

# Should student loan debt be forgiven?

[Profession](#), [Student](#)



Most Americans would agree that higher education is important. Compared to years ago, when a high school education was acceptable in most jobs, a college degree is now required in the majority of positions. But what if you can't afford to get a degree? What then?

For many, student loans are the only way to finance one's education. Paying out of pocket simply isn't a reality for most, so they rely on state and national government to provide them the funds to attend school, buy textbooks, and even pay for room and board. Sign on the dotted line, and suddenly a subsidized or unsubsidized loan shows up as a credit on your student account.

Any overage is paid to you by check to cover incidentals. This process gets repeated every semester, for as long as you attend school. It all seems very easy and acceptable - until you graduate (or don't graduate, whichever the case may be).

The day you leave school, a six-month clock starts ticking toward your first payment. Oh wait, you mean school costs money? Sadly, some aren't able to secure a position right away that can allow them the economic capability to start making payment on their loans. It can take up to two years for some college graduates to find a job.

In the meantime, those loans are still due and payable. There are all sorts of possibilities for repayment: income-sensitive plans, unemployment deferments, graduated payments, and even forgiveness programs for certain occupations like nurses, teachers, and public servants.

But what about the rest of the debt holders? What happens to them if they can't make their payments? Student loan debt today approaches \$1 trillion dollars, according to the Consumer Financial Protection Bureau. Even more frightening, the Wall Street Journal reports about 40% of student loan holders are in default or have delayed their payments.

Student loan debt has now actually surpassed total credit card debt in the US. There are numerous calls to action for possible solutions to this problem. The main issue I have with them is they don't actually take into effect HOW we got into this position, or how to avoid it from happening again in the future. As part of his re-election bid, President Obama introduced his solution, referred to as the 10-10 plan. This plan allows graduates to only pay 10% of their total income as loan payments, and forgive whatever is left after 10 years.

This plan requires a borrower to have a financial hardship, and the payment amount, based on 10% of income, is readjusted yearly. In many cases, this forgiveness will amount to somewhere around 80% of the original loan amount. That seems an awfully steep penalty for the US to pay, simply because they think they can.

These borrowers are now, hopefully, out in the work world making a reasonable income so they are actually likely to be able to make payments. Forgiveness at that point is not really necessary. In an income-sensitive repayment plan, the rate of the payment goes up, based on the income of a borrower increasing as well.

Rather than forgiving the remainder owed, cutting interest rates or lowering the payment amount seem like better solutions in that they provide assistance to struggling borrowers, but ultimately the debt is repaid.

There are others calling for an all-out bailout, similar to the AIG or GE bailout, designed to boost the economy. The hope is those with forgiven loans will put that money back into the economy, at least in the short term. But who's to say that's where they'll put their money? What happens to the next round of graduates? They'll be graduating with a forgone conclusion that their loans will be forgiven as well.

And why not? That's what a plan like this would lead them to believe. Mitchell Weiss, adjunct professor at the University of Hartford's Barney School of Business in Connecticut, believes any kind of credit is ultimately issued on a sort of trust. "If I loan you some money, I trust that you're going to pay it back to me," he says. "Wholesale forgiveness, amnesty - whatever you want to call it - will fundamentally undermine a process that is thoroughly integrated within our society." Moreover, it doesn't really solve the problem, says Professor Weiss.

A Facebook page started by an angry law school graduate without means to repay his loans has sparked a petition to support a one-time, across the board loan forgiveness. Started by Robert Applebaum, the group calls for an economic boost by forgiving all outstanding government loans.

In the petition, Applebaum says, "Forgiving the student loan debt of all Americans will have an immediate stimulative effect on our economy". "With the stroke of the president's pen, millions of Americans would suddenly have

hundreds, or in some cases, thousands of extra dollars in their pockets each and every month to spend on ailing sectors of the economy."

Basically, the already strained government would be taking the hit for billions of dollars, based on the hope that this money would find its way back to our local and national economy. The main problem I see is you cannot guarantee this is what will happen. It sets the whole Federal Loan system up for collapse. HR1330 is another bill recently introduced, which could provide some much-needed relief for borrowers. Instead of a bailout, this kind of plan would allow interest-free deferments to borrowers who become unemployed or who are enrolled in the current 10-10 plan.

Important to note is that it does limit the forgiveness afforded to new borrowers. But here again, it's a very short term solution to a very long term issue. People on both sides, and somewhere in the middle, generally have strong opinions about the long-term benefits or non-benefits of a plan like this. CNBC reports the problem with a plan like this is three-fold: "The losses must be borne by someone, likely the taxpayer". Basically, the money to bail out college graduates from repaying their loans has to come from somewhere. It can also be called a "moral hazard", in that it rewards or implicitly encourages imprudent behavior.

Also, a one-time bailout of the current loan-holders could strongly encourage future graduates to rely on the possibility of another bailout in the future. As a returning college student with a mountain of student loan debt of my own, I see the problem from the borrower's perspective. As a Business Management student, though, I also see it through "Economic Eyes". At the risk of sounding old and maternal, I think forgiveness only allows the

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problem to keep repeating for my generation, my children's generation, and those to come.

In the same mentality that I would never buy my child a car outright, for fear they'd have no ownership in it or respect for it, I simply don't believe that bailing out borrowers is a good solution either.

I fear we teach our children that so long as there are mountains of others in the same predicament, there is government relief available. The price is ultimately paid in the form of even more national debt. Yes, an economic boost might be favorable in the short term, but the long term effects of that boost will be felt for years afterwards.