The American student loan racket

Part one

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This is the first of a two-part series on the history and predatory policies of the student loan industry. This specialized wing of the finance industry is bankrupting a generation, unabashedly profiteering from the determination of young people to learn, be productive and secure a college degree.

Today's young adults face a lifetime of diminished expectations, if not outright poverty. A majority of those attending college find themselves caught in the vise of a scissors crisis—low wage jobs and astonishing levels of student loan debt.

This financial strain is leading to rising incidences of depression, broken marriages, the postponement or abandonment of child-bearing, and even decisions to permanently leave the country.

The majority of the parents of college students, after decades of stagnating wages, had only one asset, home equity—a resource that has either vanished or become a punishing debt load under the impact of the housing meltdown. Now the younger generation has mortgaged its future in the form of student loan debt.

The two pillars of the much-touted "American Dream"—home ownership and a college education—have become the means by which the financial aristocracy is plundering both the present and future resources of the working class.

The problem is escalating. In June of this year, US student loan debt exceeded credit card debt for the first time. Now totaling nearly $850 billion, student loan debt is growing at the rate of $90 billion a year. [1]

Student debt is not just consumer debt. It is the most onerous kind of consumer debt because student borrowers do not receive standard consumer protections. Their loans are undischargable in bankruptcy, usurious penalties are legal, and there is no statute of limitations.

The Obama administration "reform" measure for student loans, which took effect July 1, will do nothing to address the banks' stranglehold over the younger generation. Its key provision is the elimination of the government subsidy to private companies for loan originations. This will have the effect of saving a projected $68 billion—not for students, but for the federal government—by favoring direct loans over the Federal Family Education Loan (FFEL) program. The role of private lenders in servicing, i.e. profiting from the loans, is unchanged.

Alan Michael Collinge was one victim of this industry. By training he was an aerospace engineer, but was laid off and unemployed for two years, consequently defaulting on his student loans. He decided to not just tell his story, but to detail the rise of this billion-dollar industry in his 2009 book *The Student Loan Scam* [2] and the web site Student Loan Justice.

An example of the personal experiences documented in Collinge's book is summarized below. What is profoundly disturbing is not only this specific outcome, but how frightfully commonplace such stories are.

Robert borrowed $42,000 in undergraduate and graduate school loans in the 1980s, all guaranteed by the federal government. His loans included funds for law school, but due to low grades he was unable to graduate. He ended up defaulting on the debt and the loans were referred to Sallie Mae for collection.

In the 1990s, Robert rehabilitated his loans and has since maintained all the monthly payments. In 2009, he owed $45,000 and could still afford to pay only the interest at 9.5 percent—$450 a month.

He told Collinge, "At this rate, I will pay Sallie Mae for the rest of my life, at a whopping total that is many multiples of the original loans." He has, so far, paid more than $50,000 but has made no dent on the principal. He concluded, "This is not nickel and dime stuff, it is strangling my life."

Recent figures are showing student default rates—over the life of loans—ranging from the staggering rate of 25 percent to 33 percent and even higher. [3]

From 1994 to 2008, average debt levels for graduating seniors more than doubled to $23,200, according to The Student Loan Project, a nonprofit research and policy organization, with more than 10 percent of those completing their bachelor's degree burdened with over $40,000 in debt.

The most recent complete statistics cover 2008. As of that year, 62 percent of students from public universities had debt, 72 percent from private nonprofit schools, and 96 percent from private for-profit schools. As all these figures predate the economic crash, the percentages are undoubtedly substantially higher today.

Student loans have become the most lucrative form of debt in the finance industry, Collinge points out, because lenders have the most invasive collection rights and the federally mandated right to impose usurious fees and penalties. The industry is legally able to garnishee wages, tax returns and Social Security and disability payments without so much as a court order.

The other side of the ever-rising cost of college is explained in a recently released US government report, "The Rising Price of Inequality".[4] This comprehensive study documents the ways millions of qualified young people are being excluded or driven out of college because of its escalating price tag.

Using a statistically rigorous method, the study shows that among low- and moderate-income students, at least 3 million academically qualified young people have foregone their bachelor's degree due to finances. These figures are based on trends prior to the worst of the current crisis.

A longstanding principle?

The government report notes that "our financial aid system is founded on the principle that any youth, regardless of family income, should have the financial opportunity" to pursue a bachelor's degree. It then provides the statistical analysis to show that this "longstanding principle" has lost any significant meaning.

What are the origins of the democratic idea that everyone should have the right to pursue a higher education?

In an opening section, *The Student Loan Scam* points to two key developments in the expansion of public education. The author writes: "Prior to the war [World War II], college educations were largely the province of the well-to-do, completely out of reach for low- and middle-income Americans, the vast majority of whom did not even finish high school. When President Roosevelt signed the GI Bill in 1944 this began to change." Author Collinge mentions that Roosevelt was cognizant of the social explosion that demobilized and hungry army veterans posed. This point is critical.

Just 12 years prior to the enactment of the GI bill, in 1932, tens of thousands of unemployed World War I vets had camped in Washington for months, in what came to be known as the Bonus Army, to demand their promised government bonus. Fearing the growing anger in the country, President Hoover ordered the veterans dispersed, and General Douglas MacArthur opted, in violation of military procedure, to personally command the attack. The army utilized tanks, fixed bayonets and gas. It dispersed the Bonus Marchers and then burned down their families' encampment, killing three people and injuring 54.

In justifying this unprecedented military attack upon the country's own veterans, MacArthur cited the risk of communism, invoking both the Hunger March in Detroit of that year and the mass funeral demonstration that followed, when 30,000 workers gathered and sang "The Internationale" to commemorate four martyred protestors.

Roosevelt's GI bill arose out of a fear that these struggles would renew. The bill provided loan guarantees for housing, assistance for unemployed veterans, and college tuition and a stipend for living expenses for students.

Of the three elements, free access to higher education was by far the most widely used, explains Collinge. By 1947, nearly 50 percent of all new college students were returning military personnel. The bill would eventually help educate 7.6 million Americans. This dramatic expansion of college education, like all social reforms under capitalism, was a byproduct of the struggles of the working class.

In the early 1950s, the US population was still, for the most part, poorly educated, with only one person in four gaining a high school diploma. This statistic gives a sense of the scale of the next expansion of college accessibility, with the implementation of President Lyndon Johnson's Great Society programs.

This series of social reforms was enacted in an attempt to stem a semi-insurrectionary domestic crisis which encompassed both the civil rights movement of the 1950s and 1960s as well as extremely militant labor struggles, including the national steel strike of 1959 in which a half million steelworkers were ordered back to work under Taft-Hartley, the months-long 1968 New York City teachers' struggle, the five-year long strike of the Delano grape workers, a series of Chrysler wildcat actions and many other similar events from coast to coast.

Johnson and the American bourgeoisie responded with legislation designed to substantially increase opportunities for minorities and the working class as a whole—and bring a section into the American middle class as a stabilizing force. In 1965, the Higher Education Act created a system of government-funded grants and scholarship programs to help less well-off youth go to college. Additionally, it provided federal loan guarantees to banks to promote lending to students.

These measures changed America's demography significantly. Collinge says: "By 1970, the number of adults with college degrees increased 67 percent; for non-white Americans by an astounding 200 percent. As a result of these expanded opportunities, high school graduation rates surged from 63 percent to 80 percent and the median education level in the US went from 10.2 to 12.1 years."

In the early 1970s, one could attend a public university at a modest out-of-pocket cost, largely paid by grants, work-study and summer jobs. Most students could graduate with no debt.

Where then did the student loan industry come from? This can be answered simply. Since the 1970s, the burden of college costs has shifted dramatically from the government to the student.

Eric Dillon's *Leading Lady: Sallie Mae and the Origin of Today's Student Loan Controversy* states: "In 1977, it is estimated that students and their families borrowed about $1.8 billion … to attend college. By 1989, this amount had increased to $12 billion. By 1996, it had soared to $30 billion."

Today, the cumulative principal and interest that is owed is calculated at $850 billion! (This figure includes the newer and more expensive private loan products, not yet invented in the earlier years).

The collapse of the labor movement in the 1980s facilitated the rollback of educational gains alongside the shredding of so many other post-war advances such as pensions, health care and federal regulation of industry and agriculture. The Higher Education Act was amended six times, becoming progressively more lucrative for lenders and more onerous for students. The Student Loan Marketing Association (Sallie Mae), founded in 1972 as a GSE (government sponsored enterprise) and supervised by the US Treasury, was spun off in 1995 to transition to a for-profit operation.

To be continued

Notes:

1. www.finaid.org/studentdebtclock provides a ticking clock illustrating the cumulative state of college loan debt in America. Finaid.org is a public service web site.

2. *The Student Loan Scam, The Most Oppressive Debt in U.S. History—and How We can Fight Back* by Alan Michael Collinge, Beacon Press, Boston: 2009.

3. The Chronicle of Higher Education (July 2010) puts the overall default rate at 20 percent, with a whopping 40 percent rate for students at for-profit institutions. StudentLoanJustice.org puts the overall number at 25-33 percent and cites the 2003 Final Audit Report of the US Department of Education, which explains the approach the federal government takes to its calculation and how the reporting system minimizes official defaults. It notes, for example, that schools which report lower default rates are eligible for requirement waivers and greater subsidies. Additionally, the liberal think-tank NewAmerica Foundation notes that a staggering 65 percent of proprietary schools (privately owned for-profit colleges such as Phoenix University, Corinthian Colleges, Kaplan University, etc.) have default rates over 20 percent.

4. http://chronicle.com/items/biz/pdf/acsfa_rpi.pdf