

ARE INCREASING STUDENT LOAN DEBT LEVELS BURDENING GRADUATES?

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ABSTRACT. Our paper contributes to the literature by providing evidence on the obstacles that student loan debtors should overcome with the aim of obtaining relief. This research makes conceptual and methodological contributions to the alterations bankruptcy reform generated on the private student loan market. Our analysis complements the growing literature on the consequences of Bankruptcy Abuse Prevention and Consumer Protection Act in the private student loan market.

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1. Introduction

Student loan debt is problematic to eliminate in bankruptcy. While most student loan debt was issued (Popescu and Ciurlău, 2017) or is insured by the federal government, a substantial portion is as private student loans. Pricing on them is reminiscent of credit cards. For undergraduate students particularly, such loans frequently necessitate a co-borrower who is legally constrained to reimburse if the student borrower does not. (Alexandrov and Jiménez, 2017)

2. The Student Loan Debt Crisis

Bankruptcy Abuse Prevention and Consumer Protection Act (BAPCPA) did not impact considerably the cost of loans for the lowest credit score persons in relation to ones with superior credit scores: students became incapable to discharge their loans in bankruptcy (Nica et al., 2016), without undergoing an adjusting drop in price. There is no rise in loan volumes or alteration in prices. The cost elasticity of request for student loans is not notably distinct from zero. The modification in originations cannot be attributed to a price effect. BAPCPA was not quite beneficial to students, as the latter lost the capacity to discharge their private student loans, without getting any discount in return. (Alexandrov and Jiménez, 2017)

Most students aim to pursue instruction completely, but should obtain loans or try to find other subsidization to cover schooling, fees, and living costs. Student loans denote that knowledge has its price: nondischargeable student debt. Individuals utilize grants, work-study opportunities, financial aids, tax advantages, and household or personal money to assist in financing college expenses (Lăzăroiu, 2015a, b, c), but loans commonly constitute a considerable share of university funding. Student loans are either federal/public student ones or private student ones made by private third party (e.g. a bank or university). The law penalizes students by hampering them from pursuing a college degree and financing their future. Regarding student debt as nonconsumer one for particular unlucky and trustworthy postgraduate debtors may enable the bankruptcy system to stabilize the concern of the prospects of the students (Rădulescu, 2013) with possible misapplications in the system. (Johnson, 2016)

University loans are the most fashionable approach for individuals to meet the expense of their college degrees, but debtors persist in endeavoring to have their student loan debt (Lăzăroiu, 2013, 2017) discharged in bankruptcy. Besides its non-dischargeability, student loan debt may inflict various hindrances on borrowers, contingent upon whether the debt contract (Pera, 2014a, b, c, d) is for federally or privately financed student loans. Although neither federal nor private student loan debt (Popescu, 2015) is dischargeable in bankruptcy, their long-term consequences on debtors may be distinct. Debtors remain absolutely doubtful and vulnerable for what may be subsequent (Mihăilă, 2017) to their unpaid student loan debt in bankruptcy. Federal student loans should persist non-dischargeable in bankruptcy as a result of their condition as public debts, as they belong to the section of government resources, and since the U.S. Department of Education has designed numerous substitute manners for borrowers to reimburse their loans. (Keller, 2017)

3. Students as Permanent Debtors

Private Student Loan (PSL) issuers may cost differentiate among individuals as concerns diverse aspects (e.g. credit score and school), and have no grounds to cross-finance *a priori* risky individuals by imposing *a priori* safer students higher rates. BAPCPA should not have had any consequence for the *a priori* safer individuals with low likelihoods of resulting in bankruptcy before reimbursing their student loans (Nica, 2016): the loan issuers should have envisaged that such borrowers presented practically no bankruptcy risk (Popescu et al., 2016) even before BAPCPA became operable. Risky individuals received almost no savings from the decrease in bankruptcy barriers that BAPCPA generated. The latter was unsuccessful in diminishing prices (Nica, 2017a, b, c) and admitting it had, it is questionable that more individuals would have decided on attending higher education. (Alexandrov and Jiménez, 2017)

The sharp increase in student loans highlights the demand for admitting student loans to be categorized as nonconsumer debt in particular cases. While some institutions of higher education have been raising expenses, numerous jurisdictions have been substantially reducing their financing of higher education lately, compelling many colleges to compensate lost earnings by boosting prices. A forward-looking demand for college instruction (Mircică, 2011a, b) has brought about escalating prices, influencing students to obtain more loans. The student loan rise may also be associated with access to credit. Private loans are advertised via many banks and universities, frequently with superior interest rates (Popescu, 2017a, b, c) than public loans where public choices are not achievable or reach the limit. (Johnson, 2016)

There are some federal student loan repayment proposals and deferral choices that enable the government to cooperate with each separate borrower and supply a scheme or system of reimbursement that they may pay for monthly. Making private loans dischargeable may motivate private lenders to be more rigorous regarding their qualification demands (Mihăilă et al., 2016) and should significantly diminish the quantity of loans private lenders may grant, learning that their loans are dischargeable. While the quantity of prominent student loan debt has been noticeably boosting lately, the undeniable issue numerous debtors confront (Pera, 2015a, b) in attempting to reimburse their student loan debt is the accumulation of interest (Nica and Mirică (Dumitrescu), 2017) at high rates. (Keller, 2017)

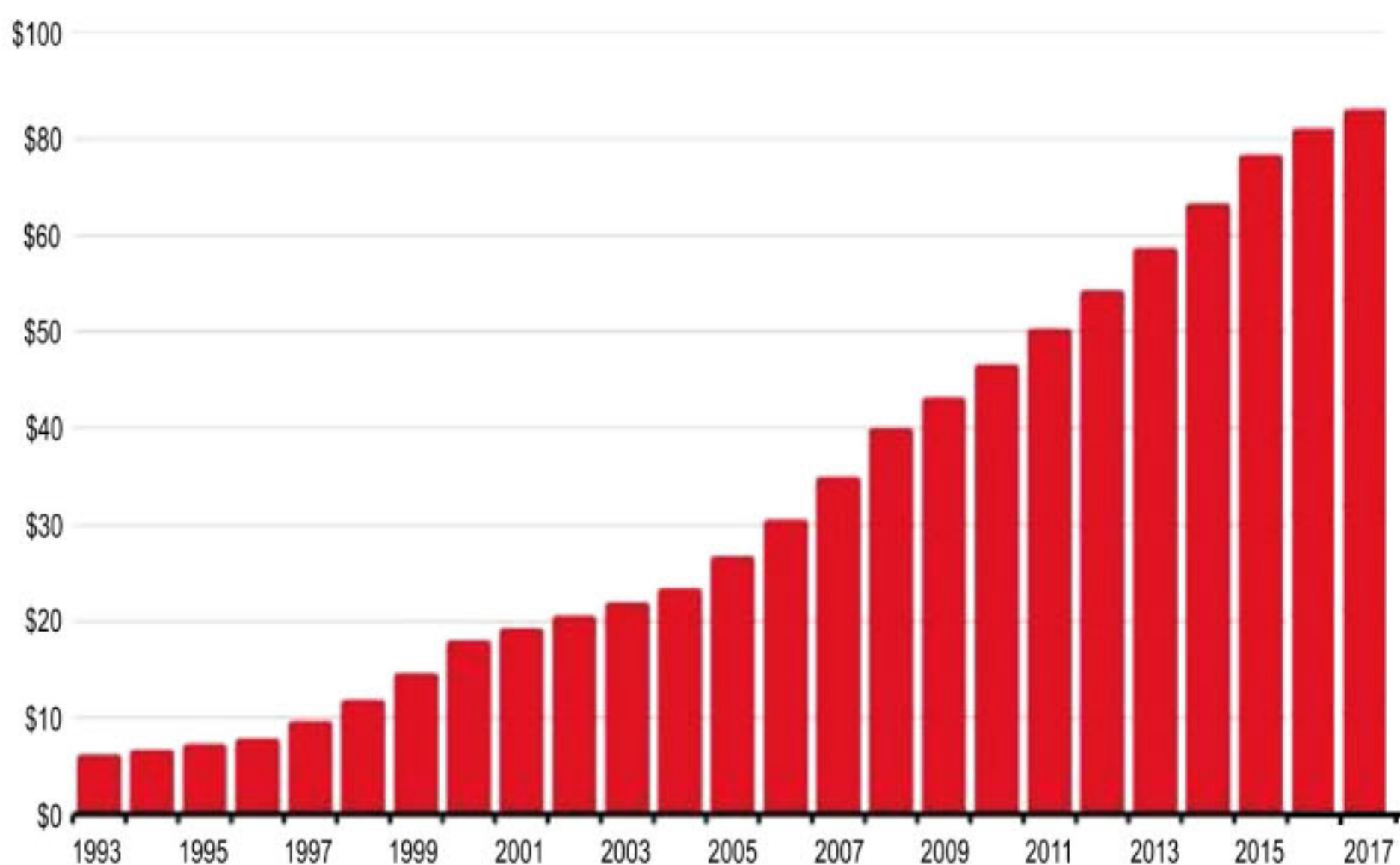
4. Student Loans' Presumptive Non-Dischargeability in Bankruptcy

As the BAPCPA applied subsequently to PSLs that were initiated before the law became operative but had not yet been entirely reimbursed, the law also

generated a payout for holders of prominent PSLs initiated before BAPCPA, and a comparable deficit to the borrowers who unexpectedly lost the opportunity of discharging the loans. The latter, initiated at a moment when PSLs were certainly dischargeable in bankruptcy, apparently comprised within their cost a superior risk premium (Nica and Potcovaru, 2015) to reimburse lenders for the unrestricted convenience of the bankruptcy discharge. Pre-BAPCPA, borrowers most probably had to cover the cost of this premium. After bankruptcy reform became operative, all PSLs became similarly problematic to discharge in bankruptcy. After BAPCPA, a default on a student loan debt may not have the same consequence as a default on other kinds of debts. The student loan debt is more outstanding as the receiver is incapable to discharge it in bankruptcy. (Alexandrov and Jiménez, 2017)

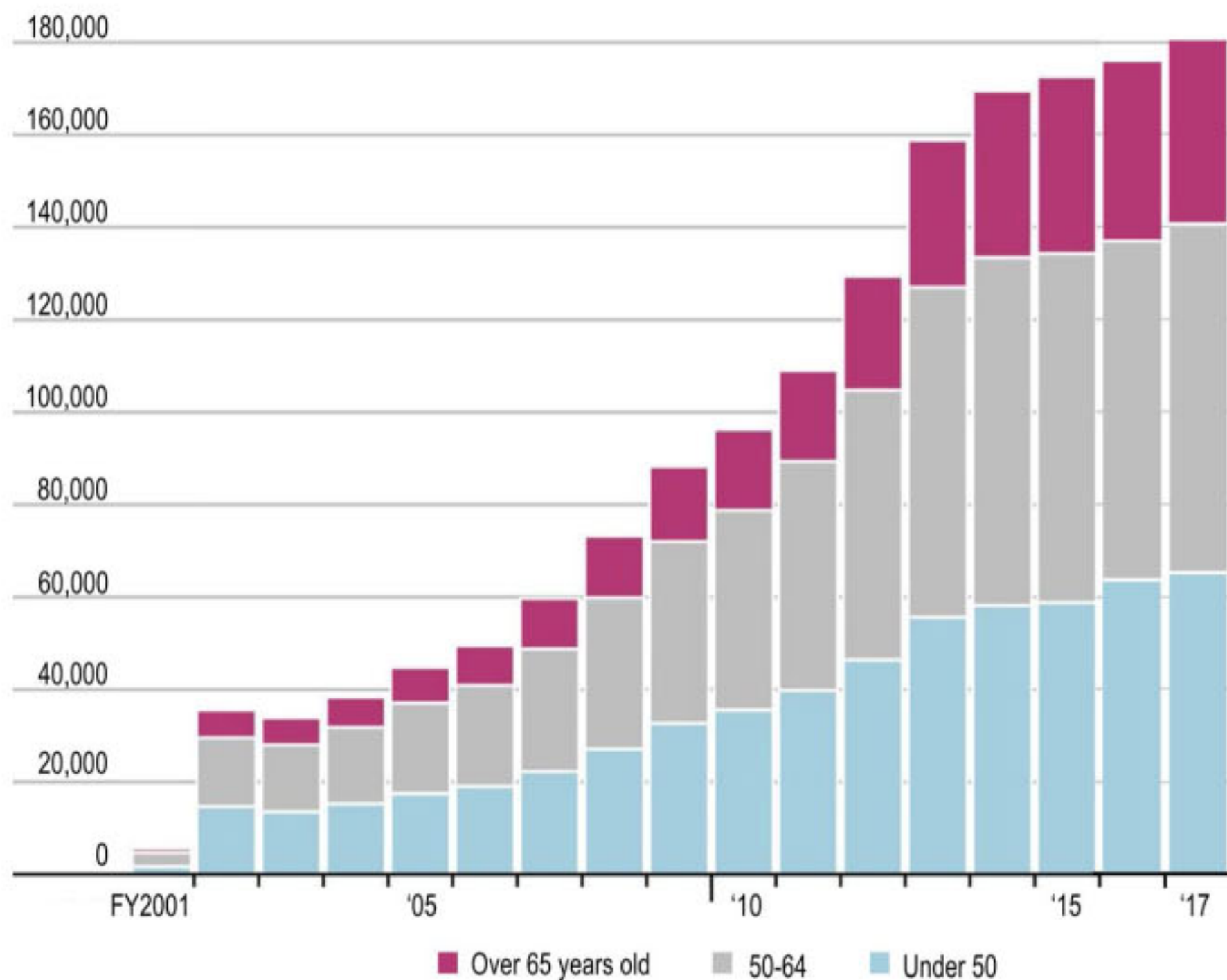
The employment of skewed facts-and-circumstances assessments in detecting excessive difficulties (Mihăilă, 2016a, b) generates dissimilar outcomes for debtors endeavoring to circumvent their oppressive debts in bankruptcy. Congress's addition of student loan debt as a non-dischargeable one entails a disbelief of students collectively. Congress should supply more explicit and neutral criteria by which debtors participating in the surprising changes of bankruptcy filings may require some kind of coherence regarding discharge and treatment. (Keller, 2017) (Figures 1 and 2)

Figure 1 Total education debt of students and parents per graduating class (in billions)



Sources: Mark Kantrowitz, WSJ.com, and our estimations

Figure 2 Number of Americans whose Social Security checks were garnished due to unpaid federal student loan debt



Sources: Government Accountability Office, *The Wall Street Journal*, and our estimations

5. Conclusions

Bankruptcy reform did not bring about low credit-score individuals at four-year colleges reimbursing less for PSLs, although such loans were seemingly nondischargeable. BAPCPA was a pay supplement concerning PSLs initiated before it was established, as the borrowers were assessed for creditworthiness (Popescu Ljungholm, 2016a, b) and received their loans when they apparently comprised a supplementary expense being dischargeable in bankruptcy. The pay supplement might have wound down there if individuals had obtained some of the advantage (Mircică, 2012, 2014) of the law modification in reduced prices. Losing the capacity to discharge loans in bankruptcy constituted a clear loss for individuals, even after considering market reaction by the lenders. (Alexandrov and Jiménez, 2017)

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