The Student Debt Crisis: A Synthesized Solution for the Next Potential Bubble

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I. INTRODUCTION

Matthew Bridges, a teacher in his late sixties with a Ph.D., currently owes $2 million in student loans. Due to medical issues, he was unable to maintain employment where he would earn enough to pay off his student debt. His creditors eventually became so aggressive in their quest for payment that Bridges and his wife were forced to flee the country. Once on foreign ground, Bridges finally found a teaching job but ultimately divorced his wife to free her from a life on the run. While this is an extreme example, Bridges' experience demonstrates the critical level that student debt has reached in the United States.

Jessica Tisdale has $163,000 in debt. She graduated from Columbia University with a bachelor's degree and from New York University with a master's degree in linguistics. Tisdale is now over 30 years old, living with her mother, and working three part-time jobs. Tisdale's experience depicts a more common example of the impact of insurmountable student debt on a graduate's daily life. The average outstanding student loan debt was over $26,000 in 2010, which is 2.5 times what it was two decades ago. Student debt has reached a critical level in the United States. There is an urgent need to take preventative measures to avoid another loan crisis.

The similarities between the mortgage crisis and the student

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2. Id.
3. Id.
4. Id.
5. Id.
6. Id.
7. Cox, supra note 1.
debt crisis are uncanny. The mortgage crisis involved banks loaning to risky debtors who ultimately defaulted on their loans when the value of the homes securing the loans fell. Many banks failed to analyze whether or not the debtors could actually afford to make the mortgage payments for the houses they were buying. This lending methodology ultimately led to many loan defaults. Similarly, the government and private banks currently are not examining whether students can afford to take out the loans for their college educations, which has led to a large amount of debt and risk of defaults on these loans. Almost 10% of student loan debtors who had entered repayment between October 1, 2009, and September 30, 2010, defaulted on their student loans within the first two years of repayment.

The various structures and political approaches to the student loan market have further complicated the student loan bubble, enmeshing the private lenders and the federal government. The current student loan bubble consists of loans that have been issued by non-subsidized private lenders, government-guaranteed private lenders, and the federal government. Because the private lenders and government are so intertwined in this student loan bubble, this Note discusses and examines solutions to reducing the size of the student loan bubble from all types of lenders.

In Part II, this Note explains the current student debt industry. Part III analyzes proposed solutions to reduce the future student debt and/or the current student debt. Part IV provides a synthesized solution partially based on current proposed remedies. Finally, Part V provides a concluding statement regarding the desperate need for a

10. Id.
11. Id.
12. Id.
14. Id.
15. See infra Part II.
16. See infra Part III.
17. See infra Part IV.
change in attitude towards loans to risky student debtors.18

II. CURRENT STATE OF THE STUDENT DEBT CRISIS

From 1965 until 2010, student borrowers could receive loans from private lenders that were guaranteed by the federal government through what was eventually named the Federal Family Education Loan Program.19 In 1993, the federal government started offering a second loan option, where the government directly issued loans to student borrowers under the Federal Direct Loan Program.20 The Federal Direct Loan Program continues today as the only option of federal government loans. Meanwhile, private loans, although not guaranteed by the federal government, continue to be an option for student borrowers. However, the government has sought to provide lower interest rates than those of private loans, making private loans a less popular option.21

As of March 2012, student debt in the United States surpassed the nation’s credit card debt.22 In September 2013, student debt exceeded $1.1 trillion with the federal government holding or guaranteeing at least $1 trillion of that total.23 The high amount of student debt is due in part to the rise in the cost of a college education.24 College tuition and fees have risen four times faster than the increase in the consumer price index since 1978.25 Meanwhile, lobbyists tied to the

18. See infra Part V.
21. See id. at 95.
22. Meta Brown et al., Grading Student Loans, FED. RESERVE BANK OF NEW YORK (Mar. 5, 2012, 7:00 AM), http://libertystreeteconomics.newyorkfed.org/2012/03/grading-student-loans.html (stating that in March 2012, credit card debt was $693 billion while student loan debt was $870 billion.).
25. See id. (graphing the increase in cost of medical care, shelter, food, and college
higher education system have donated millions to politicians to maintain the current student debt regime. For example, Sallie Mae owns roughly $162.5 billion of student debt and has donated $1.3 million to politicians to maintain its place as one of the largest student debt lenders.

Nevertheless, the cries of those with student debt have not fallen on deaf ears. In just the last two years, the federal government has enacted the “Pay As You Earn” Plan and the Bipartisan Student Loan Certainty Act. Under the Pay As You Earn Plan, borrowers who qualify are able to lower their monthly student loan payments to a maximum of 10% of their discretionary income. This allowance complements the already-established Income-Based Repayment Plan that allows qualified borrowers to reduce their monthly payments to 15% of their discretionary income. Under the Bipartisan Student Loan Certainty Act, student loan interest rates are tied to the 10-year Treasury note and capped at 8.25% for college students. This recent legislation attempts to provide relief to student debt holders.

However, this legislation has not provided relief for all debtors facing unbearably high debt payments on student loans. For these unfortunate debtors, bankruptcy is not an option. Under federal bankruptcy law, a debtor who has declared bankruptcy cannot have her student debt discharged along with her other financial obligations unless she qualifies for the “undue hardship exception.” This exception contains a high standard for discharge, requiring three elements for the debtor to qualify. To qualify for this exception and have the student tuition and fees since 1978).

27. Id.
30. Id.
loan debt discharged the debtor must be able to prove all three elements: (1) that the debtor cannot maintain, based on current income and expenses, a "minimal" standard of living for herself and her dependents if forced to repay the loans; (2) that additional circumstances exist indicating that this state of affairs is likely to persist for a significant portion of the repayment period of the student loans; and (3) that the debtor has made good faith efforts to repay the loans.\(^{35}\)

This is such a high standard that in 2008, only 29 of 72,000 bankrupt student loan debtors successfully discharged their student debt.\(^{36}\)

It seems that while the federal government does not plan to cut back the amount of student loans that it issues each year, it does plan to alleviate the burden of repaying these loans for those currently in debt. Nevertheless, the future of the student debt bubble is still uncertain as students continue to borrow, the student debt bubble grows even larger, and the government and private lenders become more vulnerable to defaulting loans.

III. PROPOSED SOLUTIONS FOR THE CURRENT STUDENT LOAN CRISIS

A number of solutions to the student debt default crisis have been proposed, and they vary in form and function. For example, one set of remedies focuses on lenders including (1) a formula that determines interest rates based on the student’s aptitude and the caliber of the college that she attends;\(^{37}\) (2) a derivative of the economic put-

37. Raj Sabhlok, Student Loan Crisis Solved – Next Problem?, FORBES (Dec. 14, 2012, 10:00 AM), http://www.forbes.com/sites/rajsabhlok/2012/12/14/student-loan-crisis-solved-next-problem/ (arguing for a formula that determines the student’s potential earnings based on her aptitude to succeed and the college she attends, thereby simultaneously determining her ability to repay her loans). See Ending Student Loan Exceptionalism: The Case for Risk-Based Pricing and Dischargeability, 126 HARV. L. REV. 587, 598 (2012) [hereinafter Ending Student Loan Exceptionalism] (encouraging the lender to create a “risk-
call concept that would forgive student loan debt after a certain date and
certain conditions were met; and (3) the privatization of all student
loans. Other remedies focus on statutory solutions such as the “Pay
Forward, Pay Back” program in Oregon and the removal of the
student loan exception from discharge under bankruptcy law.

A. Changes in the Lending Process

These ideas—an aptitude formula, a put contract, and the
privatization of student loans—attempt to address the amount of debt
incurred by those who are currently borrowing for college and those
who will borrow for college in the future. The advocates for these
solutions admit that they do not resolve the current student debt
bubble; they just prevent the bubble’s further swelling and potential
burst.

1. An Aptitude Formula

One fundamental issue underlying the student debt crisis is the
apparent lack of caution creditors take in lending to students. Some
suggest lenders should use a risk-based formula, which would
determine the student’s ability to pay back her loans. This formula
would calculate the student’s ability to repay by analyzing factors such
as academic performance before and during college, type of major, and
anticipated post-graduation salary based on the historical average salary
of those who graduate with that major. Some have urged that the

(proposing a derivatives-based solution to the student debt crisis).
39. Zachary Huffman, Get Government out of Student Loans, 8 THE OBJECTIVE
STANDARD 59 (2013) (advocating for an entirely privatized student loan system).
41. Ending Student Loan Exceptionalism: The Case for Risk-Based Pricing and
42. See, e.g., Sabholok, supra note 37.
43. Id.
44. Id.
45. Michael Simkovic, Risk-Based Student Loans, 70 WASH. & LEE L. REV. 527, 596
(2013); Sabholok, supra note 37.
46. Simkovic, supra note 45, at 620 (listing factors to calculate the risk of a student
debtor defaulting in the future).
formula should account for the caliber of the college. This proposal seeks to eliminate some of the inherent risk of student debt by enabling lenders to make more informed decisions when lending to students.

This proposal would likely achieve the goal of reducing student loan debt in the future by identifying loans that lenders should not issue due to the risk of investing in that student’s education. Lenders would at least be more equipped to make informed decisions in issuing inherently risky student loans that are not backed by any collateral. Lenders could also use this knowledge to charge higher interest rates for those students whose “scores” indicate that they are a high-risk investment for the lenders.

However, this proposal does not address the already outstanding student debt. Should the entire student loan industry begin using this formula, students who choose a major that correlates with lower anticipated salaries or attend a lower-tiered college are likely to be penalized. While many agree that everyone has a right to an education, the proponents of this risk-based aptitude formula do not fully address the serious social consequences that could come from a formula that is based solely on financial criteria.

2. A Put Contract

Michael C. Macchiarola and Arun Abraham have formulated a plan to reduce the further exponential growth of student debt based on the concept of a put contract. The proposal requires lenders to offer

47. Sabholok, supra note 37.
48. Id.
49. Id.
50. Simkovic, supra note 45, at 594-96 (explaining that some student debtors should have a higher interest rate because they are more at risk of defaulting).
51. Id. at 591 (admitting that some have critiqued risk-based formulas in student lending due to its potential social costs).
52. See, e.g., Sabholok, supra note 37.
53. Michael C. Macchiarola is a Distinguished Lecturer at the City University of New York. Abraham & Macchiarola, supra note 20, at 67 n.1.
54. Arun Abraham practices law in New York City. He received his bachelor’s degree from Yale University and his law degree from the University of Southern California. Id. at 67 n.1.
55. Id. at 68 (proposing a derivatives-based solution to the student debt crisis). “A ‘put option,’ . . . is a financial contract between two parties whereby a put buyer purchases from a put seller the right, but not the obligation, to sell (to the put seller) an underlying security or other item of value at an agreed-upon price. This agreed-upon price is typically referred
a put option in addition to the student loan. The put option would enable the put-buyer (the student debtor) to exercise her right to have a portion or all of her debt forgiven upon the exercise date if, upon that exercise date, the student debtor had failed to meet the Minimum Expected Earnings Amount since the beginning of the repayment period. The Minimum Expected Earnings Amount is the amount the student debtor is expected to have earned by the exercise date. This amount would be determined by the size of the student’s debt and “the percentage of gross professional income that can reasonably be expected to be available for student loan payments.” If, on this exercise date, the student has to ask for debt forgiveness in the form of this put contract, Macchiarola and Abraham suggest that the school the requesting debtor attended must publicly announce that the student’s degree has been “put.”

There are several benefits to this plan. First, the lender would be able to charge a fee to offer debtors this option. There is the possibility that the lender would never have to forgive any debt from a student debtor yet the lender could still earn the fee revenue. Second, the lender may only have to forgive a portion, rather than the entire, debt based on the formula Macchiarola and Abraham provide. Third, a debtor who is facing serious financial trouble would find financial relief without having to default or declare bankruptcy. Fourth, the educational institution would be incentivized to maintain reasonable tuition costs by trying to avoid the public shame of having the degrees of their students being “put.”

57. Id. at 120.
58. The exercise date would be determined at the time of the agreement to the put contract. Macchiarola and Abraham suggested 10 years from the start of the loan agreement as the exercise date. Id. at 120-21.
59. Id. at 121.
60. Id. at 120.
61. Id.
62. Id. at 121 (implying that it would be embarrassing for the school for the public to find out that a graduate was unable to pay back her loans).
63. See id. at 125 (noting that students would be “armed” with this information when making decisions on which schools to attend.).
Nonetheless, this formula is not without its faults. This plan fails to address the enormity of the current outstanding debt. Moreover, this proposal also fails to limit how much debt a student can acquire in loans. Therefore, a student could still theoretically take out a significant amount of loans and just purchase the option contract with the intention of never paying off the entirety of the loan by the exercise date. The chance of students abusing this system could turn out to be too high.

3. Privatize All Student Loans

Some politicians have accused the federal government of “nationaliz[ing] the student loan market” and have proposed the expansion of private lenders’ share of the student loan market. Some believe that “government intervention in the higher education market is precisely the reason college has become so expensive.” The growing student debt bubble is the result of a cycle that begins with the federal government issuing low, fixed interest rate student loans, followed by colleges raising tuition and fees, requiring students to take out more loans. Removing the federal government from the student loan industry would allow free market capitalism to reign. Without the safety net of government-backed student loans, banks would be incentivized to issue “loans at rates students are willing and able to pay.” This would incentivize students to pay back their loans because of the fear of a bad credit rating from a student loan default.

This complete-privatization scheme would certainly allow for a more market-based system that would enable interest rates to rise and fall based on supply and demand. Students who thought that the interest rates were too high when they expected to enter college could consider working for a few years to see if the interest rates fell to a more reasonable level. Students who cannot afford to pay for college in cash could also save money for college between graduating from high school and going to college and borrow less money in the future when they

65. Huffman, supra note 39, at 59.
66. Id.
67. Id.
68. Id.
69. Id.
decide to obtain their college degree. Banks could then receive the expected principal and interest payments from more student debtors as the default rate drops.

However, this plan might not be practical. First, this proposal fails to even acknowledge the current problem of $1 trillion in outstanding student debt. Second, if the economy took an extreme downturn and lenders were less willing to lend to risky debtors, this proposal could lead to a loan market where all banks charged astronomical interest rates or just denied credit for student loans. Potentially unaffordable rates would result in only the wealthiest of students attending college leading to significant social issues. Third, the political climate could affect interest rates, leaving student access to college uncertain and colleges unclear as to enrollments for upcoming years. This uncertainty could then snowball into bigger issues such as professors being unsure of their job status for the coming year.

Lastly, the idea that students would pay back their loans because of their fear of bad credit seems shortsighted. Students already fear bad credit if they default on their loans, yet many still default. It is difficult to understand how this existing fear would more successfully incentivize debtors to repay their loans under a deregulated loan scheme. Therefore, the uncertainty and lack of an extra incentive for debtors to pay back their loans support the notion that complete privatization of student loans might not be the best solution.

B. Statutory Changes

Other commentators have proposed statutory changes to transform the student loan industry into a more sustainable framework. For example, Oregon's innovative "Pay Forward, Pay Back" Program has recently passed. 70 Meanwhile, many have argued for the removal of the student loan exception from debt discharge in bankruptcy law, 71 but Congress has yet to approve this popular proposal.

71. See Ending Student Loan Exceptionalism, supra note 36, at 597 (citing Nat'l Bankr. Review Comm'n, Bankruptcy: The Next Twenty Years 207 (1997)).
1. Oregon’s “Pay Forward, Pay Back” Program

In July 2013, Oregon’s legislature passed the “Pay Forward, Pay Back” Program. A classroom of students at Portland State University along with the support of the Working Families Party of Oregon developed this program. The recently passed statute establishes a committee to further research a pilot program to be implemented in 2015 that would enable Oregon residents attending state institutions to pay no tuition while in college, if they cannot afford to do so. Upon graduation, they must pay 0.75% of their annual income for every year that they attend college, so a four-year attendee would pay 3% of her income for twenty to twenty-five years to the college. The Oregon legislature will vote again in 2015 to implement the pilot program based on the committee’s research and recommendations.

The benefits of this program are largely in favor of the student. The student can graduate without any debt at all, completely eliminating the growth of the debt bubble. Moreover, students would not have to worry about the unpredictability of interest rates when deciding whether to take out a loan, nor would they worry about the variability of non-fixed interest rate loans upon graduation. Students would also be able to make reasonable loan payments based on a small percentage of their income, rather than a bill for a certain amount that is unaffected by the debtor’s ability to pay.

However, there are some significant flaws with this program. First, if the vast majority of students participated in this program, colleges would begin to see serious declines in the upfront capital they have come to expect from tuition and fees. Second, participating students who earn high salaries after leaving college could end up paying the college back more than the principal cost of tuition or even more than what they would have paid had they taken a federal loan. Third, private banks could be entirely eliminated from the student loan

74. 2013 Or. Laws HB 3472 2013.
76. See 2013 Or. Laws HB 3472 2013.
industry due to potentially decreased demand for private loans. This could affect students in the future if the Oregon legislature, or any other state’s legislature that chose to implement this program, chose to increase the percentage removed from the debtor’s income. If there were no private competitor, the government would effectively have a monopoly over the student loan industry. Nonetheless, it will be interesting to see how Oregon implements this program and the positive and negative consequences that it produces.

2. Altering the Student Loan Exception from Debt Discharge in Bankruptcy Law

Currently, debtors who file for bankruptcy cannot discharge their obligation to pay off their student loans unless they have an "undue hardship." As explained earlier, the undue hardship exception is a high standard to meet and requires that (1) the debtor cannot both afford a "minimal standard of living" and repay the loans; (2) factors demonstrate that this financial state will persist for a large part of the repayment period; and (3) the debtor has made a good faith effort to repay the loans. Many critics of this law have argued for a modification of this exception.

One proposed modification is to replace the undue hardship exception with a more defined standard that would allow the discharge of student loan debt if the debtor filing bankruptcy could meet certain criteria based on "outstanding loan amounts, debtor income history, federal poverty guidelines, and the type of academic program in which the loan was incurred." This proposal would provide a more objective standard and allow debtors "relief in bankruptcy." Replacing the "undue hardship" exception with a more objective standard could be beneficial by reducing the size of the student debt bubble, thereby reducing the potential for significant defaults on student loans.

79. See, e.g., Aaron N. Taylor, Undo Undue Hardship: An Objective Approach to Discharging Federal Student Loans in Bankruptcy, 38 J. LEGIS. 185, 185 (2012) (replacing the "undue hardship" standard with a more objective standard to discharging student debt).
80. Id.
81. See id.
Assuming the new standard would apply to more debtors than the current “undue hardship” standard, this plan is very favorable for debtors.

However, this propositions still faces the same issues that the current undue hardship exception faces in that it leaves creditors empty-handed. It also increases the possibility that students may try to abuse less stringent bankruptcy laws by borrowing with the intention of simply seeking bankruptcy in the future if necessary.\(^8\) Thus, while the bubble would shrink, the banks and federal government would be left to foot the bill.\(^8\) The burden would then likely shift to fellow student debtors or taxpayers.\(^8\) Moreover, a new standard might not be that beneficial. These factors used for the formation of the proposed new standard—“outstanding loan amounts, debtor income history, federal poverty guidelines, and the type of academic program in which the loan was incurred”\(^8\) could also be manipulated to create such a high standard that this proposed change, like the current undue hardship exception,\(^8\) would be effectively useless.

Meanwhile, others argue for the complete repeal of the section of the bankruptcy statute that forbids the discharge of student debt.\(^8\) The National Bankruptcy Review Commission even concluded that § 523(a)(8) should be repealed.\(^8\) Although the exception in its current form intends to help those who are in serious financial trouble, it is ineffective.\(^8\) Only about 0.1% to 0.3% of student loan debtors actually attempt to discharge their student debt through undue hardship litigation.\(^8\) The “undue hardship” exception is currently ineffective,

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8. See Kyle L. Grant, Student Loans in Bankruptcy and the “Undue Hardship” Exception: Who Should Foot the Bill?, 2011 BYU L. REV. 819, 845 (2011) (arguing that the exception should not be removed or made less stringent because it would be unfair to creditors).

83. See id. at 820.

84. See id. at 820, 828.

85. Taylor, supra note 79, at 185.

86. See Ending Student Loan Exceptionalism, supra note 37, at 596.

87. See id. at 597 (quoting the National Bankruptcy Review Commission and encouraging the lender to create a “risk-based pricing framework”); see also Baker, supra note 36, at 1215 (advocating to return to pre-2005 bankruptcy law which would remove the undue hardship exception).

88. See Ending Student Loan Exceptionalism, supra note 37, at 597 (quoting the National Bankruptcy Review Commission).

89. Id. at 589.

90. Id. at 609.
leaving most debtors to deal with the harsh result of not being able to discharge student debt through bankruptcy.91

Similar to the proposed modification of the undue hardship exception, repealing this prohibition (and therefore the subsequent “undue hardship exception”) would enable the bubble to decrease in size and lower the risk of more defaults. There is a common fear that debtors may never find relief from their student loan obligations.92 However, removing the bankruptcy law’s stringent standard could eliminate, or at least reduce, the chances of this fear becoming a reality for many student borrowers.93 Debtors could begin to file bankruptcy and find shelter from the overwhelming debt. On the other hand, like the modified standard proposal, the creditors would still be left without the repayments on their investments, and in this case, both the federal government and private banks would be the adversely affected creditors.

IV. THE SYNTHESIZED SOLUTION

Some of the most significant criticisms of the above proposals include the inability to both reduce the current student debt and prevent it from growing out of control again in the future. This multi-pronged issue implies a need for a multi-pronged solution.94 Furthermore, the current interdependency of the government and the private banks in the student loan bubble requires a joint effort by these lenders to untangle themselves and prevent another loan crisis. As a result, the most successful remedy is one that synthesizes the many beneficial factors in the proposals above.

A. Reducing the Size of the Current Student Debt

First, the student debt exception to the discharge of outstanding obligations under bankruptcy law must be repealed.95 While this will

91. See id.
92. See Baker, supra note 36, at 1228 (“Debtors in unstable financial situations may never be able to get out from under the burden of their loans.”)
93. Id.
94. See generally Ending Student Loan Exceptionalism, supra note 37 (stating the need for a “risk-based pricing framework”).
95. See id. at 588.
cause some losses for the lenders, it would not be as devastating of a loss as complete debt forgiveness. This remedy would also reduce the administrative costs of trying to track down defaulting borrowers whose debt continues to rise with each additional default penalty. Finally, this seems to be the lesser of two evils with the alternative being that the bubble bursts from the swelling number of defaulters.

B. Prevent the Future Increase in the Size of Student Debt

Although largely outside of most people's control, the first step to preventing the future increase in the size of student debt is to lower the cost of tuition and fees. The cost of tuition, as explained in Part II, has increased at a rate four times faster than that of the consumer price index since 1978. If legislators and leaders of private colleges could begin to examine and reevaluate their budgets to help students facing these intimidating tuition costs, the first steps could be made toward preventing the outstanding student debt from rising above $1.2 trillion.

However, since there seems to be no sign of tuition and fees stabilizing or lowering any time soon, there must be another route towards a more stable student debt industry. One way to do this would be for the government and bank lenders to exercise more caution in issuing loans by using a risk-based, aptitude formula. While this formula is less than perfect, it does rightfully suggest that objective factors could be used to identify students whose education would be "risky" investments for lenders, which is such a fundamental aspect of the student loan crisis. A combination of standardized test scores and the academic institution that the student is attending could be factors weighed in this formula. Another factor to consider could be whether the student has ever had a job before. This factor could indicate that she may have a better sense of what she would like to pursue in college and maybe even "understands the value of a dollar" more so than other students. As long as the factors are as objective as possible, the lenders would be able to identify those riskier debtors and charge them higher interest rates. This in turn would discourage these riskier debtors

96. See supra Part II.
97. Of course, no single factor is going to be a perfectly objective indicator of the likelihood that the student would default on her loans ten years later, but it would at least be a start to trying to identify these riskier debtors.
from borrowing more than they should and induce them to seek less expensive educational options such as in-state community colleges or universities.

One of the other more promising solutions seems to be a payment system based on the debtor’s income.\(^\text{98}\) Lenders could implement a repayment system that removed a certain percentage of the debtor’s income each month for a certain period of time. This would enable the debtor to manage his or her finances more efficiently since even if she lost her job or had a pay cut, the debtor would not be expected to maintain the higher debt payment. This percentage-based plan also prevents the debtor from being lured into paying any kind of minimum amount and therefore allowing more interest to accrue on her debt. By eliminating this minimum payment option through the percentage-based plan, banks and the government do not have to worry as much about the debtor allowing her debt to grow to an unmanageable amount and then the debtor not repaying them. However, some lenders might also be concerned that this repayment system could allow some debtors to pay back less than the principal, but ultimately some debtors will also pay back more than the principal they initially borrowed. As long as there are upper and lower limits on the excess repaid and the minimum ultimately repaid, this plan could be very successful in reducing the student loan default rate and obtaining a higher rate of return on investment for lenders.

V. CONCLUSION

Matthew Bridges and Jessica Tisdale face nearly insurmountable circumstances. Their stories combined with the fact that the average household’s student loan debt is over $26,000\(^\text{99}\) undoubtedly indicate that a major overhaul in student debt lending is imperative. The current student loan industry is not sustainable.\(^\text{100}\) If there is anything learned from the 2007 mortgage crisis, it is that there

\(^{98}\) See 2013 Or. Laws HB 3472 2013; Abraham & Macchiarola, supra note 20, at 68.


\(^{100}\) See Abraham & Macchiarola, supra note 20, at 133 (“The higher education model that has educated generations of America’s best, delivered incomparable achievement, solidified unsurpassed scientific and technological advancement, and improved the social standing of its students, requires a fundamental reexamination.”).
must be a more conservative attitude taken in the issuance of loans, especially when there is a high chance of making a risky investment. Student loans have no tangible collateral attached to them, and as such are the very definition of a risky investment.101 For the sake of the U.S. economy and to avoid the next crisis, the student loan industry—both the federal government and the private lenders—must adjust to acknowledge this dangerous threat of yet another burst bubble.

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101. See Sabholok, supra note 37.