Report details victimization of students by US private lenders

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A recent report jointly authored by the US Department of Education and the Consumer Financial Protection Bureau, an agency created by the Obama administration under the Dodd-Frank Act of 2010, details the growth of parasitic lending in the market for private student loans (PSLs).

In the years leading up the 2008 financial crisis, this section of the student loan market resembled the exploitation of borrowers by the banks and home mortgage originators in the subprime mortgage lending. Lending standards were lowered in an attempt to bring in more borrowers regardless of their means of paying, or even evidence of actual school enrollment, after which the loans were securitized and sold to a third party.

The report shows how the market for PSLs ballooned from $5 billion in 2001, to around $20 billion in 2008 before sharply contracting to $6 billion after the financial collapse of that same year. Though government loans make up the bulk of student debt, nearly 15 percent, or $150 billion, is held by private lenders

Lenders increasingly bypassed schools so as to market directly to students, often saddling them with larger loans than schools would normally allow. Significantly, this practice increased from 40 to 70 percent of the total loans in the years directly running up to the 2008 financial crisis.

"In many cases, the school could not review the borrower's financial need, compare it to the loan amount, or even verify that the borrower was enrolled," the report goes on to add.

Similarly, many students turned to private loans before first exhausting all avenues for federal loans, indicating that they did not clearly understand the differences between the two.

According to the report, "Private student loans often lack repayment flexibility and other protections when borrowers are struggling to make ends meet. Most private loans have few options for payment modification or forbearance." Moreover, "prior to 2010, federal law did not require a disclosure showing the actual interest rate on a borrower's loan until after the lender documented the loan." Likewise, PSLs can have varying interest rates based on the perceived creditworthiness of a borrower, whereas federal loans have a uniform flat rate.

Though attempting to quell concerns of further illegality by claiming that since 2008 much of this has abated, the Obama administration has not announced any efforts to deal with the proliferation of illegal debt that has ensnared millions of students, nor does the report outline any relief for those already affected. Rather, the CFPB and DOE would be "monitoring the market" under "authority" granted by the Dodd-Frank bill.

Director of the CFPB Richard Cordray merely added that the difficulty of having private study debt discharged in bankruptcy should be "examined" for its "appropriateness," later suggesting that "lenders have appropriate data to make underwriting decisions."

Speaking on the "modified" behavior of many private lenders as of 2011, the report recalls that many borrowers are required to have a credit-worthy co-signer, up to about 90 percent from about 67 percent in 2005. Far from eliminating risk to the population, this merely ropes family members into debt along with the student borrowers.

Since the financial crisis of 2008, the report says, "default rates have spiked significantly," affecting a total of nearly $8 billion, or "over 850,000 distinct loans."

Essentially laying blame at the feet of students themselves, Secretary of Education Arne Duncan observed, “If you have to take out a loan to pay for college, federal student aid should be your first option.” Duncan failed to mention the vastly diminishing pool of resources for federal student loans, which the federal government has seen as a primary target in its mission to cut spending.

A recent report in the *Washington Post* headlined, “College Costs Shift to Students,” details a study by Sallie Mae that shows more students are bearing the cost of tuition than ever before. Describing “a major shift in spending” across all income levels, the report found that levels of scholarship aid and grants for students were down this past year by nearly a third since the year before. Only 30 percent of students received such aid.

Sallie Mae also noted increasing number of students limiting their choice of schools based upon costs, often eliminating their picks after receiving their financial aid packages.

Student debt as a whole has recently ballooned to more than $1 trillion in the past year, overtaking auto as well as credit card debt. Earlier CFPB reports have stated that just federal student loan debt grew by nearly $100 billion last year. Students reportedly borrow twice the amount that was the norm just a decade ago.

As the WSWS has stated in the past, “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 findings of this report, as with many others detailing the abuses that Wall Street banks regularly committed in the upshot to the banking crisis, verify that it was not an issue of a few bad apples, but of a systemic level of exploitation in which social rights of the working class were held hostage by financial interests, who drove the cycle of speculation to a point in which the population could no longer afford to pay back their debts.