**STUDENT LOAN DEBT AND THE GROWING CONCERN FOR THE REPAYMENT PROCESS.**

**To: Vice President for Student Financial Services, XYZ University**

**From: David Nicholson, Policy Analyst**

**Date: September 29, 2024**

**Concern/Problem: Student Loan Debt is too High at XYZ University**

**Executive Summary**

[Type your text here.]

**Statement of the Issue/Problem:** What practices should XYZ University implement to decrease the loan debt accrued by University Students?

**Policy Problem: Student Loan Debt**

"Whether university students are borrowing too much is a multifaceted issue that relies on several factors, including the cost of education, the students' economic backgrounds, and financial aid availability. At XYZ University, student loan debt is more than just a number on a balance sheet; it is a daily burden that impacts the lives of students, faculty, staff, alums, and the surrounding community. The weight of this financial pressure influences their decisions, dreams, and opportunities, creating a ripple effect that extends beyond the individual and into the core of our institution.

Students: Stressed, Struggling, and Stalled

Students at XYZ U are the most immediate casualties of the escalating student debt crisis. They enter college hoping to acquire knowledge, skills, and the foundation for a successful career. However, for many, these ambitions come with a heavy price tag. The pressure to secure enough loans to cover tuition, housing, and basic living expenses is constantly juggling. They are often forced to work part-time, sometimes full-time, while trying to manage their academic load. This results in exhaustion, anxiety, and an inability to engage in their education fully. Some students are even forced to drop out before earning their degrees, carrying the debt without the credentials to repay it.

For faculty and staff, the high cost of education creates a sense of responsibility that extends beyond their traditional roles. Faculty members witness firsthand the strain on their students—attendance drops, academic performance declines, and office hours become filled with conversations about financial struggles rather than intellectual curiosity. Faculty may feel a moral obligation to help, but their ability to provide support is limited. Staff, particularly in financial aid and student services, often struggle to guide students through complex loan systems and difficult financial decisions, knowing that the options are limited.

Alumni: Careers on Hold, Dreams Deferred

For XYZ U alums, the reality of student loan debt hits hardest after graduation. Many enter the workforce only to find that their career choices are limited not by their talents or interests but by the need to repay loans. Graduates in lower-paying fields, such as social work, education, or the arts, often struggle to make ends meet. The financial burden can delay important life milestones—buying a home, starting a family, or pursuing further education. Alums find themselves sacrificing long-term goals for short-term survival, and the stress of this debt follows them long after they leave campus.

The Surrounding Community: Limited Economic Growth

The effects of high student debt extend beyond the walls of XYZ U, impacting the surrounding community as well. The local economy suffers as graduates delay significant financial investments, such as purchasing homes or starting businesses. High student debt reduces disposable income, limiting spending in local businesses and ultimately stifling economic growth. Moreover, when graduates leave the area searching for higher-paying jobs to service their debt, the community loses talent, energy, and potential leaders.

The student loan debt crisis at XYZ U is not just a financial issue but a systemic problem with far-reaching consequences. It affects the mental health of students, the morale of faculty and staff, the prospects of alums, and the economic vitality of the surrounding community. The human cost of this debt is high, and addressing it requires not just financial solutions but a deeper understanding of how it impacts every facet of the XYZ U ecosystem.

For policy considerations, whether students are borrowing too much also touches on broader policy issues. Some argue that the problem is not that students are borrowing too much but that the cost of education is too high, and the returns on a college degree are not always sufficient to justify these costs. Others advocate for reforms such as income-driven repayment plans, increased financial aid, or even debt forgiveness to address the burden of student debt (Elliott, 2014)."

**Evidence or Pre-Existing Policies**

The annual student loan debt in the United States has reached unprecedented levels, highlighting a significant issue that requires in-depth study and exploration of potential solutions. According to the U.S. Department of Education, federal student loans issued in the 2022-2023 academic year exceeded $90 billion, with approximately 70% of undergraduate students relying on loans to finance their education. Over the past decade, the amount of student loan debt issued each year has consistently grown due to rising tuition costs and the increasing number of students pursuing higher education. In 2012, the total federal student loans issued was around $78 billion, marking a 15% increase over ten years. The cumulative federal student loan debt now stands at over $1.6 trillion, with the average borrower carrying approximately $37,000 in debt upon graduation. This rise in debt issuance points to a systemic problem where higher education is becoming increasingly unaffordable, necessitating the widespread use of loans that place long-term financial burdens on students.

The impact this amount of debt has on its borrowers creates many repayment challenges. Data from the Federal Reserve’s 2023 Report on the Economic Well-Being of U.S. Households shows that nearly one-third of borrowers struggle to keep up with their student loan payments. Of the 43 million Americans with federal student loans, about 22% are in forbearance, deferment, or default, indicating significant repayment difficulties. Moreover, the Consumer Financial Protection Bureau (CFPB) reported in 2022 that over 5 million borrowers defaulted for over a year, leading to severe credit damage and reduced access to financial resources. The growing student loan debt has also led to extended repayment periods. A report from the National Consumer Law Center (NCLC) in 2023 revealed that the average repayment term for federal student loans has increased from 10 to nearly 20 years. This prolonged debt burden delays critical life events such as homeownership, marriage, and retirement savings, contributing to a broader economic impact that underscores the necessity of studying the ramifications of issuing such large amounts of debt and the hope for potential solutions.

**IPEDS Data**

The latest data from the Integrated Postsecondary Education Data System (IPEDS) reveals that around 65% of college graduates in the U.S. leave school with student loan debt. These graduates owe nearly $30,000 on average, a significant increase from $26,000 in 2012. The burden of student loan debt disproportionately impacts students from low-income families, with 79% of Pell Grant recipients graduating with student loan debt compared to 52% of non-recipients. These numbers indicate that student loan debt is playing a substantial and growing role in financing higher education, and it suggests that many borrowers are facing unsustainable debt levels.

**Journal Article Data**

Numerous academic studies provide compelling evidence of the significant impact of student loan debt on individuals' long-term financial well-being. For instance, a comprehensive 2023 research published in the Journal of Financial Economics delved into the economic trajectories of student loan borrowers over 20 years. The findings were striking, revealing that individuals burdened with student loan debt are 20% less likely to own a home by the age of 30 compared to their debt-free counterparts. Moreover, by age 40, those with student loan debt had an average net worth of $60,000 lower than those who were debt-free. The study also shed light on the emotional toll of student loan debt, indicating that borrowers are 15% more likely to experience high levels of financial stress and anxiety. The psychological impact of student loan debt is a critical but often overlooked aspect of this issue. Another noteworthy study, featured in the American Economic Journal in 2021, scrutinized the broader economic effects of escalating student debt. The researchers uncovered a troubling trend – the surge in student loan debt has led to a 10% decline in the formation of small businesses among young adults, as aspiring entrepreneurs are increasingly hesitant to take on additional financial risk. These findings underscore that student loan debt poses a significant personal financial burden and has wider economic repercussions that demand further exploration.

**Professional News Sources**

The issue of student loan debt has been extensively covered in professional news outlets, discussing the effectiveness of policy responses. An article in The New York Times in 2023 reported that total student loan debt in the U.S. had exceeded $1.7 trillion, making it the second-largest category of household debt after mortgages. According to data from the Federal Reserve cited in the article, more than 11% of student loans were either delinquent or in default, indicating significant financial distress among borrowers. The article also discussed the Biden administration's student loan forgiveness program, which aimed to forgive up to $20,000 in debt for eligible borrowers. Additionally, a 2022 report from Inside Higher Ed examined the impact of income-driven repayment (IDR) plans designed to make loan payments more affordable by capping them at a percentage of the borrower's income. The report found that while IDR plans have helped reduce monthly payments for some borrowers, many still struggle to pay down the principal balance due to accumulating interest, resulting in prolonged repayment periods. These insights highlight the complexity of the student loan crisis and suggest that existing policies may not entirely address the problem.

**Policy Options**

[Type your text here.]

***[Alternative #1 Label]***

[Type your text here.]

 Advantages

* [Type your text here]
* [Type your text here]
* [Type your text here]
* [Type your text here]
* [Type your text here]

Disadvantages

* [Type your text here]
* [Type your text here]
* [Type your text here]
* [Type your text here]
* [Type your text here]

***[Alternative #2 Label]:***

[Type your text here.]

***[Alternative #3 Label]:***

[Type your text here.]

**Biblical Worldview Perspective**

[Type your text here.]

**Recommendation**

[Type your text here.]

**Sources Consulted or Recommended**

Elliott, W. (2014). Student Loans: Are We Getting Our Money's Worth? *Change: The Magazine of Higher Learning*, *46*(4), 26–33.

The gap between effort, ability, and outcomes contradicts the American understanding of how educational institutions, the great equalizers in society, are meant to work. The American promise is that those who work equally hard and have equal ability will reap roughly equal rewards.

National Center for Education Statistics. (1986). IPEDS: Integrated Postsecondary Education Data System: less than two-year institutions. [Washington, D.C.?] :[National Center for Education Statistics]

Looney, A. (2024). How much does college cost, and how does it relate to student borrowing?

The rising cost of college and graduate school is often cited as a cause of rising student loan borrowing. While accurate top-line Sticker prices have increased 114% since 1993, net tuition prices have not changed after accounting for increases in financial aid and tax benefits.

Looney, A. (2024). How Much Does College Cost and How Does It Relate to Student Borrowing? Tuition Growth and Borrowing Over the Past 30 Years.

With a (114). % increase in college sticker shock since 1993, student borrowing tripled over the same period. While certain groups, such as graduates and affluent undergraduates, have seen higher prices, aggregate increases in borrowing are hard to explain.

Looney, A., & Yannelis, C. (2024). What Went Wrong with Federal Student Loans? Journal of Economic Perspectives, 38(3), 209–236.

At a time when college and graduate school returns are at historic highs, why do so many students struggle with their student loans? The increase in aggregate student debt and the struggles of today's student loan borrowers can be traced to changes in federal policies intended to broaden access to federal aid and educational opportunities.

Redd, K. E. (2001). Why Do Students Borrow So Much? Recent National Trends in Student Loan Debt. ERIC Digest.

College students are leaving higher education institutions with more educational loan debt than ever. From the academic years 1994-1997 to 1999-2000, the amount of postsecondary education students borrowed through Federal Student Aid jumped from $24 billion to $33.7 billion.

Rosen, H. S., & Sappington, A. J. (2016). To borrow or not to borrow? An analysis of university leverage decisions. *Research in Economics*, *70*(1), 170-185.

This paper investigates the decisions of universities to issue debt. We test whether the
expected value and uncertainty of a university׳'s nonfinancial income (the income generated
by sources other than its endowment) affect its leverage (the ratio of the value of an
institution׳'s liabilities to the value of its assets). We find that leverage is negatively related to Both the expected value and the uncertainty of nonfinancial income.

Rosenman, E., Cohen, D., Baker, T., & Arapko, K. (2022). Promises and profit in “debt-free” higher education: The geographies of income share agreements in the United States. Annals of the American Association of Geographers, 112(8), 2305-2323.

As student debt in the United States rose to $1.7 trillion in 2021, the value and accessibility of higher education have been a subject of fierce public debate. In this context, income share agreements (ISAs) are framed as an alternative to conventional student loans. ISAs entail investors paying a student’s tuition for a share of the student’s future income.

**Appendix A**

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| **Project the Outcomes Matrix** |
| **Topic:**  |
|  | **[Criterion #1 Label]** | **[Criterion #2 Label]** | **[Criterion #3 Label]** |
| **[Alternative #1 Label]****Alternative’s Overall Value:** [Type your text here.] | **Data Collection:*** [Data item]
* [Data item]
* [Data item]

**Projected Outcome:** [Type your text here.]**Cost Analysis:** [Type your text here.] | **Data Collection:*** [Data item]
* [Data item]
* [Data item]

**Projected Outcome:** [Type your text here.]**Cost Analysis:** [Type your text here.] | **Data Collection:*** [Data item]
* [Data item]
* [Data item]

**Projected Outcome:** [Type your text here.]**Cost Analysis:** [Type your text here.] |
| **[Alternative #2 Label]****Alternative’s Overall Value:** [Type your text here.] | **Data Collection:*** [Data item]
* [Data item]
* [Data item]

**Projected Outcome:** [Type your text here.]**Cost Analysis:** [Type your text here.] | **Data Collection:*** [Data item]
* [Data item]
* [Data item]

**Projected Outcome:** [Type your text here.]**Cost Analysis:** [Type your text here.] | **Data Collection:*** [Data item]
* [Data item]
* [Data item]

**Projected Outcome:** [Type your text here.]**Cost Analysis:** [Type your text here.] |
| **[Alternative #3 Label]****Alternative’s Overall Value:** [Type your text here.] | **Data Collection:*** [Data item]
* [Data item]
* [Data item]

**Projected Outcome:** [Type your text here.]**Cost Analysis:** [Type your text here.] | **Data Collection:*** [Data item]
* [Data item]
* [Data item]

**Projected Outcome:** [Type your text here.]**Cost Analysis:** [Type your text here.] | **Data Collection:*** [Data item]
* [Data item]
* [Data item]

**Projected Outcome:** [Type your text here.]**Cost Analysis:** [Type your text here.] |

**Alternatives**

**[Alternative #1 Label]**

[Type your explanation here.]

**[Alternative #2 Label]**

[Type your explanation here.]

**[Alternative #3 Label]**

[Type your explanation here.]

**Criterion**

**[Criterion #1 Label]**

[Type your explanation here.]

**[Criterion #2 Label]**

[Type your explanation here.]

**[Criterion #3 Label]**

[Type your explanation here.]