



Student loan debt could be the next economic bubble

BY TINA SFONDELES Staff Reporter tsfondeles@suntimes.com February 8, 2013 11:42PM

Updated: February 10, 2013 11:25AM

For debt-saddled Americans hoping the government will bail them out of their student loans, financial aid experts have some advice: Don't count on it.

"It's not going to happen," said Ed Gjertsen, vice president of Mack Investment Securities.

As the price of college has soared, student loans have ballooned. In 2001, the average student borrowed \$2,682, according to the Pew Research Center.

0, that number spiked to \$26,682, according

The debt doesn't just affect borrowers and their families. Economists fear the amount of increased borrowing will stifle economic growth without overhauling the whole student loan process.

ates will stifle economic growth without

Some borrowers can't get mortgages or open small businesses — both of which could stall a

Yet thousands of Facebook users and countless other Americans are still clamoring for the bailout. A "Forgive My Student Loans" group has more than 7,000 likes.

bailout. A "Forgive My Student Loans" group

Others are just postponing payments, while interest on their loans keeps growing.

Declaring bankruptcy isn't the way out. Student loan debt is now in the same category as chil

— debts that aren't going to be forgiven.

Financial aid expert Mark Kantrowitz, creator of *Fastweb.com* and *FinAid.org*, has another take on the issue: "It's better to die in a car crash than have your student loan debt discharged in bankruptcy."

to die in a car crash than have your student

Before 1976, all education loans could be discharged in bankruptcy, just like an unpaid mortgage. But the 1996 Bankruptcy Abuse Prevention and Consumer Protection Act — intending to eliminate people from getting wiped away by declaring bankruptcy.

not more difficult until 2005, when the law eliminated almost all private and public student loans

The rare instances when student loans can be erased now include working in certain public service jobs, becoming disabled or dying. More than half of student loans are past due, according to a recent TransUnion study. The study also found that reported student loan balances increased by 30 percent per borrower, with the average student loan debt per borrower increasing 30 percent to \$23,829.

made 120 payments, becoming permanently delinquent. Loans now represent 43.5 percent of all student loan debt and in 2012, with the average student loan debt

'Rug completely taken out from under me'

Chicagoan Brennan Roche graduated in 2010 from Loyola Marymount University in Los Angeles with a degree in theater and more than \$55,000 in student loan debt.

and more than \$55,000 in student loan

"Loans started January 2011 when I was still living in Los Angeles and the rug got completely taken out from under me," Roche, 24, said. "I was paying ridiculous rent out there as well as starting my loans with Citibank as well as my federal loans. While I never missed a payment, most of that first year I needed major help from my parents and don't know what I would have done without their help."

Now, he's back in Chicago, with a part in a Profiles Theater play and a job as a server at Moretti's Italian restaurant: "Base salary would be \$15,000 if I am lucky," he said.

He wasn't fooled. He knew what he was getting into.

"While loans have mostly hindered me my first three years into the real world, I was well aware that was going to happen," Roche said.

Roche knew what he was getting into, but many students don't take into account just how much they'll be making in their field. And many don't even end up working in their field.

Kantrowitz, and many other financial aid experts, advises to take that into account when first researching student loans.

"Someone who has a liberal arts degree isn't going to make the same amount as someone with a degree in nursing or science, engineering or mathematics," Kantrowitz said. "As a general rule, every student should borrow no more than what they expect their starting annual salary to be."

'Student debt bomb' ticking

It's the "student debt bomb" that keeps ticking, said Sen. Dick Durbin (D-Ill.)

A study by the Federal Reserve in New York found that outstanding student loan debt in the country is at \$870 billion. It's now greater than credit card debt at \$693 billion and auto loan debt at \$730 billion.

More than 6 percent of U.S. consumers, or about 12 million people, had two or more student loans on their credit report in 2005. By last year, the number jumped to 13 percent, or 26 million consumers.

Kantrowitz advocates allowing borrowers to free themselves of private loans if they declare bankruptcy. But he's not holding his breath.

He says borrowers panic, don't call their loan companies for help, and get in even bigger trouble.

Gjertsen agrees. "If you're truly in a bad financial spot, it's a matter of just communicating with a lender. Give them your plight and try to work out something, because you can't go into bankruptcy. You can't discharge those," he said.

Lenders sometimes allow a break from payments — called forbearances — if bills are too much, but interest continues to grow during the break.

Getting too far behind in repaying loans can land borrowers in court.

The government filed more than 100 federal lawsuits in the U.S. District Court of Northern Illinois between January 2012 and February 2013 against borrowers who have defaulted on their federal student loans and aren't paying the money back.

"If you default on a federal student loan, the government has a very strong power to recoup those funds," Kantrowitz said. "The government can garnish up to 15 percent of your wages. They don't even have to ask you to court. They can intercept state income refunds, prevent professional license renewals, and you most likely won't be able to get a mortgage or enlist."

Kantrowitz says the government is stepping up efforts to catch borrowers nationwide.

That's the sobering truth for people panicking about paying their federal loans. Borrowers have to pay 6.8 percent on unsubsidized federal student loans, while the government gets to borrow at interest rates of less than 0.25 percent.

And for those with private loans, you're on your own. You can't declare bankruptcy and you can't refinance at a better rate.

According to the Consumer Financial Protection Bureau, the student loan debt among college students surpassed \$1 trillion last year. About \$150 billion of that amount is from outstanding student loan debts in private loans.

Laws could 'restore fairness'

Politicians are fighting to make changes, but there are no guarantees borrowers will be saved.

Durbin teamed with Sens. Tom Harkin (D-Iowa) and Al Franken (D-Minn.) to reintroduce two pieces of legislation aimed at helping borrowers know what they're getting into before signing loans, and the Fairness For Struggling Students Act of 2013, which would "restore fairness in student lending by treating privately issued student loans in bankruptcy the same as other types of private debt."

"Unless we take action to educate and protect borrowers, student loan debt will be the next mortgage crisis," Durbin warned in a statement.

Reps. Steve Cohen (D-Tenn.) and Danny Davis (D-Ill.) introduced similar legislation last week.

The timing might be right; a report released last week by the Center for Responsive Politics found the student loan amount owed by U.S. representatives and senators last year was as high as \$4.3 million, showing middle-class Americans aren't the only ones buried in student loan debt.

© 2011 Sun-Times Media, LLC. All rights reserved. This material may not be copied or distributed without permission. For more information about reprints and permissions, visit www.suntimesreprints.com. To order a reprint of this article, [click here](#).