

OPINION GUEST ESSAY

The Government Gave Out Bad Loans. Students Deserve a Bailout.

May 17, 2022



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By Charlie Eaton, Amber Villalobos and Frederick Wherry Mr. Eaton, Ms. Villalobos and Mr. Wherry are sociologists who study higher education and student debt.

<u>At least 43 million Americans</u> have student loan debt, ranging from hundreds to hundreds of thousands of dollars. Until now, there's been no hope of a bailout.

Just as some argued that the subprime mortgage crisis was a matter of millions of people choosing to borrow too much, others have said that the student debt crisis is primarily the fault of the debtors. This myth hides that it was a harmful policy decision to encourage disadvantaged students to borrow for college in the first place. In 2008, the federal government was willing to bail out banks after their risky lending practices devastated the economy. We need a similar such bailout today. But unlike in 2008, this bailout would go to the victims of a crisis, not its perpetrators.

For the last three decades, our government's lending practices devoured borrowers' incomes, prevented homeownership, and contributed to despairing anxiety. Lenders have denied borrowers access to loan relief programs and for-profit colleges have hounded prospective student borrowers, even when they knew graduates would get little return on their investments. By the time President Barack Obama left office, student loans were just as speculative and commonplace as subprime mortgages.

President Biden has signaled that we must make amends for this debt trap by bailing out the generation of borrowers who have been wronged. But the \$10,000 of debt cancellation per borrower that he's suggested will not be enough.



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In 1975, only an estimated <u>one in eight college students</u> used federal student loans to pay for college. During that period, <u>Pell</u> <u>Grants covered</u> much of the cost of attending most public universities, and grants were available to anyone from middle- or low-income families.

But a surge of economically disadvantaged students pursued higher education in the 1980s as factory closures, automation and union-busting decimated the middle class. At the same time, President Ronald Reagan persuaded Congress to cut Pell_Grant awards.

In his speech accepting the Democratic nomination for President in 1992, Bill Clinton described a "<u>New Covenant</u>" with America that would include the largest-ever expansion of federal student loans. Until that point, loans had played a relatively small role in funding U.S. higher education. With student loans for all, he said, "the doors of colleges are thrown open once again to the sons and daughters of stenographers and steelworkers."

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The future president made Americans a promise: If they borrowed to pay for school, their debt would pave a path to economic mobility.

When Mr. Clinton and Democrats won control of the presidency and Congress, they allowed students to borrow unprecedented amounts from the government to pay for college. But this wasn't altruism: A new <u>accounting trick</u> counted federal student loans as profitable assets instead of expenditures, which gave the administration a shortcut in balancing the budget.



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Today, <u>63 percent</u> of Americans over 25 have attended at least some college, and <u>most of them have borrowed</u> to pay for it. From the time of Mr. Clinton's expansion of federal student loan programs in 1993, total borrowing <u>quintupled</u> to a peak of almost \$120 billion in 2010.

The cost of college grew too. In the early 2000s, state governments reduced higher_education funding per student, knowing that students could get federal loans to pay for increased tuition. Many students had to take on debt to attend even the public universities and community colleges that enroll most undergraduates.

Predatory for-profit colleges — which often went after Black undergraduates and low-income Pell recipients — especially plundered the expanded federal loan program, which paid them <u>tens of billions</u> of dollars for worthless diplomas or no degree at all. A promise of upward mobility quickly became <u>a debt trap</u> for borrowers and a financial bonanza for those receiving federal dollars to educate them.

What's more, compound interest doesn't pause just because loans aren't being repaid. While <u>new borrowing</u> by students has declined since 2010, <u>total unpaid student debt</u> has doubled. In 2016, more than one-third of borrowers who started college in 2004 still <u>owed</u> <u>more than they originally borrowed</u>. Those numbers are worse for Black borrowers — two-thirds of them owed more than they initially borrowed more than a decade after they started school.

Borrowers are increasingly unable to repay their debts, not because of their mistakes but because of negligent government policies. Instead of expanding Pell Grants and affordable schools for these disproportionately Black and working_class students, the government threw them to for-profit college recruiters and corporate loan servicers. Thirty years after Mr. Clinton's speech, the promise of loan-financed college as a source of mobility for all has proved to be empty words.

The government's attempted remedies have often made the problem worse. Under one program, borrowers were supposed to get forgiveness after they steadily made their loan payments for 20 to 25 years. But out of an estimated 4.4_million people who have been in repayment for that long, as of last year, only 32_people had ever managed to have their loans canceled.

Another program, put in place during George W. Bush's presidency, promised to forgive public servants' debts after 10 years of payments. As of September, <u>1.3 million</u> public servants had applied for the program. Only 1 percent of them had <u>ever received loan</u> <u>forgiveness</u>.

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Now, Mr. Biden has signaled that he intends to cancel at least \$10,000 worth of student loan debt per borrower, which would, according to the Department of Education, <u>eliminate the balances</u> <u>of 33 percent of all federal borrowers</u>. That still leaves too many in debt, especially among those whose debts have increased since leaving school — based on our analysis, <u>86 percent of them would</u> <u>still owe money</u>.

Mr. Biden's proposed income eligibility requirements would also exclude <u>upwardly mobile borrowers</u> with low net worths, including many Black professionals. Worse still, verifying income for debt forgiveness would likely offer false hope of cancellation for millions of low-income borrowers who qualify, as the process, again a bureaucratic gantlet, <u>may very well fail them</u>.

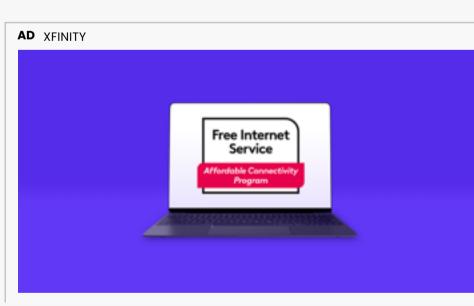
Instead, Mr. Biden must bail out borrowers from the trap of unpayable debts. To do right by at least half of borrowers, he would need to cancel \$30,000 per borrower. But to fulfill the promise of higher education, to narrow the racial wealth gap, and to foster an opportunity society, the administration should cancel at least \$50,000 per borrower. This would completely bail out <u>36</u> million from student debt, according to our analysis, including <u>67</u> percent of those who still owe more than they originally borrowed.

A \$50,000 bailout per borrower would eliminate only a portion of the \$1.6 trillion in outstanding student debt. The government has done fine without collections for two years during the existing <u>repayment pause</u>. And the Department of Education expects that a third of this sum will never <u>be collected</u> anyway.

And no, debt cancellation would not disproportionately benefit the rich, who <u>rarely borrow</u> to pay for school — only <u>4 percent</u> of the most wealthy have any student debt at all.

To protect future generations, Americans need forward-looking reforms for our higher education financing system. Congress should finally pass a proposal that guarantees enough Pell Grants and other debt-free financial aid for any student trying to earn a college degree. Several of these proposals would sensibly cap the tuition and attendance expenses that would otherwise increase in response to another well-intended policy gone wrong.

But unlike these debt-free college proposals, student debt cancellation does not require passage by a deadlocked Congress. Legal scholars say the Higher Education Act gives Mr. Biden the authority to cancel existing student debts by executive order. Doing so will put Congress on notice that it has to act.



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Mr. Biden should make a major address on what it means to keep one's promises, and announce that he's bailing out borrowers. At his side could stand the military service members, the publicschool teachers and the non-college goers who borrowed for their kids. They can testify that they are now able do things that were not possible before.

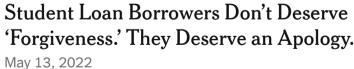
On that day, tens of millions of borrowers could log onto their federal loan accounts and read the same message: "Your debts are forgiven. Please forgive our failures."

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