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Why College Prices Keep Rising

By Alan Michael Collinge, Special to *The Register* | September 16, 2012

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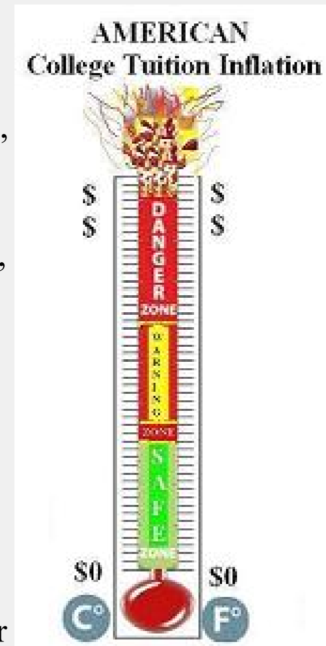


For many years, it has been unknown to the general public that all of the major elements comprising the student lending system (i.e. lenders, collection companies, guarantors) made far more money when students defaulted on their loans. Nevertheless, this is a fact, and it is well documented. It is most 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.

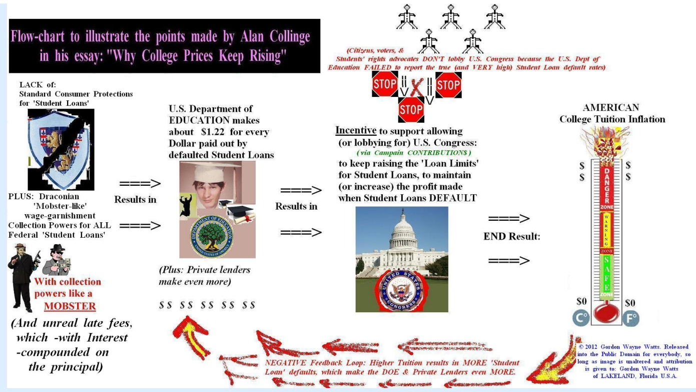
The current debate surrounding the cause of tuition inflation is a confusing mix of rhetoric that typically involves fingers pointing in all directions…"like a scarecrow in the wind" …among lenders, schools, the Department of Education, the student advocates, and Congress. But of these five entities, 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.

The Register has provided this handy little graphic 'flow-chart'explanation of the predatory lending system, as described in Alan's op-ed, above.

Cross-posted on 4 mirrors:
* Mirror 1
* Mirror 2
* Mirror 3
* Mirror 4

* 

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For further information:

Cross-posted on 4 mirrors:
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***Editor's Note:** You may keep up with Mr. Collinge and his Student Loan Justice group at the following links:*

***** "Student Loan Justice" web-ring:**
* Nationally-recognised College Loan advocate, Alan M. Collinge, has been featured in many papers, TV, and Cable networks. Google him if you doubt.

* http://StudentLoanJustice.org (Official page)
* https://twitter.com/AlanSLJ (Regularly-updated Twitter feed)
* https://m.facebook.com/groups/SLJGroup (Facebook group for Mobile devices/iPhones)
* https://facebook.com/groups/SLJGroup (Facebook group)
* Alan Collinge @ YouTube
* (YouTube search for SLJ)

He is also the author of the ground-breaking exposé, "THE STUDENT LOAN SCAM: The Most Oppressive Debt in U.S. History–and How We Can Fight Back,", available at all major book sellers, and available in both paperback (ISBN-13: 978-0-8070-4231-1) and hardback (ISBN-13: 978-0-8070-4229-8) versions, such as the [Paperback] version on AMAZON (here) or [Hardcover] version on AMAZON (here), or even the KINDLE version (here).

Mr. Collinge, who was kind enough to grant permission for reprint/republication of his Op-Ed, here, makes some very strong claims above, such as regarding the amount of profit that the U.S. Department of Education makes on defaulted loans, but The Register *has carefully researched his claims, and –so far as we can see –they are correct and can easily be documented by a routine web search on the subject. His op-ed originally appeared here on Forbes.com, on 03/19/2012, as a guest post in Peter J. Reilly's regular column, which focused on the tax issues of individuals, businesses, as well as related financial matters. Mr. Collinge was good enough to authorise* The Register *to re-publish* *and archive his fundamentally important analysis here, so long as it was unaltered and re-printed in its entirety -with no additions, subtractions, or alterations to the piece (other than, of course, style and formatting issues), and* The Register *felt that it would be a good precaution to archive this piece on multiple websites, not "putting all our eggs in one basket," since it is not a widely known fact that the lack of bankruptcy protections for Student Loans was a major factor in the meteoric 'tuition inflation' in recent decades, in spite of declining quality of America's standings in Higher Ed rankings in STEM (Science, Technology, Engineering, & Math). Mr. Collinge is the founder of StudentLoanJustice.org, a Political Action Committee dedicated to the mission of changing unjust laws related to how student loans are handled. He is also the author of the ground-breaking exposé, linked above.*

If Donald Trump (rich and conservative), Solyndra (rich and liberal), and ALL rich-&-powerful Wall-Street bankers can file for bankruptcy (and they don't even need it: they are rich), why not students? Read this -- re-read this -- and follow the links above.-Editor

PS - quote of the day: “The ability to file bankruptcies is the 'Economic Second Amendment,' and when colleges knew student loans were almost impossible to discharge in bankruptcy (due to the Brunner test), the colleges and lenders knew student borrowers of college loans were unable to defend themselves—and both parties engaged in Predatory Lending, victimising the helpless & defenseless college student borrowers with soaring & skyrocketing tuition—price-gouging them, like one shoots 'fish in a barrel'. For this reason, (conservative) supporters of the Second Amendment should not deny college students. Likewise, (liberal) supporters of helpless college students should be in agreement that student borrowers need the same protections as ALL OTHER borrowers—including Credit Card users and the “über-rich,” all of whom can obtain bankruptcy discharge.”

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