

Student Debt and the Economy

EDITORIAL

The student loan debt crisis has become a drag on the economy. Younger Americans who are saddled with bankrupting payments — or credit ratings damaged by delinquency — are in no position to buy homes, save for retirement or start businesses.

The Federal Reserve Bank of New York recently released a study showing just why many young people are being strangled by student loans. It found that 43 percent of 25-year-olds had student debt in 2012, an increase from 27 percent in 2004.

Unemployment and the collapse of household income in the recession only made the borrowing problem worse.

According to the new study, student debt almost tripled between 2004 and 2012, and is approaching \$1 trillion, while the percentage of borrowers who were more than 90 days delinquent had risen to 17 percent, from 10 percent in 2004. In addition, student loan debt was the only kind of household debt that continued to rise through the Great Recession, and it is now the second largest after mortgage debt.

The student debt crisis has its roots in state cuts to higher education that began in the 1980s. By savaging support to the public colleges and universities that educate about 70 percent of the nation's students, the states forced up tuition, causing students to borrow steadily more. The Federal Reserve study estimates that nearly 18 percent of borrowers now have student loan debts of \$25,000 to \$50,000, and nearly 4 percent have balances greater than \$100,000.

Distressed borrowers who financed their educations with federal student loans can get relief through the federal Income-Based Repayment program, which allows them to reduce their monthly payments based on their income. Another program, called Pay As You Earn, is limited to people who started borrowing during the recession. It also allows for lower payments, and borrowers who adhere to the payment arrangement can have their loans forgiven after 20 years — or 10 years if they hold public service jobs.

But students who have taken out private loans from banks or other institutions are often stuck with high interest rates, high payments and few consumer protections. For example, one federal analysis of student payments in 2009 found that 10 percent of borrowers with private loans were spending more than 25 percent of their incomes in monthly payments.

Because private loans offer little flexibility, borrowers in bad straits have few options except default, which makes it difficult for them to get jobs or credit, or even to rent apartments. Refinancing a private student loan at a lower rate is rarely possible.

To get a handle on the student debt problem, the federal government needs to provide relief programs for private loan borrowers too. The federal Consumer Financial Protection Bureau announced last month that it was soliciting ideas from policy makers and others for a plan that would give private loan borrowers some relief. Such a plan, which would most likely involve a public-private partnership that freed up capital for refinancing, would have to be part of any solution to the student debt crisis.
