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*I stalk Wall Street. Stopping short of phone hacking, of course.*

INVESTING (INVESTING) 2/21/2014 @ 3:40PM | 17,061 views

# \$1 Trillion Student Loan Problem Keeps Getting Worse

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Americans are borrowing money again by adding to balances on their credit cards, mortgages, student and auto loans.

Total consumer debt at the end of 2013 was \$11.52 trillion, and in the last three months of the year Americans increased debt levels by \$241 billion—the largest quarter to quarter increase since late 2007, according to the Federal Reserve Bank of New York.

Increasing your debt sounds like a bad idea, right? Maybe, but it's actually good sign for the US economy. It means Americans aren't hoarding their money, and instead they're spending it which should arguably boost the economy.

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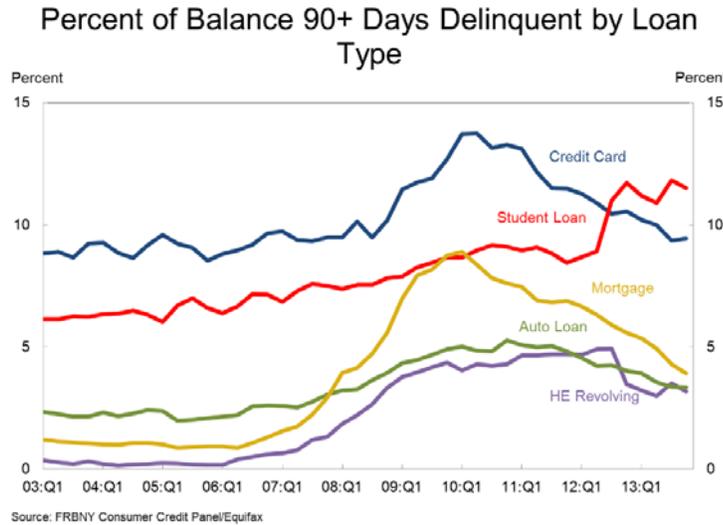
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It's also good news that a smaller portion of today's total debt is in some form of delinquency, meaning more bills are being paid on time. That's true for just about every form of debt except student loans.

The total outstanding student loan balance is \$1.08 trillion, and a whopping 11.5% of it is 90+ days delinquent or in default. That's the highest delinquency rate among all forms of debt and the only one that's been on the rise consistently since 2003.

The delinquency rate on student loans is higher than credit cards, mortgages and auto loans which have all seen a decline in late payments. The table below says it all.



Student loans have been getting more attention over the last couple of years. The nation's financial crisis forced many consumers to shift their efforts towards paying down existing debt. Low interest rates helped Americans refinance mortgages and also pay down credit card debt. While those debt levels slowly improved student loan troubles have only continued to get worse.

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*The New Wealth Doctors*, by Forbes staff writer Halah Touryalai, showcases an in-demand career that desperately needs young talent. Finance degree not required. ([http://www.forbes.com/ebooks/wealth-doctors-wall-streets-hottest-career/?utm\\_source=articlelink&utm\\_medium=direct&utm\\_campaign=wallstebook](http://www.forbes.com/ebooks/wealth-doctors-wall-streets-hottest-career/?utm_source=articlelink&utm_medium=direct&utm_campaign=wallstebook))

The size of the average student loan in 2005 was \$17,233. By 2012 the average U.S. student loan debt climbed to \$27,253—a 58% increase in just seven years, according to FICO.

There are several reasons for the rising student debt problem. The rising cost of education is certainly one of them, but the relationship between lender and student borrower is particularly troubling.

Students without much of a credit score or credit history are being approved for thousands of dollars in loans by lenders who are betting they'll be able to pay it back after getting a college degree.



The wake-up call occurs after graduation when many students realize their loan debt exceeds any annual salary they're able to earn—if they can find a job, that is. Graduating from college ends up feeling like more of a burden which is why one-third of millennials say they would have been better off working, instead of going to college and paying tuition.  
[\(http://www.forbes.com/sites/halahtouryalai/2013/05/22/student-loan-problems-one-third-of-millennials-regret-going-to-college/\)](http://www.forbes.com/sites/halahtouryalai/2013/05/22/student-loan-problems-one-third-of-millennials-regret-going-to-college/)

The student loan problem may have greater repercussions for the economy than the housing problem did. Student borrowers are delaying major life decisions, like buying a home or car, as a result of their student loans. The rate of home ownership is 36% less among those currently repaying student debt, according to research from ProgressNow.  
<http://www.owisconsinnow.org/files/OWISStudentLoanEconomicReport.pdf>

What's more, unlike other debt, most student loan debt can't be forgiven in bankruptcy.

Some regulators are starting to pay attention. The Consumer Financial Protection Bureau says it's received over 30,000 complaints and comments about how student loans are affecting consumers. CFPB Director Richard Cordray compared the student loan environment to the "broken mortgage market before the crisis" and said his agency is watching it closely.

"The burden of student debt is jeopardizing the ability of young Americans to buy homes, start small businesses, and save for the future," he said in a statement last month.

Today the Fed released transcripts of its meetings that took place during the 2008 financial crisis. The transcripts show the Fed's failure to grasp the intensity of the credit crisis and its impact on the economy early on.

Here's hoping we're not re-living that moment right now.

 3 comments, 2 called-out

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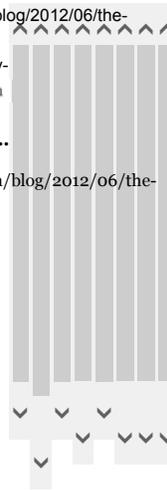
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## Backlash: Student Loan Burden Prevents Borrowers From Buying Homes, Cars

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You didn't have to own a home to feel the effects of the housing crash. The student loan problem could have similar ripple effects.

Student loan debt has topped \$1 trillion as two-thirds of students graduate with debt. There are nearly 37 million student loan borrowers in the United States currently repaying a student loan, according to the Fed.

It's not just the young 20-something crowd that's burdened with the debt. Over 60% of that the \$1 trillion is held by those over 30-years-old, 15% is held by those over 50.

"This issue is really starting to affect the economy. Borrowers can't purchase a home because they can't make the down payment, for example," says Anne Johnson, Director of Campus Progress.

Others are making their career decisions based on their debt obligations. For instance, borrowers with loads of debt are not entering jobs in the the public sector due to high loan payments.

Student loan experts hosted a call on Tuesday to discuss the growing problem of student debt and the implications on the economy.



([http://b-i.forbesimg.com/halahtouryalai/files/2013/06/0602\\_student-loan\\_400x400.jpg](http://b-i.forbesimg.com/halahtouryalai/files/2013/06/0602_student-loan_400x400.jpg))

*The rate of home ownership is 36% less among those currently repaying student debt.*

The most pressing issue right now is an incredibly rise in the interest rate on so-called Stafford loans. Such loans are subsidized by the government but rates are set to double from their current 3.4% to 6.8% by the end of the week if Congress fails to act. ProgressNow says more than 7 million college students and families who rely on these loans and would be hit with \$1,000 hike in college costs if rates double.

Senator Tom Harkin, an Iowa Democrat, said on Monday it's unlikely much will be done to prevent the hike before July 1.

The potential hike in Stafford loan rates is "one small battle in the overall war" in the student loan space, according to Robert Applebaum, cofounder of StudentDebtCrisis.org.

There are three types of student loan debt: federally backed debt which amounts to \$850 billion, private loans provided by companies like Sallie Mae which accounts for \$150 billion to \$200 billion, and other debt in the form of credit card, home equity loans or second mortgages.

Research from ProgressNow

<http://www.onewisconsinnow.org/files/OWIStudentLoanEconomicReport.pdf>

found that the average time it takes to pay off student debt is twenty years. Students with bachelors degrees can expect to repay their loans in 19.7 years with an average monthly payment of \$499, and those with graduate degrees 23 years with an average monthly payment of \$653.

The bigger picture is that these borrowers are delaying major life decisions like buying a home or car as a result of their student loans. And while much has already been said about the difficulty of getting student loans forgiven in bankruptcy there are also limitations on refinancing student debt. Johnson says refinancing Stafford loans at a rate of 5% would save borrowers \$14 billion in interest payments annually.

The rate of home ownership is 36% less among those currently repaying student debt.

In every household income category, individuals who have already paid off a student loan were more likely to purchase a new vehicle (as opposed to purchasing a used vehicle) during the last ten years. There's over \$6 billion lost annually in new car purchasing power that's directly tied to student loan debt, says ProgressNow's Scott Ross.

The debt is such a burden to some that about one third of millennials say they regret going to college.

"We have to ask: 'What are we losing as these generations are borrowers is paying off student loans rather than living the American Dream?'" Ross says.

30 comments, 24 called-out [Comment Now](#)

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