Student Loan Debt Should Be Canceled: This Is Why

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This article covers points of interest that reflect the stagnant disproportion of student debt throughout minority participation in higher education. It outlines decades of accrued financial carelessness, lack of accountability from all congressional action, and predatorial practices from financial college loan operators. This perspective invites a call to action whereby the crippling effects of student debt have punished the good faith of those who believe in the structure and promise of upward mobility in higher education.

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Congress passed legislation that deregulated the American financial system and should now develop legislation that absorbs or cancels a reasonable portion of student loan debt. Because American culture's bottom line is cold hard cash, student debt in loans is disproportionate to practical repayment methods and interest rates, causes of yet another national crisis. With more than 1.5 trillion in debt owed from over 40 million borrowers[1], the current issues are worsening while, at the same time, college tuition is rising (Glater, 2020). Higher education disinvestment, financial system deregulation, and predatorial inclusion led to the nation's student liability disaster. How did we get here, but more importantly, why?

The states' decades of disinvestment in higher education institutions (HEI) led to student debt and affordability issues in 2021. The financial catastrophe of 2008 hurled the nation and the world into a recession, which also prompted a significant drop in state spending for college education toward per-student funding. Because HEIs remain a strategic tool for social mobility in America, students and families have accumulated hazardous amounts of financial debt, which is even more paralyzing for low-income families and Black and Hispanic students (Mitchell, 2018). However, it is crucial to delve into the student debt crisis's root causes to paint a more precise picture of the current situation.

A significant contributor that aided in the disinvestment of public education from the states resulting in the nation's present dilemma was the financial crisis of 2008, known as the "worst economic disaster" since the Great Depression of 1929. The Financial Services Modernization Act of 1999 and The Commodity Futures Modernization Act of 2000 deregulated the financial system by overruling state legislation as big banks capitalized on derivatives such as mortgage-backed securities (MBS)[2], which allowed investors to profit from the mortgage business without ever buying or selling actual loans. Through hedge funds and other financial institutions worldwide that gambled with pension funds, mutual funds, and corporate assets, insurance companies like American Insurance Group (AIG) began swapping resold mortgages when the derivatives lost value creating a global recession that lingers today (Amadeo, 2020).

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[1] Consumer Credit - G.19, from the Board of Governors of the Federal Reserve System.

[2] Mortgage Backed Securities are investments secured by mortgages.

During the 2008 financial crisis, Blacks were disproportionately affected by an added foreclosure crisis due to discriminatory lending practices and the unregulated financial system legislated in Congress in 1999 (Baptiste, 2014). We have already established the trail of predatorial inclusion in the population on our most vulnerable with the highest student loan debt: low-income families, Blacks, and Hispanics, and because of the recession, many states have cut critical services that have historically aided in diverting HEI loan debt partially. Student loans' history began as complicated guaranteed federal loans through private banks and non-profit lenders as the Federal Family Education Loan (FFEL) program in 1965. The FFEL was eliminated and replaced with the Direct Loan program as of July 1, 2010, increasing the Pell Grant program's funding, signaling a return to the idea that all students can access higher learning in the United States (New America, 2021).

Unfortunately, before 2010 and 2008, predatorial inclusion tactics contributed to the current student loan crisis with the continued widening of the racial wealth gap. Seamster & Charron-Chénier (2017) define predatory inclusion as "a process wherein lenders and financial actors offer needed services to black households but on exploitative terms that limit or eliminate their long-term benefits." Just as discriminatory lending practices trailed Black Americans in the housing market, the educational sector did little less to avert the circumstances of Black student loan debt. The reasons are that educational institutions did not supply students with important information on federal loan eligibility, leaving them in financially harmful positions from private lenders. The private sector of HEIs created strategic lending tactics that mirrored the shady mortgage lending practices creating the 2008 financial crisis, and similarly, the privatization of higher education in the United States caused a student loan debt crisis (Cohen & Kisker, 2009).

Students on the hook for unjustly produced responsibility brought on by immoral business practices contradict the social mobility that higher education claims to offer. That is not to say that canceling all student debt is the answer, but now is the time to reasonably absorb a portion of loans. Still, suppose Congress were to reverse and act on financial regulation decisions to calculate and repay the damages done to its citizens. In that case, if we scrutinize and adjust the economic damage caused by discriminatory lending practices while holding HEI's private sector accountable for misinformation, among other untenable points of interest, including federal aid eligibility, we may find, slowly, society healthy, balanced, and equitably competitive.

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