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WESTERN MICHIGAN UNIVERSITY

Lee Honors College Thesis

An Analysis on the Growth of Student Loans, and Its Implications on the U.S. Economy

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December 2016

Abstract

Student loan debt is an issue facing the United States of America today. More and more people are enrolling themselves into college, hoping that a college degree would increase their chances of employment and improve their standard of living. However, the rise in demand for tertiary education has an effect on the amount of student loan debt accumulated in America. A hike in college tuition fees has caused a rise in default rate among student borrowers. More borrowers are entering repayment plans because they are not able to make their monthly loan payments. This phenomenon has altered borrowers' decision on homeownership, and their efforts in wealth accumulation and retirement savings (Elliott & Lewis, 2015). Students' financial standing and credit scores are negatively affected when their student loans go into default. The purpose of this thesis is to analyze how student debt affects student borrowers and the U.S. economy as consumer behavior changes. The U.S. government should subsidize higher education and decrease the interest rate on student loans to reduce the severity of the problem.

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1. Introduction

The United States of America is generally acknowledged to be one of the most expensive countries for students to earn a college degree. College tuition fees in American are far greater than most developed countries, with the U.S. leading in the total amount of student loan debt accumulated. For many years, students across the world came to America for the quality of education it provided. Today, international students are flooding the United Kingdom and Australia instead. Some Americans are also considering obtaining their degrees elsewhere. Germany is among several countries that provide free college education to local and international students. The number of American students enrolled in German universities has risen steadily in recent years, as German universities are offering degrees in English.

Previously, U.S. college students could work throughout the summer and save enough money to pay for college tuition. Today, many students take out student loans to finance their college expenses. It is not uncommon for students to work over 20 hours a week whilst taking 15 credit hours or more per semester. Students are expected to focus on their studies and maintain a good grade point average (GPA), but in many instance students are also expected to financially support themselves for any additional cost that is not covered by the school or their parents. This puts great pressure on students, who are also actively involved in student organizations and campus activities.

With college becoming unaffordable, a greater number of students are resulting to taking out student loans. This causes an increase in national student loan debt in America. The issue of student loans has even made its way to the presidential campaigns of 2016. Hilary Clinton has followed President Obama's policy recommendation to provide free community college. Senator Bernie Sanders had a more ambitious plan in mind. He proposed making tuition free at public

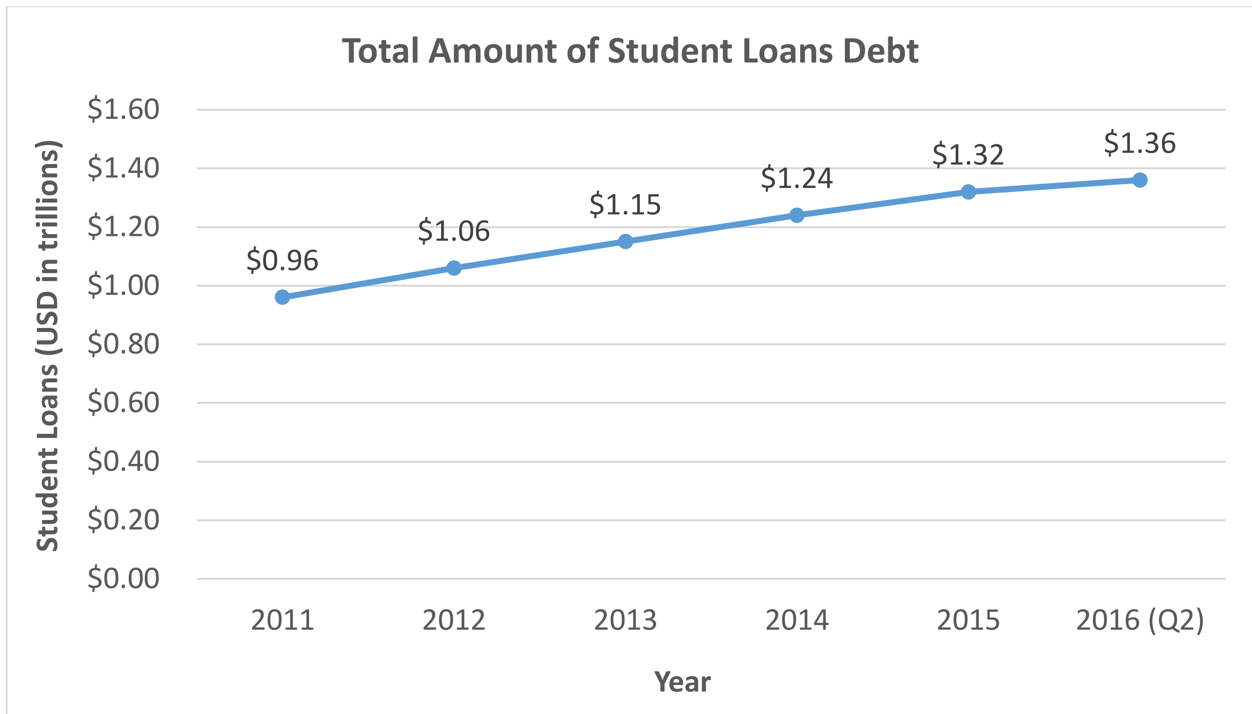
colleges and universities. The need for higher education is generally acknowledged. That is why the topic of student loan debt is so heavily discussed among students, citizens, and policy makers.

The primary focus of this thesis is to analysis how increasing student loan debt is affecting the U.S. economy. At the rate student debt is increasing, the future of the U.S. economy could potentially fall due to the high amount of accumulated debt. Both the U.S. economy and student borrowers are victims to the increasing cost of higher education.

2. History of Student Loan

Student loan debt is on the rise, and it continues to draw attention from the U.S. federal government, citizens, and banks. The Federal Reserve System has produced three sets of statistics on student loans to gauge the amount of student debt in America. Among the three statistics is the Federal Reserve Board's Consumer Credit (G.19) statistical release (2015), which is data used in this thesis. The G.19 release collects data by asking entities that hold or guarantee student loans, such as banks, finance companies, and the federal government, to report how much people owed. Private student loan holdings of smaller financial institutions and nonprofit organization are not included in the data. However, defaulted loans that are guaranteed by the government are included (Federal Reserve, 2015). Figure 1 below shows the amount of student loan from the year 2011 to the second quarter of 2016. Student loan was $961 billion in 2011, reaching a high of $1.32 trillion in 2015. By the end of the second quarter of 2016, student loans have reached $1.36 trillion, yet again surpassing previous year's estimates.

Figure 1



Note. Data above was acquired from the Federal Reserve System, https://www.federalreserve.gov/econresdata/notes/feds-notes/2015/how-much-student-debt-is-out-there-20150807.html.

Many factors contribute to the rise of student loan debt. Some of these include the demand for higher education, tuition fees and expenses, the loans taken and its amount, funds provided by the state government, student's annual income and post-graduation employment. All these factors play into how we analyze the actual growth of student loan debt.

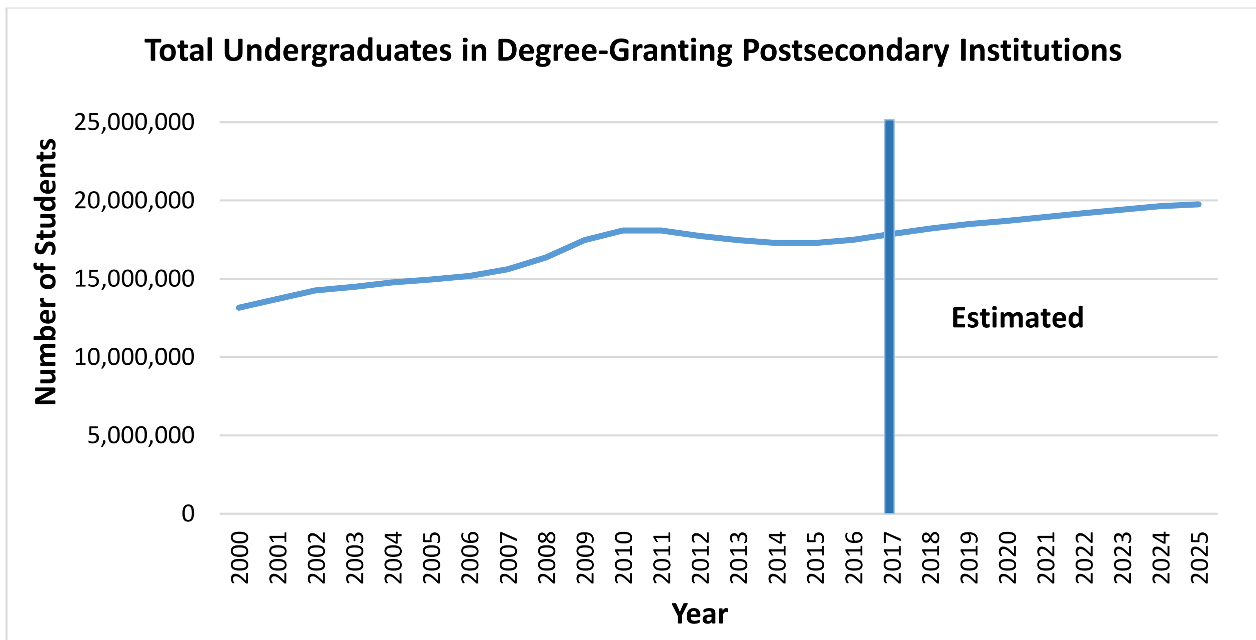
3. Demand for Higher Education

With the marketplace competitive and the economy volatile, many working and middle class citizens are increasingly depending on education as key to moving up the social ladder. Students, young and old alike, are enrolling themselves into college. Goldman Sachs Research

(2014) estimated that more than half of the increase in total amount of student loan debt since 1995 is due to increased enrollment. There is an increasing number of Americans hoping to obtain a higher education to improve their quality of life. However, many of these newly enrolled students are unable to afford the high cost of a college education. Without sufficient savings and proper budget management, students who are depending on loans to get through college are unable to repay the loan debt after graduation.

A study from the National Center for Education Statistics (2016) found that between 2000 and 2010, total undergraduate enrollment increased 37 percent as seen in Figure 2 below. Enrollment decreased by 4 percent between 2010 and 2014, but was projected to increase by 14 percent from 17.3 million to 19.8 million students between 2014 and 2025.

Figure 2

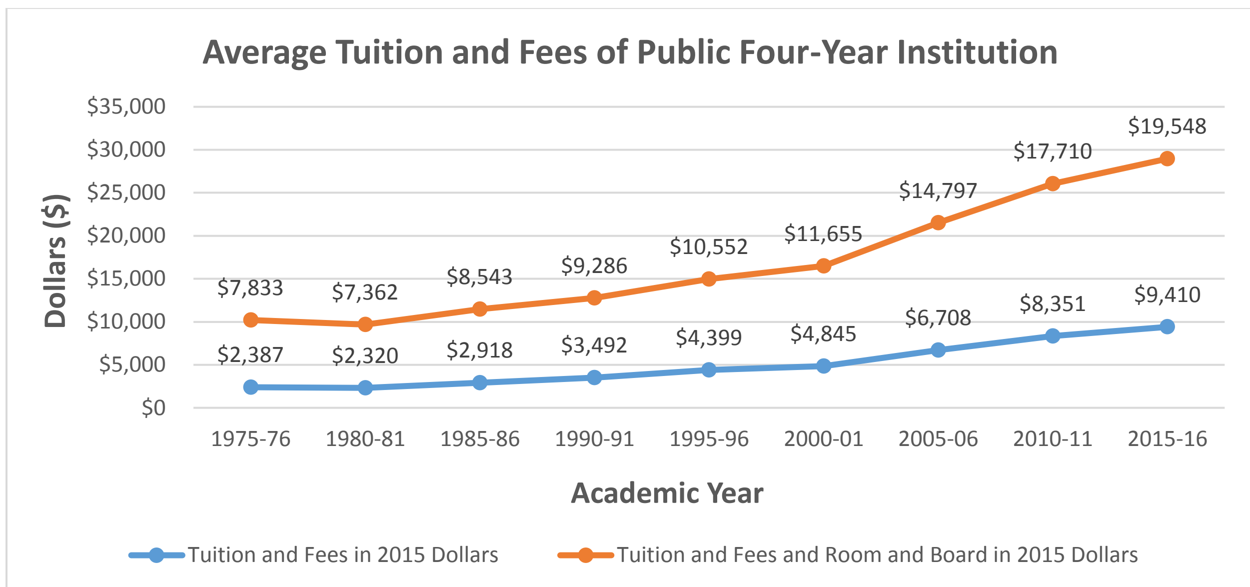


Note. Data above was acquired from the National Center for Education Statistics, http://nces.ed.gov/programs/coe/indicator_cha.asp.

This proves that more and more students are entering college. The higher demand for postsecondary education also means that the amount of student loans taken out are higher, as the cost of a college education rises with the number of people seeking to pursue a college degree.

4. Tuition Fees and Expenses

Figure 3



Note. Data above was acquired from the College Board, https://trends.collegeboard.org/college-pricing/figurestables/tuition-fees-room-and-board-over-time.

As demand for higher education increases, so has college tuition fees. Tuition fees for a public four-year university have gradually increased between 1975 to 2016, with a sharp increase in the year 2000 as seen in Figure 3. Adding to tuition fees are the expenses for room and board which also skyrocketed, rising from $11,655 in 2000 to $19,548 in 2015. It is no surprise that more students are taking out student loans to put themselves through college, as the cost of attending college is no longer affordable. Many people are questioning the significant increase in

the cost of attending college these past few years. There are many reasons that contribute to the rise in cost. However, no one reason is solely responsible for this occurrence. The rise in college spending has been blamed on factors ranging from broad economic trends outside higher education's control that drive up the price of highly educated workers to an all-out competition among colleges vying for prestige, excellence, and high rankings. Many also point to generous salaries and perks for university employees, wasteful spending, and growing "administrative bloat" (Desrochers & Kirshstein, 2014). To some, providing better amenities to students falls under the category of wasteful spending, that leads to the increased in cost of attending college. These amenities include spending on student activities, sports facilities, and dormitories. However, research shows that most students appear to value college consumption amenities (Jacob, McCall, & Stange, 2013). This means that besides looking at the quality of education or the ranking of a college, students also look at the amenities a college provides when selecting a college. Therefore, in order for colleges to compete for the best students, they are offering students luxurious amenities, such as gyms with more equipment or a fancier study area. Better amenities also mean newer buildings and facilities, which brings up the cost of construction. At the end of the day, this cost is reflected in the tuition fees that college students today pay. Unfortunately, it is the student who bears the cost.

5. College Student Borrowing

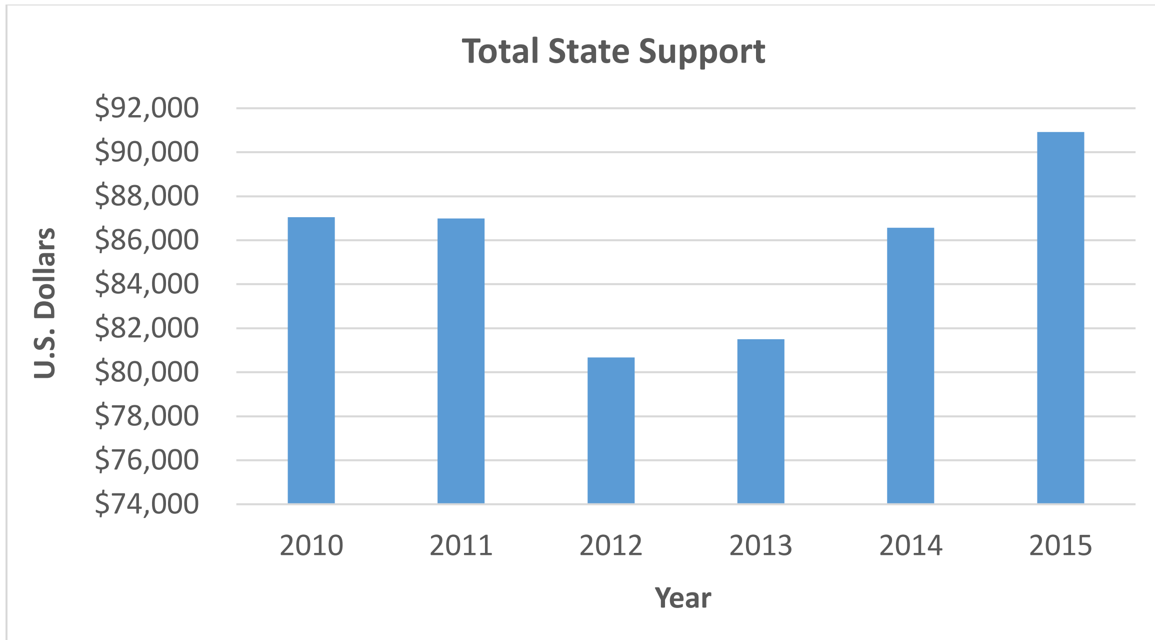
The higher cost of tuition fees has led to an increased in college student borrowing, Goldman Sachs Research (2014) estimated that more than half of the increase in total amount of student loan debt since 1995 is due to a greater share of students financing their education through loans. According to research done by Rebecca Hinze-Pifer and Richard Fry (2010) at the

Pew Research Center, both undergraduate college student borrowers and the amount of loan taken have increased dramatically. In other words, there are more borrowers borrowing a larger amount of student loan. In 2008, 60 percent of degree recipients borrowed to finance their tuition, compared to a lower percentage of 52 percent in 1996. The amount of loan for a Bachelor's degree also shot up from $10,138 to $15,425 between 1996 and 2008. No doubt, with these numbers on the rise, student debts are bound to increase. Loans has only continued to be a burden to students and parents alike. Some have attributed the increase in loans to the lack or reduced amount of state funding.

6. State Funding

After the recession in 2008, higher education funding was cut because state tax revenues fell sharply, and limited revenue were used to support more students. Most states in the U.S. have since begun to restore cuts made in higher education funding (Mitchell, Palacios, & Leachman, 2014). State cuts have driven up tuition cost, hurting college goers. These cuts have shifted the cost and burden of paying for higher education from the state to the students. This worked against students' favor as college tuition fees consistently increase. Students are forced to take up more debt to cover the expense of attending college.

Figure 4



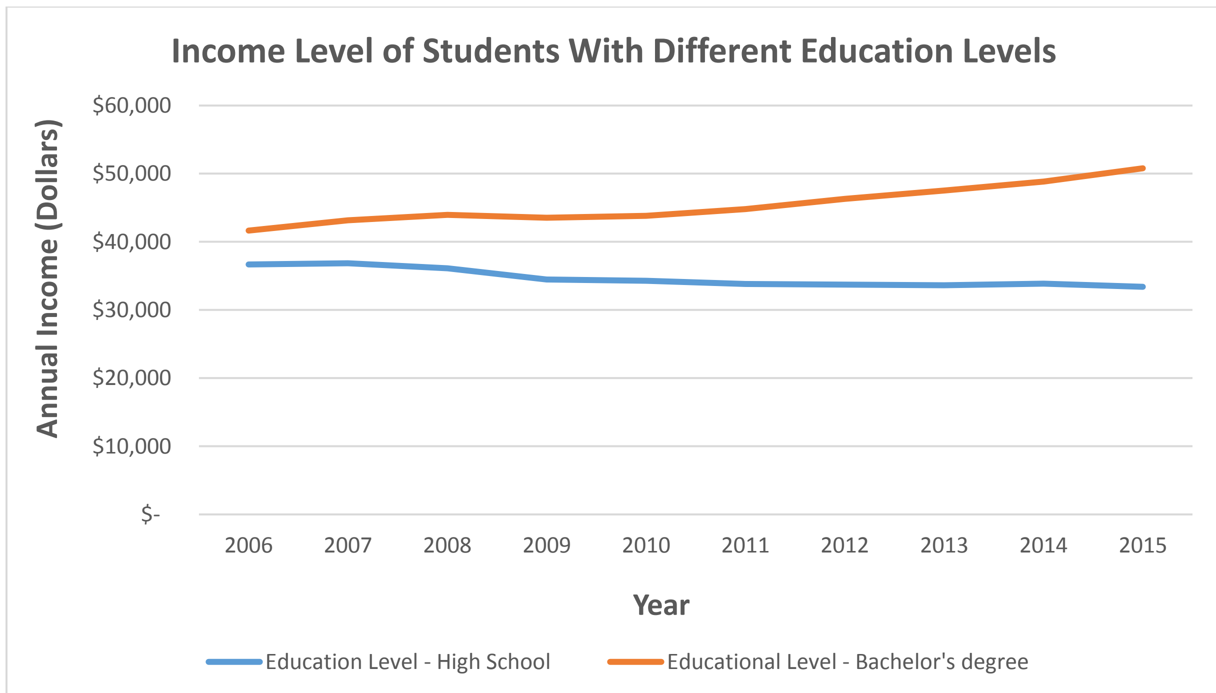
Note. Data above was acquired from the State Higher Education Executive Officers Association (SHEEO), http://sheeo.org/sites/default/files/project-files/SHEEO_FY15_Report_051816.pdf.

Figure 4 above shows the total amount of state funding from the year 2010 to 2015. Funding dramatically fell in 2012 and 2013 as the American Recovery and Reinvestment Act (ARRA), an act providing funds to stabilize state support for education, ended in 2011. Nonetheless, as the economy recovers, funding from states gradually increase (State Higher Education Executive Officers Association, 2015). This is a good indication that states are investing in higher education, but the benefits of an increase in funding by the states might be offset by a larger increase in college student enrollment and a larger increase in college tuition fees. Nevertheless, state and local government recognized the importance of higher education and is increasing funding to help students.

7. Income and Post-Graduation Employment

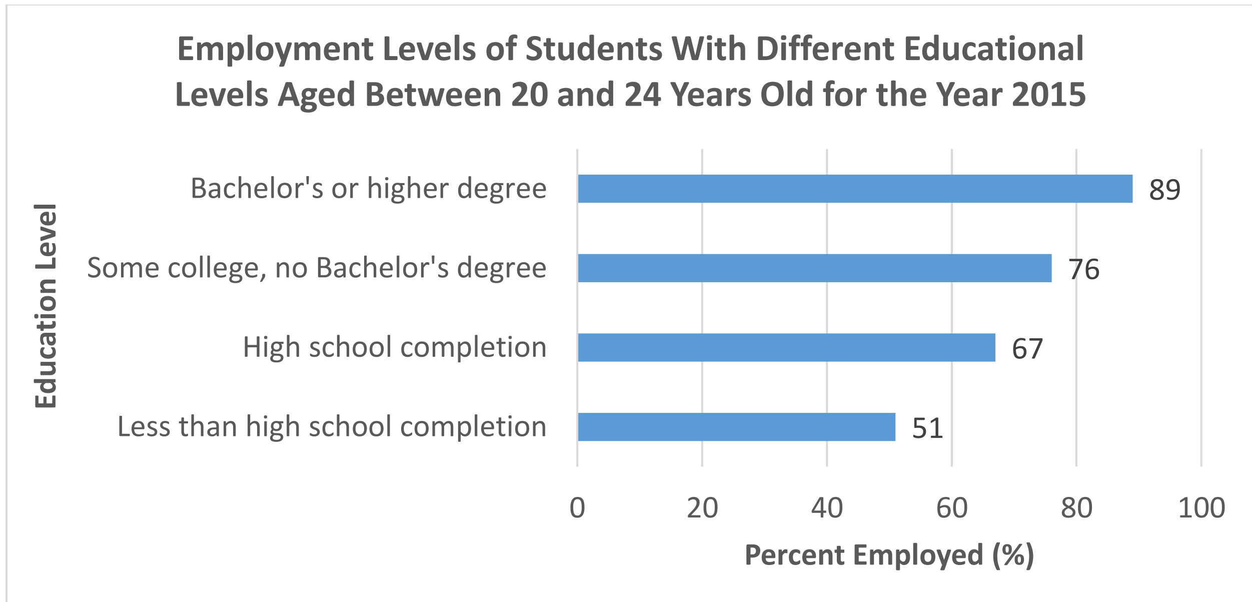
Although it is not in the best interest of students to start out their career with debt, a college degree still proves to be an excellent investment for most students. Recipients of a bachelor's degree or graduate degree have annual earnings significantly greater than that of their counterparts with only a high school diploma (Bureau of Labor Statistics, 2015). The income gap between a high school graduate and a college graduate have also grown wider over the years as seen in Figure 5 below, proving once again that higher education is seen as valuable in our society.

Figure 5



Note. Data above was acquired from the Bureau of Labor Statistics, http://www.bls.gov/webapps/legacy/cpsatab4.htm.

Figure 6



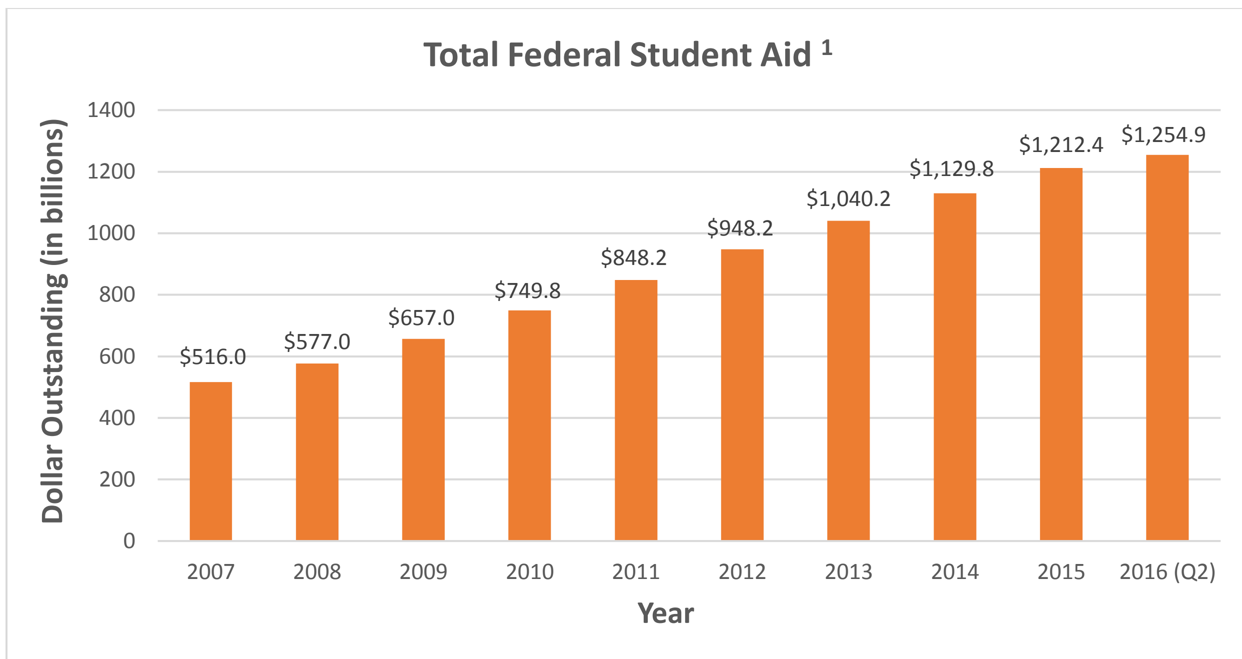
Note. Data above was acquired from the National Center for Education Statistics, https://nces.ed.gov/programs/digest/d15/tables/dt15_501.50.asp.

Employment levels are also higher among students with a higher level of education (National Center for Education Statistics, 2015). As seen in Figure 6 above, 89 percent of students holding a Bachelor's degree or higher are employed, compared to a lower number of 51 percent employment rate for students holding less than a high school diploma. With a noticeable gap in employment rate among students with different education levels, it is not surprising that more people are looking to higher education to improve their standard of living. Evidently, society has placed an emphasis on the importance of education. The more educated students are, the better the chances are for them to succeed in life. Employers and hiring managers today look first at the educational background of potential candidates before deciding who to give an interview to. With the increasing significance placed on education, more people are going beyond a high school diploma to earn a college degree. Most families see education as a stepping stone and have accepted the possibility that the cost of a better future is to be in debt.

8. Student Aid Among College Students

As mentioned above, more students are borrowing a larger amount of loans to finance their college education. Figure 7 shows the total amount of Federal Student Aid provided to students.

Figure 7



Note. Data above was acquired from the National Student Loan Data System, https://studentaid.ed.gov/sa/about/data-center/student/portfolio.

The figure shows student aid steadily increasing from the year 2007 to the second quarter of 2016. With more students pursuing a college degree and tuition fees rising, it comes as no surprise that more students are financing their postsecondary education with student loans. Many type of loans are available to students. Some of those include Direct Loans, Federal Family

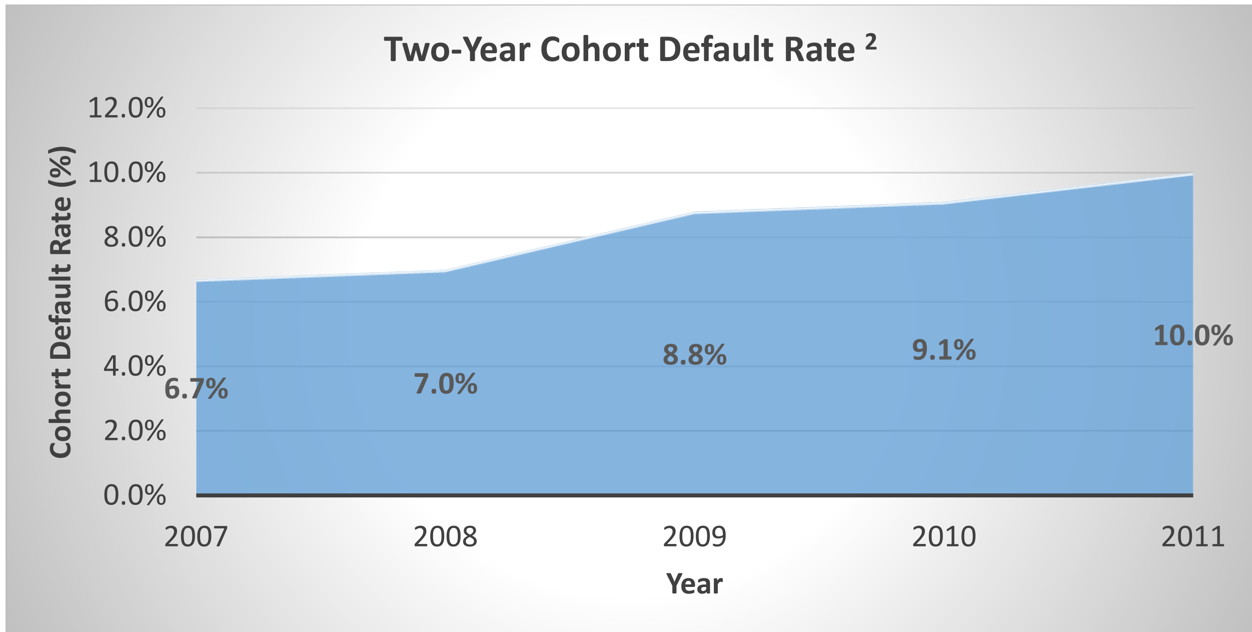
[1] Total Federal Student Aid includes Direct Loans, Federal Family Education Loans (FFEL), and Perkins Loans.

Education Loan (FFEL), and Perkins Loans. These federal student loans are ways the U.S. government is trying to help students finance their college education. However, the U.S. economy is constantly being challenged when students are unable to repay their loans and go into default.

9. Delinquency and Default Rates on Student Loans

The definition of a federal direct loan default is the failure of a borrower to make an installment payment when due. This means that the debt-bearing student is unable to provide monthly payments or satisfy payment plan agreements between the student and the lender. Delinquency often leads to default. Delinquency occurs when one is behind on payments. Once one is delinquent for a certain period of time – usually nine months for federal loans – the lender will declare the loan to be in default. The U.S. government has been keeping track of student loan default rates. Figure 8 below shows a two-year cohort default rate. The cohort default rate is a measure of the percentage of federal loan borrowers in either the FFEL Program or the Federal Direct Loan Program that entered repayment during a given federal fiscal year who defaulted before the end of the next fiscal year. As seen in the figure, the two-year cohort default rate has been increasing from the year 2007 to 2011. This creates concerns because it shows that more and more students are struggling to repay their loans and are behind on their loan payments each year. In 2016 however, the Department of Education reported that the share of students not making payments on their loans within three years of them coming due has fallen. The national student loan default rate now stands at 11.3 percent, still considered relatively high. Education Secretary John B. King Jr. credits the lowered national default rate to the increased enrollment in the government's repayment plans (Douglas-Gabriel, 2016).

Figure 8



Note. Data above was acquired from the U.S. Department of Education, https://ifap.ed.gov/eannouncements/attachments/060614DefaultRatesforCohortYears20072011.pdf.

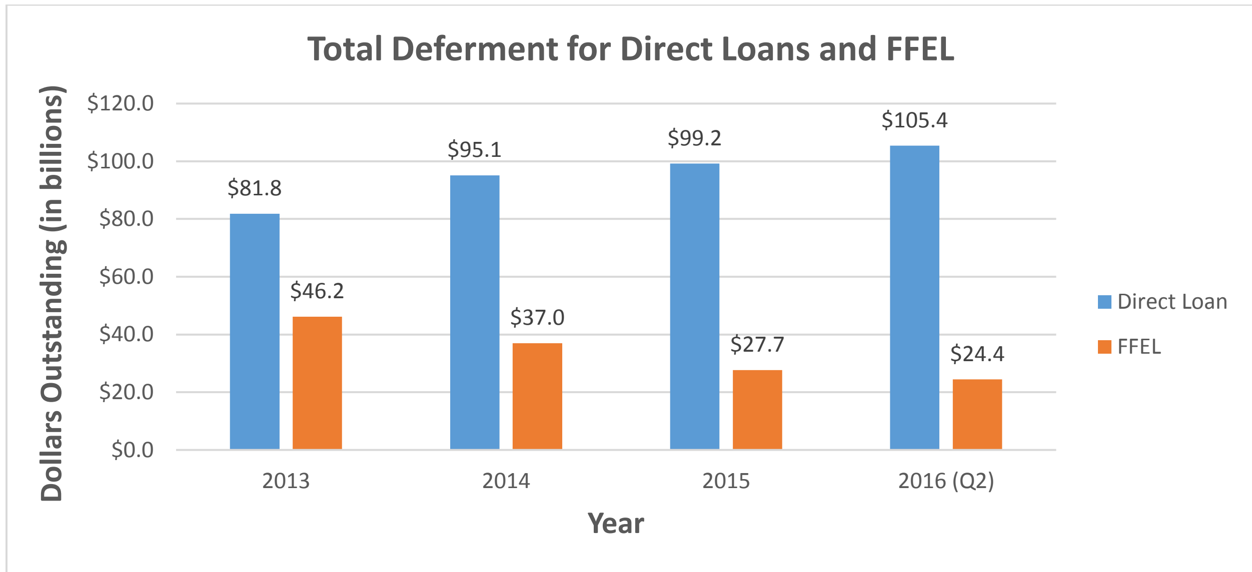
10. Deferment and Forbearance

Under certain circumstances, a person with a college loan can receive a deferment or forbearance that will allow them to temporarily postpone or reduce their federal student loan payments. A deferment allows borrower to temporarily delayed repayment, while a forbearance allows one to stop making payments or reduce the monthly payments. Figures 9 and 10 below show the deferment and forbearance amount for Direct Loan and FFEL from the year 2013 to 2016. From the figures, we see that both deferment and forbearance for direct loans have been on a steady rise since 2013, while for FFEL it has been decreasing. This was because no new FFEL Program loans were made beginning July 1 of 2010. Increasing deferment and forbearance is

[2] Calculated based on borrowers and the two-year window after entering repayment. Cohort is based on fiscal year. The percentage of cohort default rate displayed is the overall rate from four (4) different institutional category: public, private non-profit, proprietary and foreign schools.

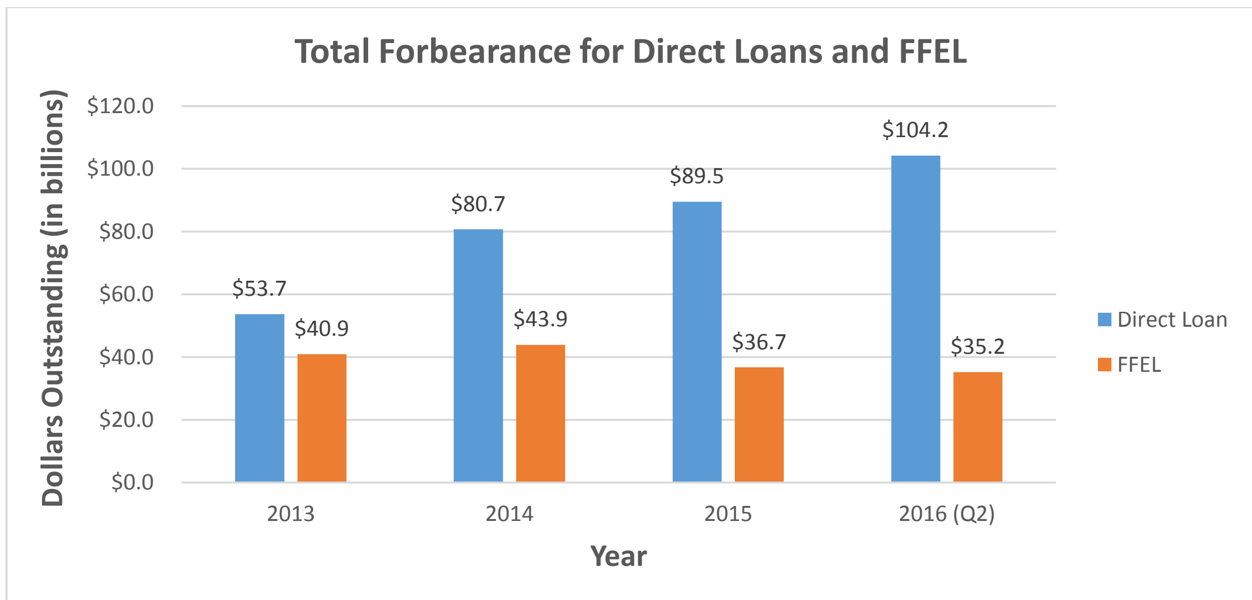
concerning to the U.S. economy and the federal government because the number of student borrowers postponing their loans are rising, whether it's due to unemployment, economic hardship, in-school deferment, or military reasons.

Figure 9



Note. Data above was acquired from the National Student Loan Data System, https://studentaid.ed.gov/sa/about/data-center/student/portfolio.

Figure 10



Note. Data above was acquired from the National Student Loan Data System, https://studentaid.ed.gov/sa/about/data-center/student/portfolio.

All the factors mentioned above will have an impact on the U.S. economy, whether directly or indirectly. The federal government has consistently kept a close eye on the default and delinquency rates, deferment and forbearance, and any information related to student loans. This goes to show that student loan debt has been and will continue to be an issue for the citizens of America.

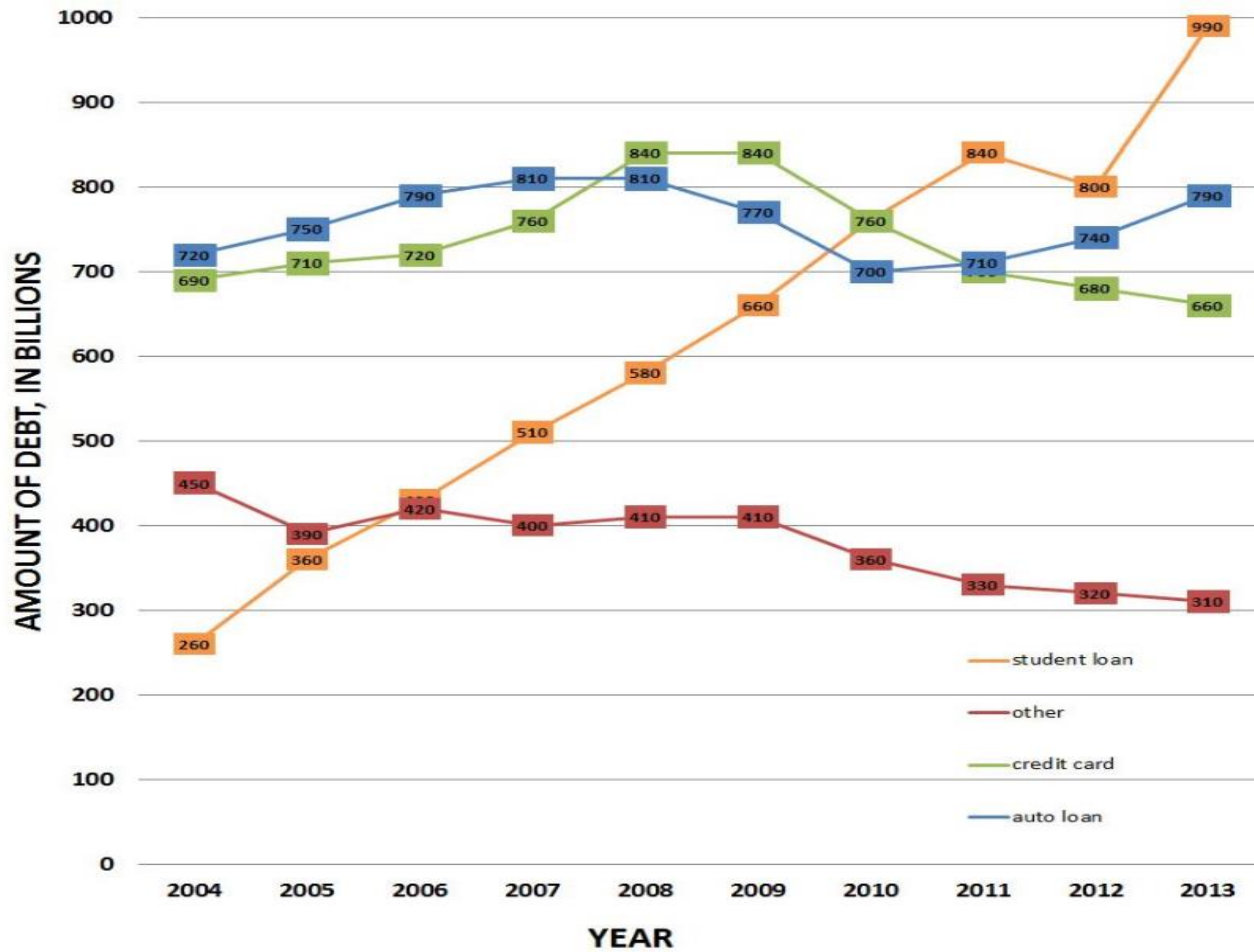
11. Consequences of Student Debt on the U.S. Economy

Many economists have tried to predict the devastating impact debt can have on the economy due to the excessive and uncontrollable student debt. No doubt the health of the economy will suffer if student debt continues to grow without proper supervision. Debt-bearing individuals have been and will continue to face roadblocks in their efforts to build and sustain a stable income. Some of these challenges include homeownership, asset accumulation and retirement savings (Elliott & Lewis, 2015). Student loans have skyrocketed since 2004 as seen in Figure 11 below, surpassing mortgage and auto loans in 2010.

It is important to analysis how student debt will impact the economy. Taking out student loans would not necessary hurt the borrower, but defaulting on their student loans will have devastating impact on their financial standing. Default damages the credit score of borrowers. Banks today use credit scores as an important basis to make critical decision when giving out auto loan or mortgage loan. With low ratings, it is unlikely that a bank will agree to give the borrower a loan because he or she is considered a risky investment. Not only will the student have difficulty in obtaining future loans, the student's poor financial standing will likely influence how they manage their current finances.

Figure 11

U.S. Student Loan, Credit Card, Auto Loan, and Other Debt



Note. Figure above was taken from the Federal Reserve Bank of New York, https://www.newyorkfed.org/medialibrary/interactives/householdcredit/data/pdf/HHDC_2015Q4.pdf.

Students will be more willing to save rather than spend, knowing that they could or already have defaulted on their student loans. Consumer behavior and spending habits might change, where one decides to buy only what they *need* and not what they *want*. This phenomenon will affect the economy. Decreased spending by consumers could lead to a decrease in the country's gross domestic product (GDP). The economy functions when there is supply and demand. With decreasing demand, the supply will be affected, placing pressure on the interest rates as well. Higher student loans could impact the Federal Reserve's (FED) decision on raising interest rates, or decreasing rates, depending on how the economy is behaving. According to the FED, housing loan debt has been on a decline since the financial crisis in 2008, and it has continued to decrease ever since. Student loan debt on the other hand, has been on a steady rise.

A study conducted by the Federal Reserve Bank of New York Consumer Credit Panel/Equifax (2013) studied how student debt affects borrowers' decision on homeownership and vehicle market participation. In this study, students with student loans, who were assumed to have pursued a college degree using the loans, have a higher income, and therefore have a higher homeownership rate compared to student without student loans. This was because students with no student loan debt, who were assume to not hold a college degree, had lower incomes.

Students who had a college degree but did not take out student loans were not included in this study (Brown & Caldwell, 2013). Homeownership was consistently higher among students with student loan debt between 2003 to 2011. However, towards the end of 2011, there was a shift and the reverse was true. Student loan debt were so great than it exceeds income for degree-holding students, which eventually led to a fall in homeownership rates among students with loans. This phenomenon also applied to that of vehicle purchases among students with loan and those without. It is indeed discouraging to see how higher education and student loans are

hurting students, undercutting the opportunity and social mobility that higher education has long promised.

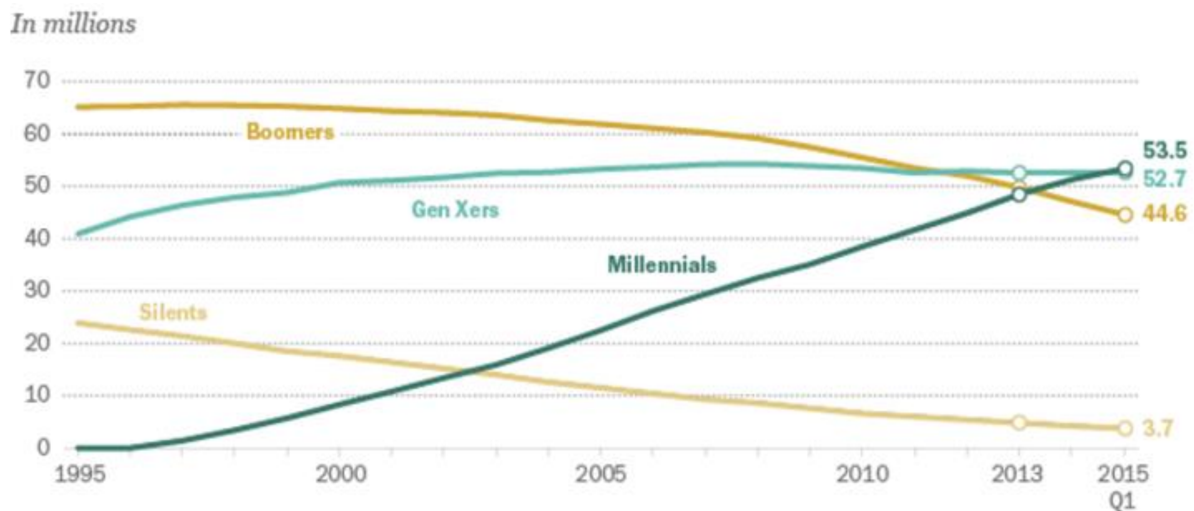
Many students with student loans in default are turning away from purchasing houses and cars. Default rates would decrease if students enrolled themselves in the various repayment plans available for them. While in office, President Obama has called on the U.S. Senate to pass legislation that would allow an estimated 25 million student loan borrowers to refinance their outstanding student at lower interest rates. Obama also signed a Presidential Memorandum directing the Secretary of Education to allow nearly 5 million additional borrowers to cap their student loan payments at 10 percent of their income (White House, 2014). Although these initiatives have helped students cope with their student debt, what's concerning for the economy is that based on collection and recovery rates, the federal government, on average, is unable to fully collect on defaulted student loans (New America).

The government has to bear the cost of the unpaid student loans. With student debt on the rise, the burden bore by the federal government will increase, affecting how the government make important decisions and forecasts that will impact the economy. Not only is the government involved, the student and debt holder themselves are heavily affected by it. According to Mitch Daniels President of Purdue University, men and women laboring under student debt are postponing marriage and childbearing. The percentage of people starting a business or doing something entrepreneurial is limited as well. More student debt leads to fewer small businesses being formed. Researchers at the Federal Bank of Philadelphia and Pennsylvania State studied the relationship between student debt and small business formation and found a significant and economically meaningful link between the two (Holland, 2015).

So why should we concern ourselves with this ‘economic crisis’ if we do not have any student loans or debt? Some students might be fortunately enough to be able to obtain a college degree debt free, but not every student is that fortunate. From Figure 13 below, we see that the number of Generation X and Generation Y (also known as the Millennials) in the U.S. Labor Force have overtaken the Baby Boomers.

Figure 12

U.S. Labor Force by Generation



Note. Figure above was taken from Pew Research Center, http://www.pewresearch.org/fact-tank/2015/05/11/millennials-surpass-gen-xers-as-the-largest-generation-in-u-s-labor-force/.

The Millennials, the generation born in the 1980s and 1990s are slowly overtaking the number of Gen Xers. This means that workers entering the work force today would more likely have a Bachelor’s degree, and would probably have student debt as well. With this trend continuing, it is unlikely that the amount of student debt will go down anytime soon. The younger generation is placing an increasing emphasis on higher education. The impact of debt on the U.S. economy

will affect us all if we, together with the federal government, do not start taking actions to counteract this phenomenon.

12. Recommendation

There are at least three important parties that play a significant role in this issue. They are the federal government, institutions of higher education, and the students. All three parties are responsible to help shape the curve of student loan debt. The efforts of one party alone will not be sufficient to successfully implement changes to reduce the severity of the problem.

The federal government has the most important role. The U.S. Department of Education is responsible for passing policies and regulations to help with issues like student debt. It is critical that the federal government change the way student loans are currently being handled. The economy is at risk if the government continues giving out student loans and is unable to fully collect the amount of loans given to students. Providing free college to all students as proposed by Senator Bernie Sanders to mitigate the issue of increasing student loan debt is highly unlikely. The U.S. cannot financially support all college students without incurring a huge deficit. The government would have to increase federal taxes to be able to provide free college education.

Instead of providing college education for free, the government should subsidize higher education. Providing subsidies will bring tuition fees down, lowering the cost of college for students. The amount of loan students need to borrow will decrease, increasing the ability of students repaying their loans. This would also lead to a fall in default rate, eventually lowering

the accumulated national student debt. Subsidizing higher education will not necessarily cost the government more money. The government is already incurring a high expense with the repayment programs it offers students and the increasing deferment and forbearance rate. With higher education subsidized, the number of students enrolled in repayment programs will decrease, and so will deferment and forbearance. This will bring down the amount of loans that the government was not able to recollect. The government is essentially transferring the expense it incurred on lowering student loan debt through various repayment programs to subsidizing higher education. This is more effective because there are many uncertainties to repayment plans, deferment and forbearance. Repayment plans such as the Income-Based Repayment Program is very uncertain because the government cannot predict how much income the borrower will generate in the future, and the balance of the loan will be forgiven after 20 years. On deferment and forbearance, the government also has no way of predicting how long it will take borrowers to repay their student loans. Interest on loans will continue to accumulate for borrowers who are on forbearance, which will increase both principal and interest on the loan. With the government subsidizing higher education, many of these uncertainties will be eliminated, or at the very least minimize. The government should also stipulate certain conditions to ensure that the subsidies go to lowering tuition fees, and not spent on something else.

In addition, the government should lower the interest rate on federal student loans. Interest rates on federal loans are set by Congress. For direct loans, rates are calculated based on the 10-year Treasury note following the May auction, which was 1.71 percent for the year 2016 to 2017, plus a set margin of 2.05 percentage points for undergraduate, 3.60 points for graduate, and 4.60 points for PLUS loans (Institute for College Access & Success, 2016). Therefore, the

total interest for direct loans first disbursed on or after July 1, 2016 was 3.76 percent for an undergraduate, and 5.31 percent for a graduate or professional. These are fixed rates for the life of the loan. Perkins Loans also have a fixed interest rate of 5.00 percent regardless of the first disbursement date. These interest rates are way higher than the recorded inflation rate, which was at 1.50 percent as of September 2016, published by the U.S. government. Congress should lower the set margins of interest rates to where the inflation rate is. The government should not be benefiting from the interest it earns on student loans when students are struggling to payback their loans.

Besides interest rates, most federal student loans also have loan fees that are a percentage of the total loan amount. The loan fee is deducted proportionately from each loan disbursement a borrower receives. This means that the money a borrower receives will be less than the amount they actually borrow. The loan fee for a direct subsidized or unsubsidized loan is around 1.00 percent, and for a direct PLUS loan it is around 4.00 percent (U.S. Department of Education, 2016). It is not surprising that the cost of student loans is so high when it includes both interest and loan fees. If the borrower delays payment, more interest will accumulate which will again push up the cost of student loans.

Institutions of higher education also play a big part in helping reduce student loan debt. The cost of textbooks has been a financial burden for many college students as prices increase. Students are choosing to rent textbooks, buy used textbooks, get a digital copy of a textbook, or borrow textbooks from their university library if it is available. Some students even forgo buying a textbook all together. They find that textbooks are underused in some classes and have decided that it is not worth the investment. Newer textbook editions are also frequently released. Textbook authors make minor changes to the content of the book, place a new front cover on it

and charge a higher price for newest edition. Some university professor also produce their own 'university edition' textbook. Students are forced to purchase it for the class and they typically cannot get it for a cheaper price elsewhere as it is only sold in the university bookstore. Cost of textbooks, on top of high cost of tuition fees are hurting students. Institution of higher education needs to be aware of how high textbook prices are affecting students and their college learning experience. One suggestion would be to give out book vouchers to students who come from a low-income family. This would definitely help students out so that they do not have to worry about working more hours at the beginning of each semester to earn enough money to purchase textbooks.

Finally, students themselves are responsible for the amount of student debt they carry. Students need to educate themselves on the different kinds of federal student loans available to them. They should be familiar with terms like default rate, forbearance and repayment. Parents, together with their children should work together to choose a loan plan that would be financially suitable and feasible for them. When taking out a loan, student borrowers should be aware of the actual amount of loan they are borrowing, and this includes the principal plus any loan fees and interest rates. Getting an estimate based on the amount of loan borrowed and the period of time needed to repay the loan gives student borrowers an idea of the actual amount of money they are borrowing. There are also many resources online that are available to help students understand how student loans work and what are the best loans for them. The Administration has created tools like the College Scorecard and the Financial Aid Shopping Sheet that provide borrowers with information to help them make sound financial decisions regarding their student loans (White House, 2014). Students need to be aware that it is their responsibility to ensure that they

are able to repay the amount of loan they are potentially borrowing, because defaulting on their student loans can have a negative long-term impact.

13. Conclusion

Student loan debt in America is growing rapidly. Factors like the demand for higher education, tuition fees and expenses, state funding, income and post-graduation employment affects the amount of student debt accumulated. This is especially concerning because the high amount of debt has negative consequences on the U.S. economy and on student borrowers. Students who are unable to repay their loans risk going into default. This can have devastating impacts on student’s credit score and financial standing. The federal government has implemented various repayment plans to help students meet their loan payments. However, the government is usually unable to recollect the full amount of loan it has given out. The government, together with institutions of higher education and students, should work together to reduce the amount of student loan debt and minimize the negative implications it brings.

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