

# Obama signs executive order on student loans

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On Monday, President Barack Obama signed an executive order that will extend the federal Pay As You Earn (PAYE) student loan program to graduates who borrowed money before 2007 and those who have not borrowed since 2011.

Largely a public relations move in advance of the mid-term congressional elections, the executive order will allow some students to pay their student loans over twenty years, rather than ten, but with a larger sum owed over that period. The measure does nothing to change the crushing joblessness, meager wages, and debt facing an increasing mass of college graduates.

Flanked by handpicked college students and a banner reading “opportunity for all,” Obama spoke to a crowd of Washington insiders for 20 minutes. Before signing the order, Obama told the audience, “Everything I do is aimed towards reversing those trends that put a greater burden on the middle class.”

Far from providing “opportunity for all,” PAYE allows certain qualifying students to pay their student loans over a longer period of time with an overall higher interest payment. For many borrowers this results in a higher total payment to the bank, but a smaller monthly payment.

The program, which began in 2010, caps federal student loan payment at 10% of a graduate’s total income minus the federal poverty guideline for their family.

Obama’s proposal expands this 2010 measure to include graduates who borrowed before 2007 or haven’t borrowed since 2011. Additionally, he proposed six measures, one of which will work with banks to strengthen “incentives” for graduates to pay their loan bills, and another which seeks to “educate” borrowers on how they can best repay their loans.

Under the PAYE program a recent college graduate in Washington, DC making \$20 an hour, working full time, every week of the year, would have his or her

college loan bill capped at roughly \$250 a month. A similarly employed worker making \$15 an hour would have it capped at \$163 a month.

The tradeoff for having the cap is that the loan is extended to 20 years, increasing the total interest owed. For most, this means that the overall total sum of money they pay to the bank is larger, because of 10 extra years of interest accrued. This leaves banks with a better bottom line, while families face an overall larger debt burden.

If a graduate still has loans after 20 years of payment, and the graduate has consistently paid every single payment on time, then part or all of the remaining loan may be forgiven after the borrower pays taxes on the remaining sum.

A married graduate who has no children and earns an average of \$50,000 a year for the 20 years of payment would have to have a total student loan payment of more than \$70,000 to still owe money after the 20 years. If that graduate was 25 when finished with school, he or she would be 45 when finished with making monthly payments of \$291 a month.

The extension of PAYE will not reduce the crushing level of debt or help graduates find decent-paying jobs in their trained field. The latest measure rearranges the burden in line with the expectation that workers are now increasingly unable to find a good-paying job despite having college degrees. Because workers will not be employed in a decent job in the near future, if ever, the loan extends the time of repayment. In essence, the program accepts and is based on what is the new reality for Americans: endless debt and underemployment.

Student debt has ballooned in recent years, expanding to over \$1 trillion in federal loans and \$100 billion in private loans—a sum larger than American credit card debt. Ten percent of recent borrowers default on their loans within the first two years of paying them. This is

the highest level of default in nearly 20 years.

Companies like Sallie Mae, which act as middlemen between the US Government and students in the student loan racket, have made a killing off the loans. Such companies use draconian enforcement measures to get their money. If a co-signer, often a parent, dies before a student debt is repaid, the student is often forced to immediately repay the debt. Students also face outrageous prohibition on defaulting on their college loans. Even if they file for bankruptcy, they face indefinite servitude on student loans.

While tuition has skyrocketed, with some public universities in California and Arizona increasing their tuition by over 80 percent over the course of five years, US college executives have cashed in with soaring compensation packages.

In 2013, Obama laid out a program to extend the market-based “reforms” of K-12 schools to higher education. This would involve subsidizing schools to encourage them to cut costs. The effects of such a proposal would be to eliminate school programs that are not deemed important to the economy, such as English or History, and cut the budget.

Also in 2013, the federal student loan rate for subsidized loans doubled overnight from 3.4 percent to 6.8 percent. Student loans are also tied to the fluctuation of the financial market through the American bond market. If bond rates go up, so will student loans.

Seventy-one percent of undergraduates are in debt. The average debt is almost \$30,000. A 2013 study done by The Opportunity Nation coalition found that 15 percent of those aged 16 to 24 are neither working nor in school.



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