Permanent Debt Bondage From America's Student Loan Racket

By Stephen Lendman

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An earlier article compared the 1950s to today, saying:

It was a different time, good and bad. Elected in 1952, Eisenhower was still president. Unemployment was low. Anyone wanting work found it. Most years the economy grew during a post-WW II expansion. Inflation was low. The average new car cost $1,500, a typical home under $10,000. College was affordable. Harvard’s 1952 full year tuition was $600. Four years later it was $1,000 – for a full, two-semester year. During the period, anyone could attend evenings at $5 a course and get a Harvard degree for about $175, astonishing but true.

America was unchallenged economically, its manufacturing base offering high-paying/good-benefits jobs. Union representation was high. Southern and northern US cities were segregated. They still are, all 1960s civil rights gains lost plus most good jobs and benefits. Alaska and Hawaii additions grew America to 50 states.

The Korean War left an unsettled armistice. Cold War politics settled in. Developing "mutually assured destruction (MAD)" and accommodation prevented WW III. Censure ruined Joe McCarthy, and by May 1957 he was dead at age 48. The CIA’s first coup deposed Iran’s Mohammad Mosaddegh. A generation of terror followed. A year later, another toppled

Guatemala's Jacobo Arbenz Guzman, fueling decades of genocide against its indigenous peoples.

Throughout the decade, few followed Vietnam events, its defeat of France, and America's growing involvement in what became three decades of war. Palestinian Territories weren't occupied, and during the period Israel was young, growing, but mostly out of the news and public mind. Times indeed changed, for the worse, not better, including college tuition costs.

Harvard tuition for the 2010/2011 academic year is $35,568. Add room, board, health insurance fees, books and supplies, local transportation (if needed), plus miscellaneous and personal expenses raises the total to nearly $60,000. Moreover, with annual tuition/fees hikes, incoming freshmen may need $70,000 for senior year expenses.

According to an October 28 Los Angeles Times article titled, "College costs increase faster than inflation":

"State budget cuts and declines in philanthropy and endowments help push (college tuition costs) up much higher than general inflation across the country this year, amounting to an increase of 7.9% at public campuses and 4.5% at private ones, according to a new study by the nonprofit College Board."

In fact, some schools, like the University of California, raised fees by 32%, then announced a further 8% hike. The University of Illinois announced a 9.5% increase. Other public and private schools followed suit, some by over 10% when fewer students can pay it. The College Board said for the decade ending in 2008, tuitions rose 54% after 49% in the previous decade.

Student Loans/Debt Information

The Project Student Debt web site has a wealth of information on student loans and debt. Using US Department of Education data for the 2007/08 academic year (the most recent available), it said two-thirds (or 1.4 million) of 2008 college graduates had student loan debt, a 27% increase from 2004, breaking down as follows:

- at public universities, it was 62%;
- for private nonprofit ones, 72%; and
- at private for-profit institutions, 96% were debt entrapped.

In 2008, graduating seniors had an average debt burden of $23,200, a 24% increase from $18,650 in 2004. At public universities, it was $20,200. For private nonprofit ones, $27,650, and at private for-profit universities, $33,050.

However, given how government data is manipulated, true totals are far higher and rising exponentially. Many graduates have debt burdens approaching or exceeding $100,000. If repaid over 30 years, it amounts to a $500,000 obligation, and if default, much more because debt obligations aren't erased.

Moreover, regardless of inflation changes, tuition and fees rise annually. As a result, future costs are less affordable. Greater debt burdens are created, and for many students, higher education is out of reach.

For most others, completing college includes debt bondage because of what Valley Advocate.com writer Stephanie Kraft called "Killer Loans" in her October 14 article, saying:

"….a large segment of the population is squeezed for interest payments and fees on loans taken out to pay for college, or for graduate or professional school."

The numbers are staggering – $96 billion loaned annually to attend college, graduate, trade or professional schools, excluding "shadow" borrowing. It includes tapping home equity, retirement accounts, other sources, and credit cards. A 2005 Smith College survey found 23% of students use plastic for college tuition and fees.

In the past decade, student loan debt ballooned over four-fold. In 1977, about $1.8 billion was borrowed. By 1989, it was $12 billion, and in 1996 $30 billion. According to the Student Loan Debt Clock, its cumulative principle and interest exceeds $877 billion, surpassing credit card debt for the first time last June, and will exceed $1 trillion in early 2012.

At its present rate, it increases $2,854 per second, entrapping most borrowers and forcing others to default. According to the Chronicle of Higher Education (CHE) last September:

"The percentage of borrowers defaulting on their student loans (rose) for a third year in a row, reaching an 11-year high of 7 percent," based on US Education Department data – again grossly understated to hide a serious problem for millions.

The data is based on the number of graduates defaulting within two years of graduation so only capture "a sliver of the defaults that occur over the life of a loan," according to a CHE analysis. It estimates that one in five government loans entering repayment in 1995 defaulted. For community college graduates, it's 31% and at for-profit schools, 40%.

Yet little is reported on the scope of the student loan racket. The web site Student Loan Justice explains it, saying:

"The federal student loan system has become predatory due to the Congressional removal of standard consumer protections and….sanctioned collection powers that are stronger than those for all other loan instruments in our nation's history."

As a result, student borrowers are greatly harmed by unmanageable loan demands. Along with inflation and annual tuition/fee hikes, most graduates face an enormous burden, with no consumer protections, even in default. Once entrapped, escape is impossible. Debt bondage is permanent, and future lives and careers are impaired.

Congress ended bankruptcy protections, refinancing rights, statutes of limitations, truth in lending requirements, fair debt collection ones, and state usury laws when applied to federally guaranteed student loans. As a result, lenders may freely garnish wages, income tax refunds, earned income tax credits, and Social Security and disability income to assure defaulted loan payments. In addition, defaulting may cause loss of professional licenses, making repayment even harder or impossible.

Under a congressionally established default loan fee system, holders may keep 20% of all payments before any portion is applied to principle and interest due. A borrower's only recourse is to request an onerous and expensive "loan rehabilitation" procedure whereby they must make extended payments (not applied to principle or interest), then arrange a new loan for which additional fees are incurred. For many, permanent debt bondage is assured. No appeals process allows determinations of default challenges under a process letting lenders rip off borrowers, many in perpetuity.

"This fee system and associated rehabilitation schemes have provided a massive revenue stream for a shadowy nationwide network of politically connected (lenders), guarantors, servicers, and collection companies who have greatly enriched themselves at the expense of misfortunate borrowers."

As a result, millions of students and families have been gravely harmed, relegated to lifetime debt bondage. Yet industry predators thrive. The fee system is their "lifeblood," providing on average 60% of their income through "legalized wealth extraction" – a congressional sanctioned extortion racket like Wall Street and unscrupulous investment companies scam customers.

Lenders thrive from defaults, deriving income from debt service and inflated collection fees. A conspiratorial alliance of lenders, guarantors, servicers, collection companies, and government prey on unsuspecting borrowers. Lifetime default rates approach up to one-third of undergraduate loans, higher than for subprime mortgages. "This is, in fact, is higher than the default rate of any known (US) lending instrument…."

A Brief History Federally Guaranteed Student Loans

In 1965, the Higher Education Act (HEA) let millions of students afford college with federally guaranteed loans and scholarships. It was later amended six times to benefit lenders at the expense of borrowers.

In 1978, the Bankruptcy Reform Act was the first comprehensive change since 1898. It established federal bankruptcy courts, substantially revamping former practices. It also made it easier to file, and prohibited discrimination when declared.

Bankruptcy discharges release debtors from personal liability for certain types of debt. In other words, debtors no longer must pay those discharged permanently. Collection actions are also prohibited, although the debt remains. Bankruptcy doesn't eliminate it. Non-dischargeable debts, however, stay legally enforceable despite bankruptcy discharge. In 1990, the non-discharge period was extended to seven years.

In 1998, Congress eliminated federal Title IV, HEA student loan debt dischargeability in bankruptcy. Education loans are the only ones affected by a federal "no-escape" provision. In 2005, the Bankruptcy Abuse Prevention and Consumer Protection Act made all student loans (federal and private) non-dischargeable.

As a result, avoiding debt bondage in bankruptcy is impossible, unleashing the current predatory system for lenders like Sallie Mae. In 2009, the Department of Education reported over five million student loans in default. So are at least another one million private ones, and these numbers are likely underestimated.

In addition, as explained above, prior protections were removed, including statute of limitations on collections, truth in lending, fair debt collection practices, the right to refinance, and state usury law prohibitions. Washington corrupted the system for lenders at the expense of student borrowers.

An Example of Systemic Predation

Sallie Mae (SM) is the largest student loan originator, servicer and collector, managing over $180 billion in federally guaranteed and private loans from over 10 million borrowers. If they can't repay after 270 days, loans are in default. Washington pays SM the balance plus interest. For repayment, collection agencies like General Revenue Corporation (GRC), the nation's largest, impose 25% loan collection fees plus 28% commission charges on borrowers, and can garnish wages and other income for payment.

No statute of limitations applies. For GRC and other predators, a steady profit stream is assured at the expense of borrowers. Even schools benefit by raising tuition and fees far above inflation rates and income growth, making college more expensive, less affordable, and assuring higher future defaults on greater amounts.

Obama's student loan overhaul was a scam. Effective July 1, 2010, it does little to mitigate lenders' ability to rip off borrowers in perpetuity, yet he called it "one of the most significant investments in higher education since the GI bill." He lied.

The 1944 Servicemen's Readjustment Act (the GI Bill) covered most college or vocational training costs for 7.8 million returning vets plus a year of unemployment compensation. In addition, 2.4 million got VA-backed low-interest, no down payment home loans at a time their average cost was under $5,000, enabling millions of families to afford them, many with government help. In contrast, Obama's Student Aid and Fiscal Responsibility Act enriches providers, not borrowers, given chump change as usual.

A Final Comment

More than ever, higher education is out of reach for millions. Most others require substantial scholarship and/or student loan help. During times of economic crisis, families are greatly burdened to assist financially. A 2008 National Center for Public Policy and Higher Education study said they contribute, on average, 55% of their income for public, four-year institutions, up from 39% in 2000, and higher still today to meet rising school costs.

As a result, today's higher education means crushing debt burdens at a time systemic high unemployment and fewer good jobs make repaying them onerous to impossible. America's ownership society is heartless, favoring capital, not popular interests, a policy with strong bipartisan support.

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Stephen Lendman [send him mail] lives in Chicago. Listen to cutting-edge discussions with distinguished guests on the Progressive Radio News Hour on the Progressive Radio Network Thursdays at 10AM US Central time and Saturdays and Sundays at noon. All programs are archived for easy listening. Visit his blog.

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