



How the Government Exploits Minors Through Federal Student Loans – And How Financial Education Can Mitigate Ethical Failures



Children – minors under the age of 18 – generally cannot enter into binding financial contracts without a cosigner or special legal circumstances. This long-standing legal principle exists to protect young people from making financial decisions they may not fully understand, due to limited maturity and life experience.

However, a significant exception exists: federal student loans.

Under federal law, children under 18 years old are permitted to enter into binding student loan agreements, allowing them to take on tens of thousands of dollars in long-term debt. Unlike other types of loans, federal student debt requires no repayment qualifications, is challenging to discharge, and can follow borrowers throughout their lives.



Higher Education Act

Federal student loans stand virtually alone as a major category of debt that minor children can legally incur and that do not assess borrowers' ability to repay.

Authorized under Title IV of the Higher Education Act of 1965 (20 U.S.C. § 1070 et seq.), federal student aid programs allow eligible minors to sign a Master Promissory Note (MPN) – a legally binding agreement to repay borrowed funds – without requiring a parent or guardian's signature.⁽¹⁾ This permission is explicitly granted to ensure access to higher education financing.

The MPN enables children under 18 years old to obligate themselves to substantial future repayments without any independent financial counseling or parental approval.

Moreover, once disbursed, federal student loans are not voidable on the basis of the borrower's age. They are treated as fully enforceable debts, and federal law places strict limitations on their discharge even in cases of bankruptcy.⁽²⁾

Predatory Features of Federal Student Loans

Predatory lending is unfair, deceptive, or abusive loan practices that benefit the lender at the expense of the borrower. Predatory lenders often target vulnerable individuals, offering loans that the borrower is unlikely to repay without hardship.⁽³⁾

Federal student loans to minors meet predatory lending practices in these ways:

- Target vulnerable individuals
- Ignore ability to repay
- Represent financial hardship of repayment



1) Target Vulnerable Individuals

Other federal programs take careful steps to ensure the protection of children from being exploited or exposed to harm. For example, the Policy for Protection of Human Subjects was designed to protect people who participate in federally-funded biomedical and behavioral research studies by requiring informed consent procedures. This policy mandates extra safeguards for vulnerable groups, including children, due to their limited ability to make informed decisions. The policies are laid out in the Belmont Report,⁽⁴⁾ which was written in 1974 and went into effect in 1976.

Under state and federal laws, contracts entered into by minors are typically voidable at the minor's discretion. Without special circumstances like emancipation, minors usually cannot obtain:

- Credit cards without a cosigner or proof of income.⁽⁵⁾
- Auto loans without an adult co-signer.⁽⁶⁾
- Mortgages or personal loans without a guarantor.⁽⁷⁾

These protections exist to shield minors from financial commitments they may not fully understand.

Yet, federal student loans bypass these safeguards.

Minors can legally commit to substantial education debt by signing a Master Promissory Note – without a cosigner, proof of income, or verification of ability to repay – exposing them to major financial risks before reaching adulthood.

2) Ignoring Ability to Repay

Unlike virtually all other major forms of consumer debt, federal student loans are issued without evaluating a borrower's ability to repay. The American Bankers Association (ABA) advises consumers to avoid lenders who don't assess repayment ability, highlighting it as a clear predatory lending warning sign.⁽⁸⁾

Traditional underwriting practices – such as verifying income, reviewing credit history, analyzing debt-to-income ratios, and assessing overall financial readiness – are standard for auto loans, mortgages, and credit cards.⁽⁹⁾

These safeguards are designed to protect both borrowers and lenders by ensuring that debt is extended responsibly and repayment is realistic.

In stark contrast, federal student loans do not consider a borrower's current financial means, projected income, or area of study. A student pursuing a lower-paying field, such as liberal arts, performing arts, or early childhood education – among the lowest-paying majors – qualifies for the same loan amounts as a student majoring in higher-paying fields like electrical engineering or computer science.

This disconnect exposes many young borrowers to significant financial risk, as the loans they incur may not be sustainable based on their future earning potential.

3) Financial Hardship of Repayment

Despite the widespread availability of federal student loans, many borrowers face significant financial difficulties once repayment begins. Without safeguards like ability-to-repay verification, millions struggle under the weight of loans they cannot afford. Recent data indicate rising delinquency rates and widespread financial hardship, highlighting the long-term risks associated with current student lending practices.

Nearly 30% of borrowers (9.7 million) were past due on their student loan payments as of January 2024.⁽¹⁰⁾

Approximately 15.6% of federal student loans were delinquent at the end of 2024.⁽¹¹⁾

Over 60% of borrowers reported experiencing financial hardship due to the resumption of federal student loan payments.⁽¹²⁾



Additional Debt Risks: College Leaves Most Borrowers Worse Off

The assumption behind making student loans widely accessible is that students will complete their education and improve their long-term financial prospects. However, for the majority of students who enter college, this assumption does not hold true. For most, college represents a poor financial investment.

Only about 1 in 4 students who start college see a clear financial benefit from their degree in the long term. For the majority of students, college marks the beginning of serious, long-lasting financial problems.

College Dropout Rates

- Students who borrow but do not graduate are especially vulnerable. They often carry substantial debt but lack the increased earning power typically associated with a degree, making repayment far more difficult.(13)
- Approximately 40% of students who enroll in college never graduate.(14)
- Among first-time, full-time students seeking a bachelor's degree, the six-year graduation rate is only 64%.(14)

Underemployment Among Graduates

Even those students who do graduate often fail to benefit financially from their degree. Underemployment – working in jobs that do not require a college degree – severely affects borrowers' ability to repay student loans, build savings, and achieve traditional financial milestones like homeownership.

- More than 40% of recent college graduates are underemployed.(15)
- A decade after graduation, about 45% of college graduates remain underemployed.(15)



Consequences of Student Loan Obligations for Minors

The legal exception that allows minors to incur federal student loan debt has serious and lasting financial consequences:



▶ Long-term Debt Burdens

Student loan obligations persist for decades for many borrowers, often well into middle age. The average borrower takes about 20 years to fully repay student loan debt, with some graduate borrowers needing more than 45 years to become debt-free.(16)

▶ High Default Risk

Many young borrowers lack the financial literacy necessary to fully understand the long-term consequences of their loan obligations. According to the Brookings Institution, default rates are highest among borrowers who take on relatively small debts but fail to complete their degree – leaving them with debt but no credential to boost their earning power.(13)

▶ Delays Ability to Save and Invest

Student loan repayment obligations consume income that young adults might otherwise direct toward savings, investing, or building emergency funds. Research consistently shows that early debt burdens hinder wealth accumulation during critical years for financial growth.(17)

▶ Limits the Ability to Qualify for Home Purchases

Student loan debt significantly reduces borrowers' ability to qualify for mortgages. According to the Warren Institute, heavy student debt loads increase debt-to-income ratios, making it harder for borrowers to secure home financing or competitive interest rates.(18)

▶ Limited Discharge Options

Student loans are much harder to discharge through bankruptcy than most other types of consumer debt. Borrowers must prove “undue hardship” in a separate legal proceeding, a high standard that few meet. As a result, many borrowers remain burdened by student loans even when facing severe financial difficulties.(19)

▶ Harsh Consequences of Default

Borrowers who default on federal student loans face severe penalties that extend beyond damaged credit. The government can garnish wages, seize tax refunds, and even deduct from Social Security benefits. These aggressive collection tactics can impact a borrower's financial stability for decades.(19)

▶ Psychological and Economic Stress

Research links student loan debt to higher levels of financial stress, delayed milestones like homeownership, reduced net worth, and decreased retirement savings. The long-term strain often undermines borrowers' financial security well into adulthood.(17)



Financial Education as a Safeguard Against Federal Student Loan Exploitation

Financial education provides a critical line of defense against the predatory lending practices to which federal student loans expose minors. Teaching students real-world financial skills – before they borrow – can help mitigate risks across the key areas where predatory features harm them:

01 Predatory Lending Quality: Targeting Vulnerable Individuals

Predatory lenders exploit those who lack the experience or knowledge to understand financial risks, including minors.

Financial Education Contribution

Early financial education empowers youth with foundational knowledge that helps them make more qualified financial decisions. A highly financially educated student who has competencies to make loan decisions that align with the student's long-term goals – demonstrated through performative assessment – would mitigate their vulnerability.

02 Predatory Lending Quality: Ignoring Ability to Repay

Federal student loans are issued without regard to the borrower's ability to repay, income potential, or major.

Financial Education Contribution

Career and income alignment training teaches students how to research expected salaries for different majors and career fields. By understanding the return on investment (ROI) of their educational choices, students can make borrowing decisions based on realistic future income expectations, ensuring their debt remains manageable. This learning directly addresses students' ability to repay.

03 Predatory Lending Quality: Financial Hardship of Repayment

Without understanding repayment structures, many borrowers experience severe hardship after graduation, leading to delinquency, default, or prolonged financial stress.

Financial Education Contribution

Building on the skills noted in earlier sections, financial education teaches students to budget, manage credit, and design repayment strategies before they borrow. Equipped with these skills, students are far better prepared to meet their loan obligations, reducing the risk of delinquency, default, and long-term financial instability. Thus financial education directly addresses the potential financial hardship of repayment.

Proposed Solution: College Student Protection and Financial Education Act

The issues outlined in this whitepaper – targeting minors, ignoring ability to repay, and the resulting financial hardships – demand urgent reform. To address these challenges and better protect young borrowers, we propose the enactment of the College Student Protection and Financial Education Act.

Overview of the Act

The College Student Protection and Financial Education Act would establish mandatory safeguards before minors and young adults can legally incur federal student loan debt. By embedding comprehensive financial education, real-world performance assessments, and structured decision-making protocols into the loan process, this Act would ensure that students are informed, capable, and financially prepared before borrowing.

Key Provisions of the Act

1. Mandatory Financial Education Prior to Borrowing

Before signing a Master Promissory Note, all federal student loan applicants under the age of 18 must complete a comprehensive financial education program and pass performative assessments that demonstrate their competencies. This course would cover budgeting, credit management, debt-to-income analysis, college ROI evaluation, repayment structures, and bankruptcy protections. Students must demonstrate mastery of concepts through performance-based assessments that simulate real financial scenarios.

2. Career and Education Alignment Counseling

Students would be required to complete a career and education alignment counseling session before taking on a federal student loan. This session would involve evaluating expected salaries for their chosen majors, projected debt levels, and anticipated ability to repay, ensuring that students make borrowing decisions based on informed expectations.



Why This Act is Necessary

Without meaningful safeguards, the current student lending system exposes minors to financial practices that would be prohibited in other consumer credit markets. By requiring financial education and better informed consent, the College Student Protection and Financial Education Act would:

- Align lending practices with basic consumer protection standards.
- Reduce student loan delinquency and default rates.
- Promote better career and borrowing decisions among students.
- Protect minors from long-term financial harm caused by poorly-informed debt obligations.
- Uphold ethical lending standards, especially for vulnerable populations.

Federal student loan access should open doors – not trap young people into a lifetime of financial insecurity. The College Student Protection and Financial Education Act is a common-sense reform to ensure that students are empowered, protected, and better prepared for the financial responsibilities of higher education.

Conclusion: Financial Education is the Ethical Solution to a Systemic Failure

The federal student loan system exposes minors to significant financial risk by allowing them to incur substantial debt without the safeguards that exist in every other major area of consumer finance. By targeting a vulnerable population, ignoring ability-to-repay standards, and enabling financial hardship through unchecked lending, the current system mirrors many of the hallmarks of predatory lending.

Minors are granted access to tens of thousands of dollars in student loan debt without proof of income, career alignment, or financial literacy. As shown, these debts persist for decades, limit future financial opportunities, and contribute to lasting psychological and economic stress. In any other lending environment, such practices would be deemed unethical – yet they are normalized when it comes to financing higher education.

Financial education offers a practical, immediate safeguard.



Financial education equips students with the knowledge, skills, and decision-making abilities necessary to protect themselves from entering into unsustainable debt. Early and comprehensive financial education prepares students to:

- Recognize their rights and risks as minors facing major financial decisions.
- Evaluate borrowing decisions based on realistic income projections and career outcomes.
- Develop proactive debt management strategies to avoid delinquency and long-term financial harm.

For students to qualify for federal student loans as minors, they should first demonstrate their competency to make informed borrowing decisions through rigorous financial education and performance-based assessments.

Real-world financial education – where students prove their skills through applied projects, not just theoretical knowledge – can significantly mitigate the ethical risks currently embedded in the student loan system. Students who successfully complete comprehensive financial literacy programs are far better equipped to evaluate college costs, debt obligations, and career opportunities, enabling them to make strategic, responsible decisions that protect their financial futures.

The path forward is clear: While systemic reforms are needed to address the underlying flaws in federal student lending practices, equipping every student with comprehensive financial education now is the most powerful tool we have to reduce harm.

Until the laws catch up to what is fair, we must ensure that our young people are not left defenseless against a system that places their financial futures at risk.

Appendix: College Student Protection and Financial Education Act

<https://www.financialeducatorsCouncil.org/wp-content/uploads/college-student-protection-and-financial-education-act.pdf>

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