

Student Loans, the next Mortgage Crisis?

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Student loans in the US have now passed auto loans and credit cards as the largest single category of American debt. Currently there are approximately \$870 billion dollars in outstanding student loan debt, and balances are rising. With private loans carrying higher and variable interest rates, many students are facing scenarios where they will no longer be able to afford payments.

Struggling against a weak jobs market, many students find themselves pursuing Masters degrees and unpaid internships when full time employment is not an option after graduation. One recent graduate of Drew University in Madison, N.J. commented, “Diplomas didn’t seem very valuable when they were handed out last May.” In fact, student loan debt has become such an issue among recent college graduates that SmarterBank, an offering from SimpleTuition Inc., has realized the business opportunity and started offering products that pay down student loans slowly by following guidelines when making purchases; such as using debit cards or shopping in “online malls.”

Currently only 3.5% of Sallie Mae’s student loans are currently in default, its overall portfolio for Sallie Mae totals \$36 billion in loans, but with tuition increases every year, that number may increase quickly. Cato institute McCluskey advocated that government greatly reduce student aid to combat the root cause of tuition increases, saying that, “Subsidies drive increased demand, which increases prices. Colleges raise their prices if they know students will be able to pay them off.” At the same time private lenders have consolidated, leaving a smaller number of lenders for students to negotiate with. However many object to withdrawing financial assistance at a time when the economy is struggling to recover.

In February, the National Association of Consumer Bankruptcy Attorneys labeled the growing amount of student loan debt as a “student loan ‘debt bomb’” and theorized it could become the next mortgage crisis in America. With the economy only now beginning to recover from the mortgage crisis’s pull on the economy, we can hope that lenders, students

and government will realize the “debt bomb” building in student loans and take action to keep it from exploding.