Department of Education - Saddling Students and Families With Even More Debt

August 12, 2014 - After the housing bubble burst in 2008, most people would have agreed that loose lending standards on the part of banks created a real mess for the entire country. To deal with the issue, lending standards were changed dramatically. Credit went from being easy to get to almost impossible to find, even for the most credit worthy borrowers. But in the six years that have passed since the collapse, the federal government and banks have been quietly working to loosen their lending standards once again. And it keeping with that theme, on Friday the Obama administration made the grand announcement that it would significantly loosen lending standards for students and their parents. What could possibly go wrong with their plan???

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Student loans are a political football. To the masses, they appear to make college accessible to students who otherwise couldn't afford to attend. But to anyone who has actually looked into student lending, these loans are actually a bottomless pit of funds to colleges and universities, and they have led to excessive tuition costs.

College loans are sold to the masses on the belief that a college education will lead to a better job and significantly higher wages. But that only works for those who actually find a good job after graduation. A recent report by the Economic Policy Institute makes very clear that finding such a job is not a foregone conclusion simply because someone has a college degree. The report concluded that 16.8 percent of graduates between the ages of 21 and 25 were either unemployed or underemployed. And a separate report from the Federal Reserve Bank of New York concluded that 44 percent of recent college graduates had taken jobs that didn't actually require a degree.

A college education isn't the earnings panacea that the professorati or the DOE would like you to believe it is. But that certainly isn't stopping them from doubling down on college loan debt. Anyone opposing these student loan proponents runs into a litany of arguments that include terms such as social justice, earnings disparity and even racism; all polarizing and unproductive.

The new lending criteria being adopted will insure that many loan applicants that would have been turned down due to bad credit will now have access to student loans. The criteria will exempt up to $2,085 in delinquent debt from any lending consideration. This means that students will be able to borrow even if they are already avoiding repayment of other debts. The criteria will also reduce the credit history time period considered when making a loan decision from the current five years, to just two years. This means that if you have a bill that has gone unpaid for more than two years, it won't be counted against you. That is unless, of course, you have declared bankruptcy. Then the DOE will consider your past three years of credit history.

Not only will these new policies leave taxpayers on the hook for any unpaid debt, they also appear to turn student loans into a subprime product that is actually praying on those who may be the most vulnerable borrowers. Anyone who takes a job that doesn't require a college degree shouldn't be saddled with college loan debt. Based on the FED report cited earlier, thatâ€™s around 44% of student loan borrowers, yet the government continues to push these loans on unsuspecting students and their families.

In fact, Education Secretary Arne Duncan said in a prepared statement that, "These changes allow us to continue to be good stewards of taxpayer dollars and open the doors of college to ensure all students have the opportunity to walk through them." Apparently his definition of "good stewards" is somewhat different than mine. And forcing people to walk through college doors when they don't need a degree is a waste of both time and money.

The fact is that the current student loan system virtually guarantees that most students will be stuck with college loan bills for the majority of their working lives. These students will be forced to forego the purchase of homes, cars and family vacations; instead making payments for college tuition that they may not have needed in the first place.

The irony is that it used to be that people went off to college for a better life, better job, and less debt. The new paradigm is that people are going off to college now for a reduced standard of living, more debt and in many cases, graduating to find out that their only options are to take a fast food job and move back in with mom and dad.

Government student loans have created a bubble much like the housing bubble. It is only a matter of time before that bubble bursts.
byJim Malmberg
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