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It is possible that government-subsidized interest rates on Stafford loans will result in students taking out larger loans. With students having access to more money to pay for college, colleges may continue to increase tuition prices. This would create textbook bubble. To note the comparisons, the following is a step-by-step analysis comparing the housing bubble to the potential higher education bubble:

**Housing bubble –**

- The government artificially lowered interest rates for banks to inspire economic activity.
- Banks borrowed a lot of money and offered their clients artificially manipulated low interest rate loans.
- Newly qualified low-income people took out large loans (subprime mortgages).
- Those people invested in the housing market, falsely believing it is a guaranteed safe investment.
- Banks falsely believed everybody will pay their mortgages.
- The housing market inflated too much too quickly, causing the rate of inflation to become unsustainable.
- The housing market stopped appreciating in value, causing the bubble burst.
- People were stuck with a lot of debt they could no longer afford to pay back because their asset became less valuable than expected and their income was too low to compensate for that loss.
- People filed for bankruptcy and foreclosure, so lending agencies were not getting paid.
- Cash strapped, the government had to bail out the banks.

**Higher education bubble –**

- The government is subsidizing interest rates on Stafford loans at a level that is unsustainable.
- Students from low-income families now qualify for low-interest rate loans that the government artificially manipulated.
- Stafford and non-subsidized private student loan agencies are loaning out lots of money to students in every major.
- Students and lenders may not account for the different return-on-investment rates of college degrees. (A math major will likely have a higher income than a philosophy major, but both students can borrow the same amount of money.)
- Without proper financial advice, and with such easy access to lots of cash, students are taking out huge loans.
- With their students having so much money available to borrow, colleges are raising tuition costs at astronomical levels.
- Students in every major are forced to borrow more money to pay the higher tuition.

The preceding facts are happening now. If the following happens it will most likely create a dangerous economic bubble.

- The job market becomes saturated with more college graduates than available high-paying jobs. This renders their asset (a college degree) a less valuable investment than anticipated.
- Student loan interest rates eventually increase to their normal levels while the cost of tuition remains high.
- Students are forced to borrow more money at a higher rate, which leads to one or both of the following situations:
  1. Students continue to go to college while incurring lots of debt, with high payments due soon after graduation.
     - In a poor job market, unemployed or underemployed college graduates fall behind on their student loan payments while becoming even further in debt.
  2. Students drop out of college because they cannot afford it. Colleges lose income they were expecting.
     - Non-college graduates are even less likely to get a high-paying job, so they may not be able to repay their student loans.
- Student loan agencies do not receive expected repayments and are forced to lend out less money while increasing the interest rate for incoming students.
- Collages miss out on anticipated future revenue if:
  1. Would-be new students cannot afford to attend college since they do not have access to the same amount of money needed to pay for the tuition hikes enacted when colleges were getting so much student loan money.
  2. Would-be new students see what their older peers are going through and decide college is no longer a worthy investment.

If college graduates do not financially benefit from their degree to the level they had anticipated, they will not be able to repay their student loans. If student loan agencies do not receive expected repayments, they will have less money to offer future students. If would-be students cannot afford to attend college, colleges will lose anticipated future revenue and will not be able to sustain operations. This is when the bubble will burst. Nobody involved wins.