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Student Loans and Interest Rates

“Equal opportunity in higher education remains more an ideal than a reality,” claims Peter Coy of Businessweek. In recent years, the borrowing of student loans has become more frequent among the college generation among families of all incomes, although the immensity of the loans varies in terms of income level and tuition costs among other utilities. What once served as a relief mechanism for families and individual students who could not afford higher education, however, has now become a detriment to these people due to the increasing interest rates in the United States. Ironically enough, it seems the more money students invest in higher education, the less chance these students have of entering the workforce in a qualified capacity. The student loan debt situation has only exacerbated a number of the issues the United States already faces in the current economic crisis, and these students

The student loan debt crisis has significantly worsened over recent years, and economists foresee a far worse situation by the year 2020. Travis Waldron, a reporter for Think Progress at the Center for American Progress Action Fund, contends that nearly one in every five American households now possesses student loan debt. “Overall, 19 percent of households [in the United States] carried some amount of student debt in 2010, up from just 15 percent in 2007. Borrowers on average owed more than $26,000, double what they owed in 1995,” (Waldron, 2012). CNNMoney also reports that the poorest fifth of Americans “have student loan debt that amounts to roughly a quarter of their household income while the share is much lower for wealthier Americans,” (Luhby, 2012). Regardless of who is affected by student loan debt on a small scale, the United States economy is still largely at risk considering the increasing amount of households that now possess this debt.

A review of trends in student borrowing over the last two decades indicates that students borrow more than they used to, and more students take out educational loans. Student loans are used by both the middle class and lower income families…but the heaviest dependence on loans and the highest debt levels are among students at private colleges. (Hanset, 1987)

Private colleges have become increasingly more expensive in recent years. While some economists contend that burden of college tuition has lessened on some lower- and middle-class families, the fact cannot be ignored that the private college tuition rate has been outpacing United States inflation rates for over a decade. According to the Consumer Financial Protection Bureau:

Outstanding student debt in the U.S. exceeds $1 trillion, more than both auto loans and credit card debt, and the amount of defaulted loans — $76 billion — is greater than the yearly tuition bill for all students at public two- and four-year colleges and universities. (Martin, 2012)

An incredible amount of money is being pumped into higher education by means of direct tuition payments and student loan debts. While this type of debt affects families and individuals differently depending on the specific financial situations, type of school, cost of tuition, etc., the issue affects the United States on a large scale.

According to the latest figures from the Project on Student Debt—an initiative created by the Institute for College Access and Success (TICAS)—sixty-six percent of America’s most recent graduates possessed student loan debt “with an average of $26,600 for those with loans,” (Reed and Cochrane, 2011). This is a five percent increase from the previous figure of $25,250 in 2010, and this appears to be the annual increase trend in recent years (TICAS, 2011). Conversely, as the cost of college continues to rise, the unemployment rate for college graduates continues to drop (Bureau of Labor Statistics, 2012). What does this mean for America? Its students are paying more for higher education and entering a workforce with no job openings, thus forcing these individuals into positions they are overqualified to fill. Underemployment in the United States is just as key an issue as unemployment itself. According to Peter Coy of Businessweek, the United States has more than 100,000 janitors with college degrees and 16,000 degree-holding parking lot attendants. Furthermore, “since the third quarter of 2008, student debt has grown by $300 billion, even as other forms of debt shrank significantly,” (Coy, 2012). It simply does not make sense that United States students are paying more for higher education just to watch these expensive degrees go to waste.

College costs have sextupled since 1985, pushing America’s college students farther into debt from student loans that are now nearing $1 trillion nationwide. There are now more delinquencies on student loans than there are for credit cards and mortgages, and the threat of student loan debt is far-reaching in its effect: it has exacerbated the housing slump, jeopardized the finances of elderly Americans, and it is being securitized by banks in a way that resembles the mortgage industry before the housing crisis. That debt burden is made even worse for young Americans, though, by the fact that their earnings haven’t kept up with the cost of college. (Waldron, 2012)

In addition to these shocking figures, the Fiscal Times reports that, “while college costs have soared 72 percent in the last decade, average earnings for college degree-holders have fallen nearly 15 percent,” (Briody, 2012). The converse relationship between the price of higher education and the payback rate cannot be stressed enough. As students invest more in their college careers, they lose chances in occupational success because of a declining job market and increasing interest rates and college tuitions.

The issues presented in the United States do not seem logical: students are paying more for college education only to become janitors and parking lot attendants. Interest rates skyrocket, putting students even further in debt, unable to repay the loans or enter the workforce into a job they are actually qualified to hold. It does not help that the London Interbank Offered Rate, or Libor, has been determining the bank rates on private student loans. “Libor is currently the subject of a rate-rigging scandal has engulfed multiple American and European banks and is currently being investigated by the Justice Department and authorities in the United Kingdom,” (Waldron, 2012). With underemployment comes a substandard production rate since the nation is not fully employing all of its resources. Students have no control over interest rates or the job market, and it is often overlooked how significant the effect student loan debt has on the entire United States economy as a whole.

The United States’ current economic state affects virtually every sector of society from unemployment to inflation rates, but the financial crisis has now extended to the education arena. Further education is crucial to the nation’s future, and the current level of interest rates serves as a negative deterrent. With American families unable to afford education in the first place, the increasing interest rates are not brightening the future for this nation’s collegiate generation. All in all, this country’s future in higher education is being threatened by increasing interest rates on student loans. With these students and families borrowing more now than ever before, and with the price of college increasing on an annual basis, the United States faces an incredible amount of economic issues in the near future, lest the interest rates on student loans come to a decline.

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