

ECONOMY

GOVERNMENT & POLICY

Who Actually Owns Student Loan Debt?



By SEAN ROSS Updated Jul 30, 2019

As of Q1 2019, American students were on the hook for approximately \$1.49 trillion in student loans. The average borrower owed between \$25,000 and \$35,000, up significantly from past decades. With that much money on the line, it's reasonable to be curious about who might ultimately receive all those principal and interest payments. While \$1.49 trillion may be a significant liability for the borrowers, it can be an even bigger asset for creditors.

The Maze of Student Loan Processing

It is possible for your student loan to have been originated by one institution, be owned by another, guaranteed by yet another and possibly serviced by a fourth or even fifth agency. This can make it very difficult to track down who owns your debt and how. Much also depends on the type of loan you took out, although it is safe to say the federal government was involved in some way.

Most lenders are huge institutions, such as international banks or the government. After a loan is originated, however, it represents an asset that can be bought and sold on the market. Banks are often incentivized to move loans off the books and sell them to another [intermediary](#) because doing so instantly improves their capital ratio and allows them to make even more loans. Since almost all loans are fully guaranteed by the government, banks can sell them for a higher price, because default risk is not transferred with the asset.

Non-Government Owners

Outside the government, most student loans are held by the lender or a third-party loan servicing company. Originators and third parties can each perform in-house collection services or contract that duty out to a collection agency. Some of the largest private student loan companies include Navient Corp., Wells Fargo & Co., and Discover Financial Services.

Many student loans are also owned by quasi-governmental agencies or private companies with beneficial relationships with the Department of Education, such as NelNet Inc. and [Sallie Mae](#). Sallie Mae holds a lot of the loans made under the Federal Family Education Loan Program (FFELP), which was replaced by the federal government.

The Federal Government as Creditor

As of July 8, 2016, the federal government owned approximately \$1 trillion in outstanding consumer debt, per data compiled by the Federal Reserve Bank of St.

Louis. That figure was up from less than \$150 billion in January 2009, representing a nearly 600% increase over that time span. The main culprit is student loans, which the federal government effectively monopolized in a little-known provision of the [Affordable Care Act](#), signed into law in 2010.

Prior to the Affordable Care Act, a majority of student loans originated with a private lender but were guaranteed by the government, meaning taxpayers foot the bill if student borrowers default. In 2010, the Congressional Budget Office (CBO) estimated 55% of loans fell into this category. Between 2011 and 2016, the share of privately originated student loans fell by nearly 90%.

Prior to the administration of Bill Clinton, the federal government owned zero student loans, although it had been in the business of guaranteeing loans since at least 1965. Between the first year of the Clinton presidency and the last year of George W. Bush's administration, the government slowly accumulated about \$140 billion in [student debt](#). Those figures have exploded since 2009. In September 2018, the U.S. Treasury Department revealed in its annual report that student loans account for 36.8% of all U.S. government assets.

The cost of federal student loan programs is widely debated. The CBO provides two different estimates based on low discount rates and "[fair value](#)" discount rates. If you rely on the fair value estimate, the government loses approximately \$100 billion to \$250 billion per year, including \$40+ billion in administrative costs. In other words, the government does not recoup the value of the loans, putting present and future taxpayers in the position of guarantor.