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Why College Prices Keep Rising

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I have been a CPA for over 30 years focusing on taxation. I have extensive experience with partnerships, real estate and high net worth individuals. My ideology can be summarized at least metaphorically by this quote: "I have a total irreverence for anything connected with society except that which makes the roads safer, the beer stronger, the food cheaper and the old men and old women warmer in the winter and happier in the summer." - Brendan Behan Nobody I work for has any responsibility for what goes into this blog and you should make no inference that they approve of it or even have read it.

The author is a Forbes contributor. The opinions expressed are those of the writer.

Alan Collinge, is back with another guest post on the student loan crisis. This one is on the forces that conspire to keep the problem getting worse.

For many years, it has been unknown to the general public that all of the major elements comprising the student lending system (i.e. lenders, collection companies, guarantors) made far more money when students defaulted on their loans. Nevertheless, this is a fact, and it is well documented. It is most disturbing, however, that recent analysis of the President's Budget data reveals that even the US Department of Education, on average, recovers $1.22 for every dollar paid out in default claims. Assuming generous collection costs, and even allowing for a nominal time value of money of a few percent (the governments cost of money is very low), it still appears that the federal government, even, is making a pretty penny from defaults.

How could this be possible? The primary reason for this is that unlike all other types of debt, bankruptcy protections, statutes of limitations, and other standard consumer protections have been removed from federal student loans, and draconian collection powers have been given to collect on hugely inflated, defaulted student loan debt.

The systemic consequences of these types of financial motivations are too numerous to describe here, but one very significant result is that during the legislative process, when the schools, lenders, and their lobbyists pressure Congress to raise the allowable loan limits, the Department of Education-one of the only entities available to act in the interest of the students and call for a freezing (or even a reduction in the lending limits)- has repeatedly failed to tell it like it is regarding defaults. The schools and lenders point and brag about the low "cohort" default rates, but this metric (which hit a low of about 4% in 2005) masks the true default rate, which we now know was likely 25% or higher for years, and today is likely significantly higher than that.

Instead of voicing concern, or even objections to Congress in the lending limit debates, the Department of Education remained largely silent, despite their knowledge about the true default rate for years, and in fact, press releases about the default rate spanning years from the Department of

Education speak exclusively of the cohort rate, and this continues to this day, by and large, although media have shed some light on the true default rate in recent years.

This, again, is a key failure in oversight that effectively causes Congress to make decisions without the interests of the borrowers being represented (Of course the lenders and schools claim to have the interests of the students at heart, but their obvious financial motivations discount their credibility on this claim). Therefore, Congress continues to rubber-stamp these legislative efforts, and the schools quickly raise their tuition to bump up against the new lending ceilings.

If the Department of Education were seeing a material, financial loss with loan defaults, they likely would be far more assertive about the reasons NOT to raise the loan limits…and this would provide a critical check on the process. But the Department has been largely absent from these debates, and its misaligned interest is certainly the reason why.

So it must be agreed that lack of Department oversight contributes directly to repeated votes by Congress to raise the loan limits, and we've already established the link between this poor oversight, and the removal of consumer protections. So undoubtedly, the removal of standard consumer protections has effectively allowed the schools and lenders to have their way with Congress on this issue.

Critics could argue that the established student advocacy groups should have stepped in to fill this role…and this is obviously true…but the advocates can claim that they did not know that defaults were as high as they were (recent evidence suggests that the true default rate exceeds 1 in 3), therefore any objections from them (assuming they did object) were not strong. Had they known that defaults were as high as they were, one can only assume that they would have objected far more forcefully, starting many years ago.

The current debate surrounding the cause of tuition inflation is a confusing mix of rhetoric that typically involves fingers pointing in all directions…"like a scarecrow in the wind" …among lenders, schools, the Department of Education, the student advocates, and Congress. But of these five entities, four were behaving as expected (i.e. schools pushing for raising the limits, advocates wringing their hands in the absence of defensible proof that things were going awry, lenders playing their part as the selfish, amoral entities they are understood to be, Congress debating what they are told, and ultimately voting based upon this debate).

The Department of Education, however, failed to fulfill its role, and did not disclose to the group the true magnitude of the default problem, as one would expect it to. Therefore the Department is clearly the party whose behavior can ultimately be questioned with strong justification. Of course citizens have every right to be seethingly resentful and angered by all of these actors failing to point out what was obvious…that the students were being saddled with outrageous increases in student loan debt (I believe the advocates bear a tremendous amount of responsibility, for example), but strictly speaking, the Department's failure is the only one with zero defense.

This is a critical, unambiguous link that is never pointed out, but which is key- the key- to explaining the rampant inflation we have seen in academia over the years. Congress and the president should be demanding to know why key personnel at the Department so badly neglected to fulfill their duties, and take a hard, hard look at the corporate culture that has enabled this sort of gross neglect of basic functions. And of course, the standard consumer protections that should have never been removed from student loans must be returned at the earliest possible opportunity.

Alan Collinge is founder of StudentLoanJustice.Org , and author of The Student Loan Scam: The Most Oppressive Debt in U.S. History – and How We Can Fight Back.

You can follow me on twitter @peterreillycpa.

POSTSCRIPT

A commenter has provided a handy graphic explanation of the system. Be sure to check it out.

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AUG 5, 2016 @ 09:03 AM 24,616 VIEWS The Little Black Book of Billionaire Secrets

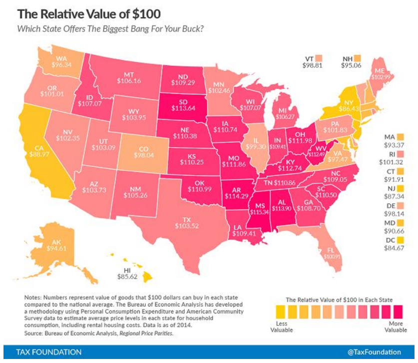
How Much Is $100 Worth State-By-State?

Robert W. Wood,
CONTRIBUTOR

I focus on taxes and litigation.
FULL BIO

Taxes matter, both federal and state. And they can eat up more of your money than you might think. The Tax Foundation has released a map showing the real value of $100 in each state. Prices for the same goods are often cheaper in states like Missouri or Ohio than in states like New York or California. As a result, the same amount of cash can buy you more in a low-price state than in a high-price state.

Using 2014 data from the Bureau of Economic Analysis, the Tax Foundation adjusted the value of $100 to show how much it buys you in each state. For example, $100 in Ohio will buy you goods that would cost $111.98 in a state at the national average price level. In effect, Ohioans are therefore 11% richer!



The states where $100 is worth the most are Mississippi ($115.34), Arkansas ($114.29), Alabama ($113.90), South Dakota ($113.64), and West Virginia ($112.49). In contrast, $100 is effectively worth the least in the District of Columbia ($84.67), Hawaii ($85.62), New York ($86.43), New Jersey ($87.34), and California ($88.97).

Real purchasing power is 36% greater in Mississippi than in the District of Columbia. So if you have $50,000 in after-tax income in Mississippi, you would have to have after-tax earnings of $68,000 in the District of Columbia to afford the same standard of living. States with higher nominal incomes also have higher price levels. However, places with a high cost of living pay higher salaries for the same jobs.

Some states, like North Dakota, have high incomes without high prices. Plus, according to the Tax Foundation, Nebraskans and Californians earn approximately the same amount in dollars per capita. However, after adjusting for regional price parity, Nebraskan incomes can buy more.

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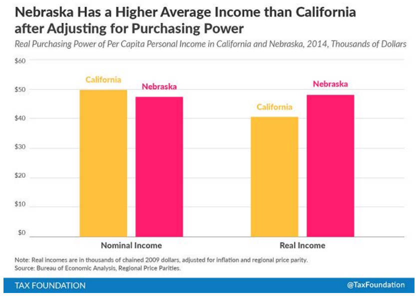

Do these dollars cause people to think about moving? You bet. In fact, California's taxes can be so high – a whopping 13.3% on top of the IRS – that it often seems to invite investors, and business people to move to low-price states. It sounds smart to make your money in California, but to quickly move out before it is taxed by the Golden State. Other states (notably New York) have a similar problem. But year after year, no state has a bigger and more persistent cadre of would-be tax fugitives than California.

Some Californians look to flee the state before selling real estate or a business. Some get the travel itch right before cashing in shares, a public offering, winning a lawsuit, or settling litigation. Some of the carefully orchestrated deals and moves can work just fine. However, many would-be former Californians have unrealistic expectations about establishing residency in a new state. They also may have a hard time distancing themselves from California. They may not plan on California tax authorities chasing them.

For alerts to future tax articles, email me *at Wood@WoodLLP.com. This discussion is not legal advice.*

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AUG 5, 2016 @ 09:12 AM

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