

Student Loans: 3 Articles

Student Loan Crisis

What is the student loan crisis?

The student loan crisis is a problem that affects millions of Americans. It is caused by increasingly high levels of debt students carry due to obtaining a degree. This debt becomes more detrimental when paired with declining wage averages.

Overwhelming debt can negatively impact a student's financial well-being, including their ability to buy a home or further their education. It takes just one setback for a borrower to fall behind on payments, and the impact on their credit score can put measures to reduce or refinance debt out of reach.

Understanding the Causes

The current student loan crisis is the result of many factors. One reason is the increasing cost of tuition. Another reason is the rise in student loan debt. In addition, many students cannot secure a competitive wage, making it challenging to repay their loans.

In years past, legislation such as the Higher Education Act of 1965, The Middle Income Student Assistance Act (MISAA) of 1978, and The GI Bill made college more accessible. Enrollment grew while tuition costs remained low. More students gained access to funding, but with no cap on the amount available for students to borrow, academic institutions began to charge higher tuition and fees. Then, over time, state funding for higher education was significantly slashed, which led to students relying more heavily on loans to cover the increasing cost of tuition.

Adding to the crisis is what has been labeled "The Great Wage Slowdown," wherein the actual value of the average wage has continued to decline since 1991. To compete in today's job market competitively, students are told to pursue even higher education. Unfortunately, the value of these advanced degrees has also declined in relation to the resulting wage the student will earn. When the loans come due, borrowers are unable to make the payments due to insufficient supporting salaries.

What are the Effects?

There has been no confirmation of a direct link between the country's economic performance and the student loan crisis. However, the US economy has made little progress while student debt continues to grow exponentially out of control.

The resulting economic consequences of this student debt can include a lack of growth in new businesses, a reduction in consumer spending, and an overall shift in homeownership as more borrowers continue to rent rather than further overextend themselves with mortgages.

Meanwhile, student loan debt continues to impact society and increase the economic division between different social groups. These financial and social impacts of the debt crisis overwhelm borrowers and often leave them feeling hopeless about repayment of the debt. This creates even more division between those who earn lower wages and those who make significantly more.

This socioeconomic division is evident in examples such as doctors that prefer not to practice in low-income areas, which creates more separation in society as low-income communities have less and less access to healthcare and other critically essential services.

Conclusion

Students further their education to increase their competitive value in the workforce. Still, rising tuition costs and the resulting wages earned cause the overall value of the education to be worth much less than the amount borrowed to obtain the degree. This will continue to negatively impact borrowers and further contribute to the student debt crisis as millions of new students are taking on these loans each year while existing borrowers are struggling to find a reprieve.

Private Student Loans

The Benefits of Accessing Private Student Loans

With the increasing costs of higher education, it's essential to explore all the financial options available to students. One alternative to federal financial assistance is private student loans.

Private student loans are education loans from private lenders such as banks and credit unions. Individual lenders set their own criteria for approval, including income and credit score. Because of these standards, private education loans are generally considered more difficult to qualify for, but there can be many benefits to choosing this financing option.

Federal loans are broadly generalized to offer basic financing options for the majority of typical students looking to borrow. Loan limitations are set by Congress and annually range from \$5,500- \$12,500 for undergraduates, which may not cover all the costs associated with higher education. It's important to note that the US government will go to extra lengths to make sure this money is paid back in full, so defaulting on federal student loans puts the borrower at risk of wage garnishments and federal tax return

seizures. These loans are also not bankruptable; even declaring Chapter 7 or Chapter 13 bankruptcy will not clear away the remaining balance of federal student loans.

On the other hand, private student loans can often be customized and tailored to suit the borrower's needs. Some options may include choosing between a fixed or variable interest rate and selecting from multiple repayment timelines.

Other benefits can include:

- Streamlined application process. Borrowers seeking federal student loans are required to fill out a very detailed Free Application for Federal Student Aid (FAFSA). The FAFSA is not needed for private student loans making the process much more straightforward; students can often apply to private lenders in a few minutes without providing as much additional information.
- Higher Loan amounts. Federal education loans have a yearly maximum amount that can be borrowed, which can sometimes be as low as \$5,500. Policies vary, but private lenders typically have higher aggregate education loan amounts, which, depending on factors such as credit score, chosen major, and co-signer approval, can cover the entire cost of education.
- Competitive Interest Rates. Federal student loans have fixed rates only. But borrowers with excellent credit or a qualified co-signer can finance their education with more flexible loan terms and rates as low as 1%.
- Available to part-time students. To qualify for federal loans, a student has to be enrolled at least half-time. Many private lenders will allow part-time students to finance their educations, particularly if they work full-time with qualified income and credit scores.
- International Student Opportunities. Students from other countries are not eligible for federal loans, but with a qualified co-signer, International students have the opportunity to acquire the financial support they need to further their education.

When taking on any new financial obligation, it's important to understand the terms and conditions set forth by the lender. As tuition costs increase and state funding cuts continue, students have to carry more of the financial weight of their education. To maximize the benefits of accessing options like private student loans, students should remember to borrow responsibly.

Refinancing Student Loans

What is Student Loan Refinancing?

Higher education often comes with a hefty price tag. Many students finance their education through student loans. When taking out these loans, borrowers are typically stuck with the terms and conditions set by the lender. But when repaying the debt, the borrower's circumstances can change. It may be advantageous to refinance the loans so that the terms and conditions best suit the borrower's current situation.

Student loan refinancing may sound overwhelming, but it simply means taking the remaining balance of the loan and creating a brand new loan with updated terms and conditions. Here is an example:

John takes out \$40,000 in student loans. His loan terms are an 8% interest rate and monthly payments for 15 years. Five years go by; John has graduated from school, earned a respectable income, and improved his credit score. He's paid almost \$10,000 toward his student loans, but the terms are still 8% interest over 15 years. John decides to refinance the remaining \$31,500, and since his circumstances have changed, his loan terms are now 5% over 10 years. John saved almost \$6,000, refinancing his student loan.

Advantages of Refinancing Student Loans

There are many benefits to refinancing, and most of them offer more flexibility to suit the borrower's current situation. Choosing a new lender, lower interest rates, reduced monthly payments, and other changes can all be made with a new loan process. Below are just some examples of using these changes in advantageous ways:

- Lower interest rates. New terms can help alleviate the overall interest paid, saving thousands of dollars over the entire loan period.
- Reduced monthly payment. Paying less per month may help fulfill other current financial obligations, but a longer term length will mean paying more interest for the length of the loan.
- Pay less overall. Choose a shorter loan repayment length to pay less interest over time.
- Cosigner changes. A student may have needed a cosigner at the start of their loans, but changes to their income and credit score can mean a cosigner is no longer needed.
- Pick a new lender. Ensure loan service satisfaction by choosing a new servicer whose terms best suit your needs.

Disadvantages of Refinancing Student Loans

Depending on a borrower's circumstances, refinancing has potential drawbacks that should also be considered. These challenges include:

- Eligibility requirements. Specific qualifications, such as an excellent credit score, may need to be met, or the choice of lenders may be limited.
- Locked terms and conditions. Sometimes federal loan repayment plans can be altered but refinancing a new private loan typically comes with set terms that must be strictly followed.
- Fewer deferment options. Federal loans can offer some hardship opportunities that pause the repayment terms for a period of time. Some private lenders may offer similar programs, but it is not guaranteed.
- Loss of federal payment protections. Refinanced student loans will no longer qualify for federal relief programs like Public Service Loan Forgiveness and Income-Driven Repayment plans.

Today's Leading Lenders

It's also essential to research lenders to make the most informed decision. Some of the most considered lenders in 2022 are:

- Splash Financial
- Credible
- Earnest
- Citizen's Bank
- SoFi

Conclusion

Student loan refinancing can be a great option when a borrower's circumstances change, or the loan terms don't meet their current needs. As with any new financial obligation, making an informed decision is important to ensure the most economically responsible lending.