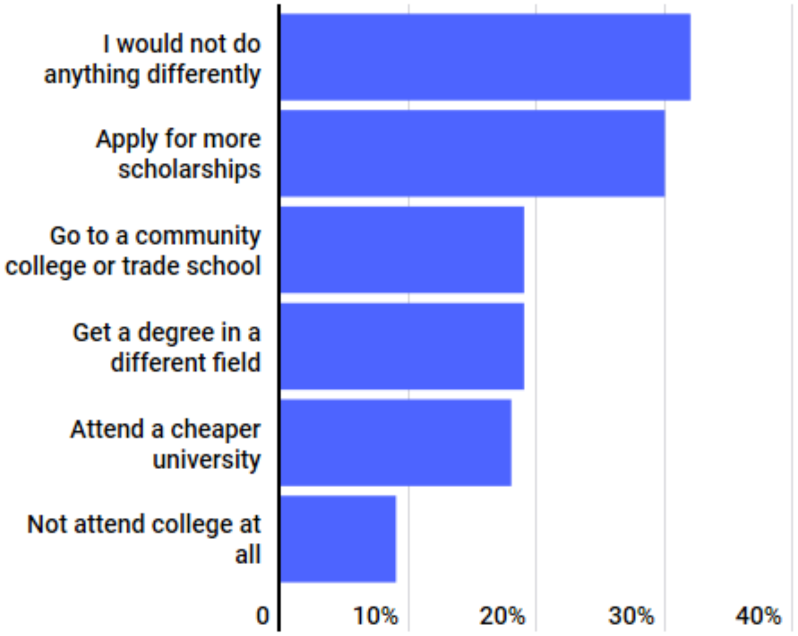
A third of Americans don't regret their student debt

We asked: Thinking of your student debt, which of the following would you have done differently in hindsight?



Note: Among 1,580 U.S. adults who have had student loan debt. Respondents could select all that apply. 6% responded, "Something else."
Source: Bankrate student loan survey, Feb. 6-11, 2019

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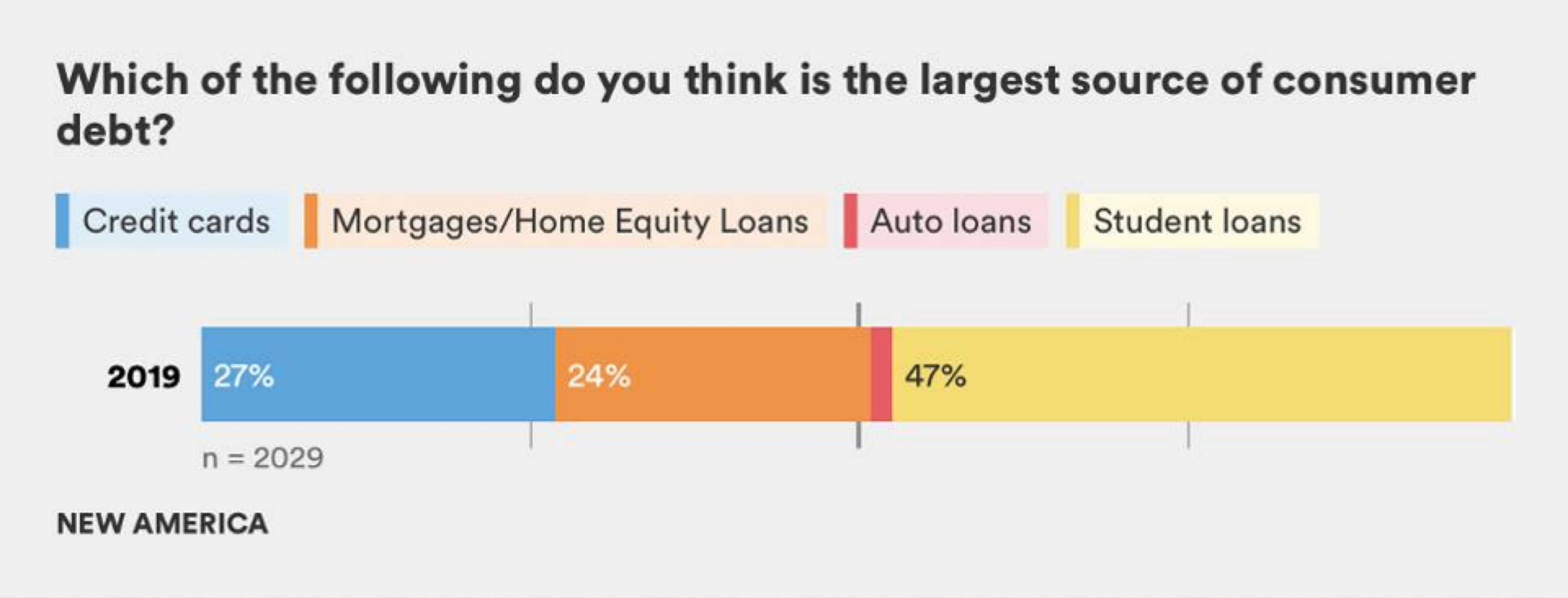
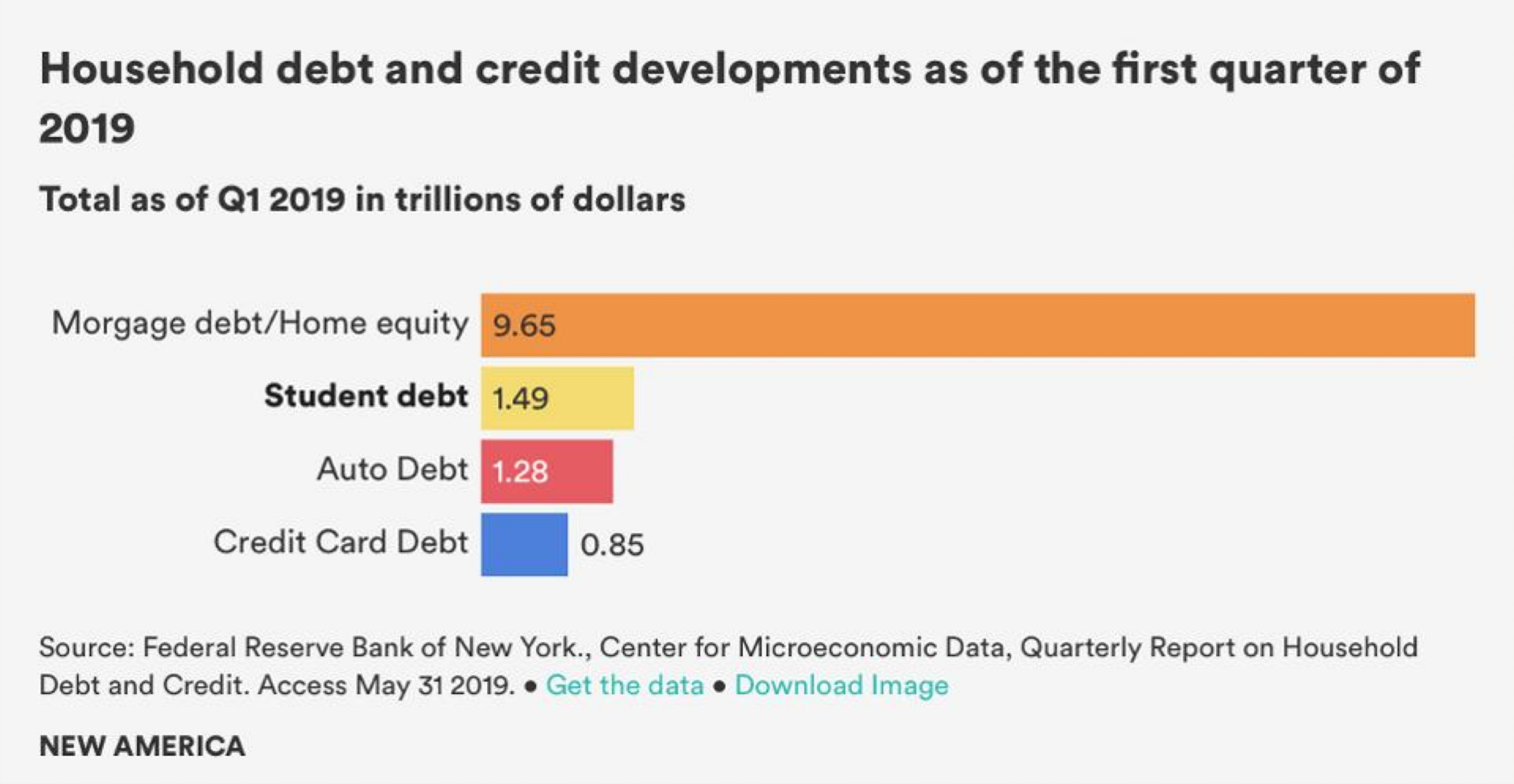
Public Opinion of Student Loan Debt



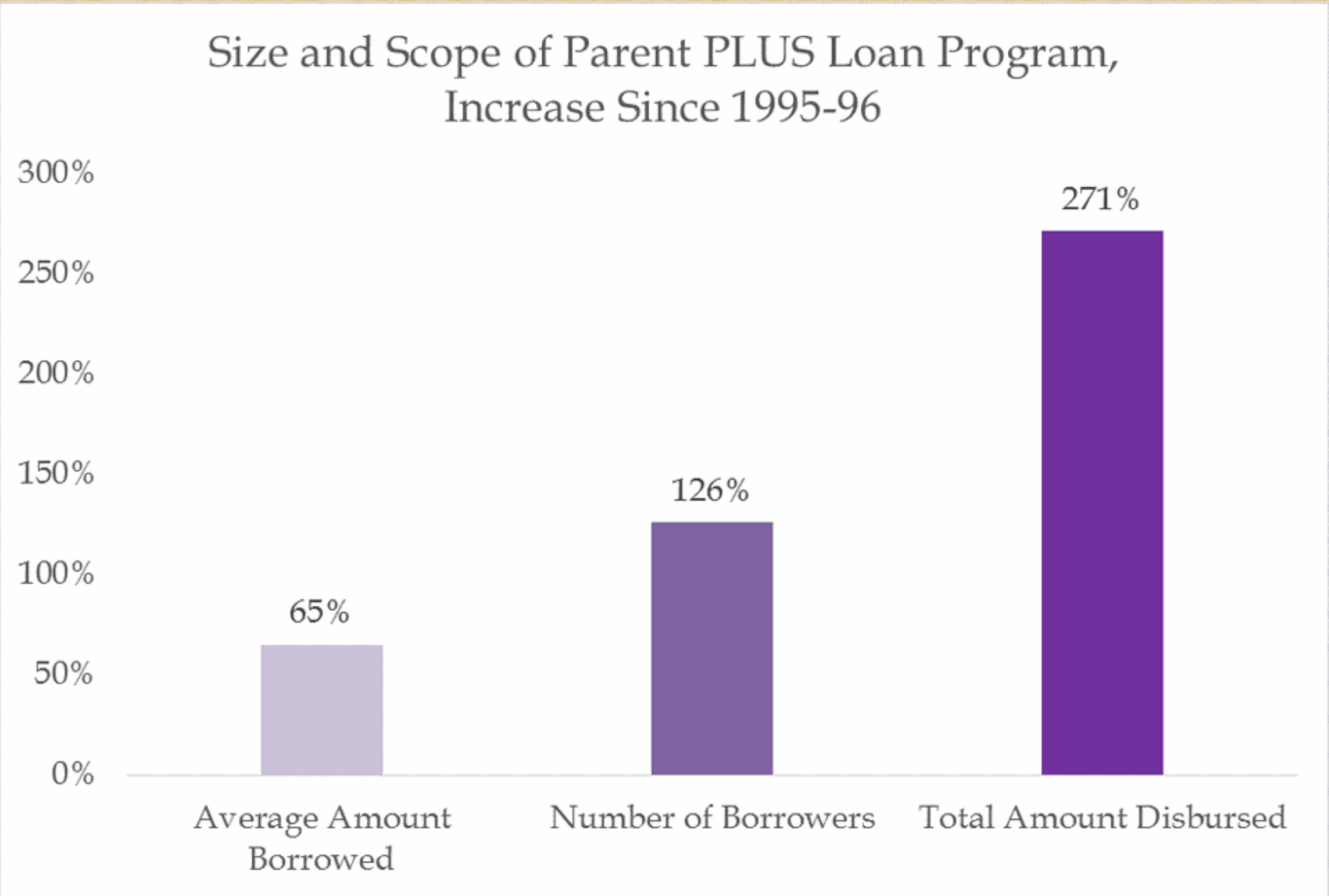
Mortgages and Home Equity Loans Overshadow Student Loans



Is Government-Backed Student Loans the Problem?

- One of the biggest problems of the student loan industry is a government-sponsored enterprise (GSE). For example, Sallie Mae, which was originally founded by Congress as a secondary market for student loans in 1972, has leveraged its lobbying activities, strong ties with the federal government and its status as a GSE. Sallie Mae was able to convert relatively illiquid student loans into bonds backed with an explicit guarantee from the United States Government. Sallie Mae was able to grow from a company with $300 million dollars in outstanding obligations in 1975, to a company with over $47 billion in outstanding obligations in 20 years.
- There are many competitive advantages that the government provided for GSE such as a secure finance from the Federal Financing Bank, lower capital requirements, an exemption from state and local taxes on its franchise, capital and income.

Could It be a Next Financial Bubble?



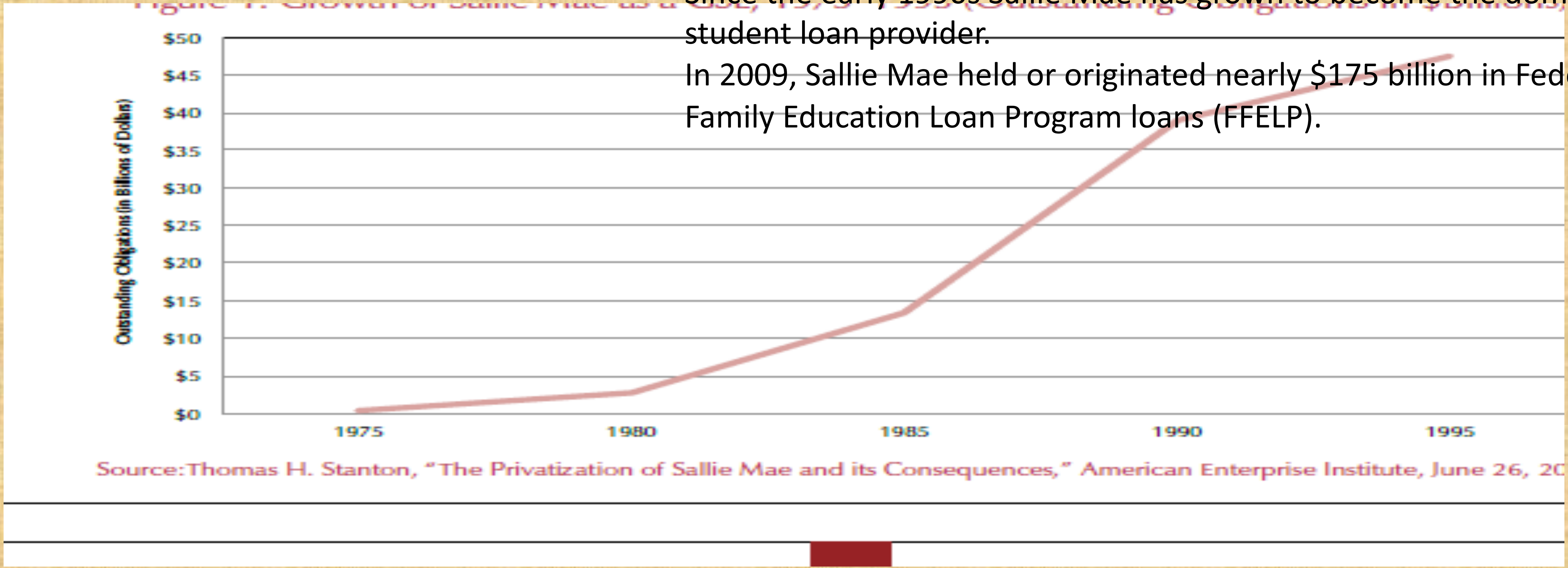
Parent PLUS loans currently account for 20% of all undergraduate loans disbursed by the federal government, up from 13% just six years ago. The Parent PLUS program lent out $12 billion during the 2015-16 academic year. The program has nearly quadrupled in size since 1995, driven both by increases in the number of borrowers and increases in average disbursements (see chart). The average PLUS recipient accepts loans of more than $14,000 *per year* (Preston Cooper, 2017).

Source: College Board and author's calculations. All dollar amounts are adjusted for inflation.

Growth of Sallie Mae as a GSE, 1975–1995 (Outstanding Obligations in $Billions)

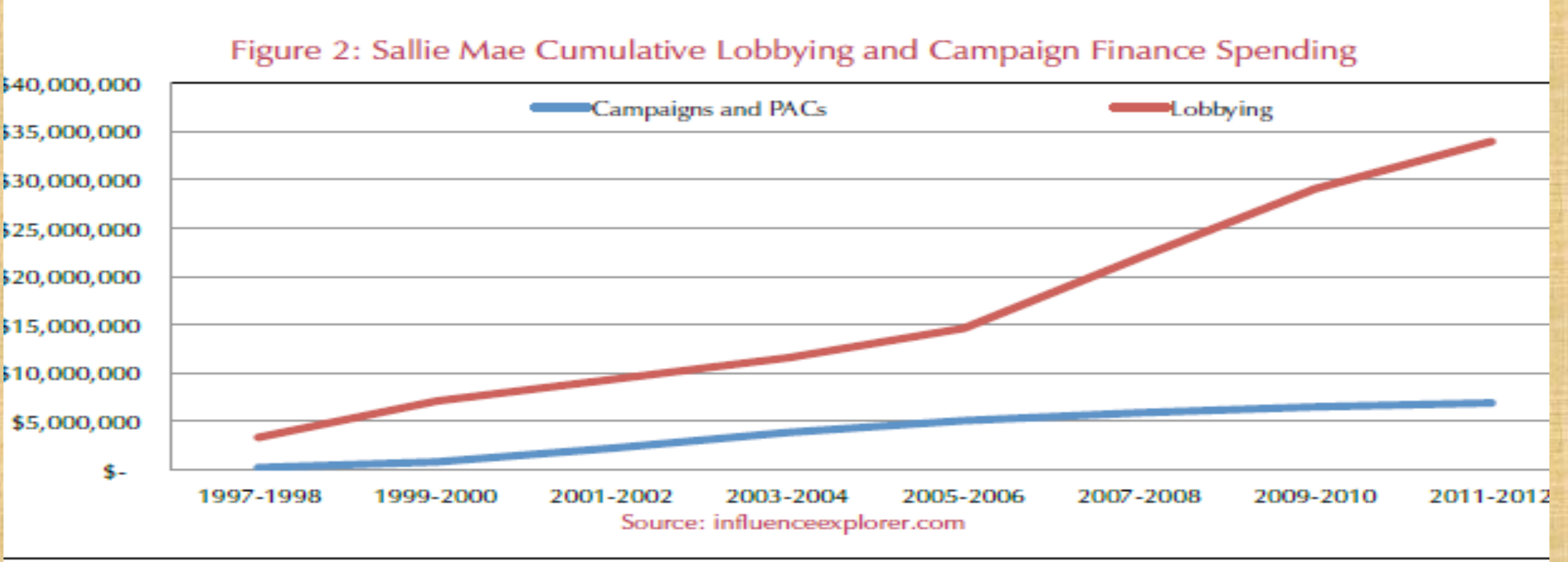
Since the early 1990s Sallie Mae has grown to become the dominant student loan provider.

In 2009, Sallie Mae held or originated nearly $175 billion in Federal Family Education Loan Program loans (FFELP).



Sallie Mae Cumulative Lobbying and Campaign Finance Spending

Sallie Mae has used its lobbying power. For example, in 2008, when the financial crisis struck, Sallie Mae was a prime beneficiary of the Ensuring Continued Access to Student Loans Act of 2008 (ECASLA).



How to Fix the Problem: Recommendations

- Position vocational education and trade schools as viable options to traditional college. Attending a trade school could reduce the cost of a four-year degree significantly. According to the National Center for Educational Statistics, a bachelor's degree accounted for an average of $16,900 in additional income per year compared to a high school diploma ($30,000 versus $46,900). Over a 30-year career in the workforce, that's more than a $500,000 difference in earnings.
- The current federal system of student loans financing needs to be reformatted. The federal government should exit higher education financing to promote and expand private sector student loans.

✓ Reduction in total number of students;

✓ Decrease in total cost of tuition;

✓ Reduces delays in buying houses, cars, having children, getting married, saving for emergences and retirement, etc.

✓ Stop a massive lobbying campaign for a student loan industry and help American students and their families.

Conclusions

The government should exit higher education finance. This would not only stop the cronyism rampant in the system, it would also lay the groundwork for a more robust private sector student loan industry— with no federal guarantee, no protection against the bankruptcy of borrowers, and no competition from the federal government through the expanded Direct Loan program. Such an industry would likely establish a vetting process to reduce the risk of default. Most likely several competing models would emerge. The result would almost certainly be a reduction in the total number of students—and consequently a decrease in the cost of tuition, as colleges compete for a declining pool of students.

There needs to be a major cultural shift away from the belief that college is a one-size-fits-all requirement for success. The student loan debt could be a next financial bubble that could strangle the US economy.

https://www.bing.com/videos/search?q=solving+student+debt+you+tube&view=detail&mid=1F6EE0DAE789CA1C8D861F6EE0DAE789CA1C8D86&FORM=VIRE

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Thank you for your attention!
Questions?