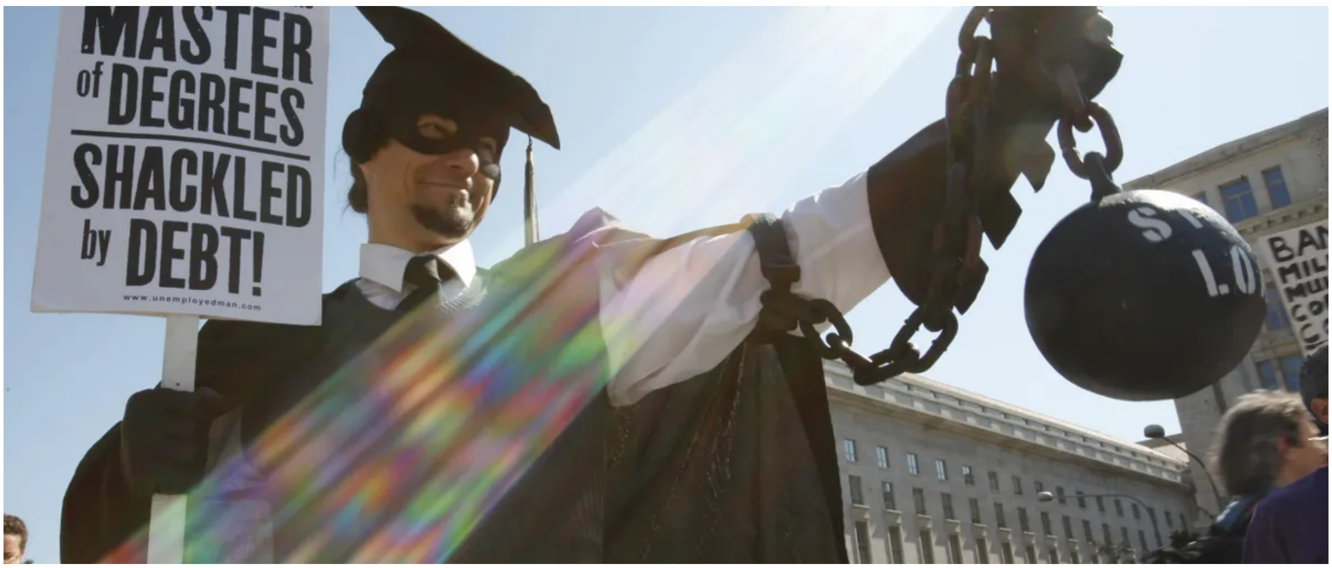
Protesters' new front

Americans have finally awakened to the decades-long corruption of higher education

By ALEXANDER ZAITCHIK PUBLISHED APRIL 23, 2012 10:11AM (EDT)



Gan Golan holds a ball and chain representing his college loan debt, during Occupy DC activities in Washington, on Oct. 6, 2011. (AP/Jacquelyn Martin)

Forget the ballerina on the bull. The iconic image of the Occupy encampments is a Zorro-masked Gan Golan as the Unemployed Superhero, caped but grounded by a ball and chain marked STUDENT LOANS. The costume contained the whole sprawling critique in one playful package: the recession, finance run amok, captured regulators, the betrayal and wasting away of the middle class. It was a comic book version of the message delivered by the Occupy kids who took a page from history and "did knowingly mutilate" their monthly student loan statements — from LA to DC like draft cards they burned.

A year ago, the student debt crisis was a quiet one. Default-triggered cascades of compounding interest and collection fees were matters of lonely shame and anxiety. Journalists writing on the issue networked through friends and family to find subjects willing to go on record. Then the debt-confession signs started popping up at OWS protests, and stories of debilitating student debt were everywhere. Numbers that had been a source of private depression became symbols of generational defiance. “I have $80,000 in student loan debt,” declared a typical sign. “How can I ever hope to repay that now?” Others demonstrated the vertiginous arithmetic of the classic default spiral: “Borrowed $26,000. Paid back to date $32,000. Still owe $45,000.”

There’s no shortage of statistics capable of illustrating America’s economic elephantiasis. Taxes, health care, wages — take your pick. But it’s the student debt numbers that most shock college graduates over 50. If you went to school in the 1960s or '70s, it doesn’t seem possible that the class of 2012 is graduating with an average debt load of more than $25,000. The macro milestones tend to get more press — America’s $1 trillion in aggregate student debt now surpasses that owed on its credit cards — but it’s the 25 large that makes boomers whistle and start talking about the days when a semester at Berkeley cost the same as a trip to the laundromat.

Now Berkeley costs as much as Princeton, and the days of paying for any state university with a part-time job aren’t coming back. But neither is the time when exploding education costs went unchallenged and the loan industry got away with murder. Post-Occupy, there is a new militancy around student debt that signals a break with the decades leading up to the present mess. “There are groups popping up all over the place who are slowly coming together under one movement,” says Kyle McCarthy, an organizer with Occupy Student Debt and the creator of "Default," a documentary airing on 140 PBS affiliates. “Our generation has no disposable income anymore. Some of us aren’t getting married, having kids, buying a house. People finally understand this is a huge freaking problem that isn't going away."

Indeed, the crisis grows with every graduating class. Amid an anemic recovery, America's recent graduates continue to default in record numbers; according to some estimates as many as one in three. Tuition and fees at public and private schools are galloping ahead of inflation, while state funding per student has dropped by nearly a quarter since 2000. The number of students taking on toxic debt in the scandal-plagued private loan sector, where interest rates can tickle 30 percent, has more than tripled during the same period. Activist sites continue to be flooded with stories of student debt hell — of educated 20- and 30-somethings forced to choose between health care, day care and servicing the interest on ballooning student debts the laws ensure they will take to their graves.

It is a sign of the times that sites like StudentLoanJustice.org aren't the only ones crowd-sourcing student debt misery. The Consumer Financial Protection Bureau, launched last year over Republican opposition as part of the Dodd-Frank Act, is collecting stories from distraught borrowers as part of an investigation into corruption and abuse in the growing private student loan market. "For the first time, a government agency is empowered to supervise this industry and prevent a whole generation from losing trust in institutions promoting higher education," says the bureau's student loan ombudsman, Rohit Chopra. "The financial interests of these companies are often at odds with those they are claiming to serve." The CFPB may be a little late to save those bonds of trust, but it plans to release its report this summer, possibly as part of congressional hearings.

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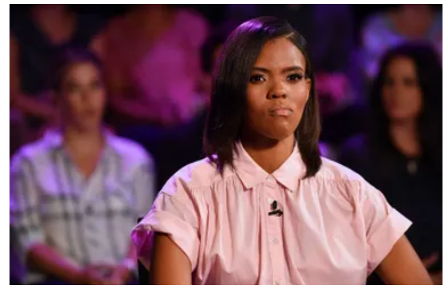

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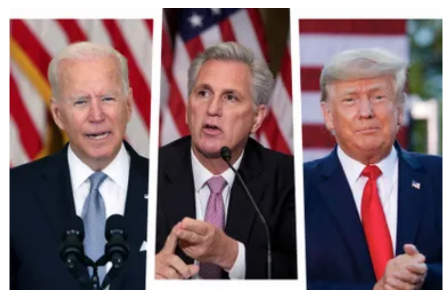

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The CFPB effort is a welcome but small development. It does not address the myriad larger issues that constitute the student debt crisis, a partial list of which includes federal loan debt and defaults, predatory collection practices, rising tuitions, disinvestment in public education and a lack of basic consumer protections around student loans such as bankruptcy. Another recent development that better reflects the scope of the problem is the Student Loan Forgiveness Act, which the House freshman Rep. Hansen Clarke, D-Mich., introduced in March. The bill would establish an income-based repayment plan that caps student loan payments at 10 percent of income over 10 years following graduation. After a decade, the remaining balance is forgiven up to $45,000.

“After 10 years of repayment, you should be able to save and make other investments in your life, but now increasingly what you get is a nightmare,” says Clarke. “It undermines American competitiveness when those best suited to start a business or buy a home can’t because of student debt. Freeing up $500 a month for millions of people over decades is real stimulus. The student debt bubble won’t burst the way the housing bubble burst, because the Treasury backs most of the loans, but crushing personal debt is a slow-burning social crisis that’s robbing people of their American dreams.”

The stimulus logic behind Clarke’s bill is supported by recent data showing student debt's drag effect on the housing market. But it's human-scale suffering that's driving the increasingly pissed-off conversation outside Washington. When Clarke travels to Michigan to discuss his bill, he hears stories that could be multiplied thousands of times over in every state: of young people putting everything on hold and taking jobs they hate just to service the loan interest, of older Americans who went back to school to learn new skills now fearful that default will mean chunks of interest subtracted from their Social Security checks. An online petition in favor of Clarke's bill is rapidly nearing its goal of 725,000 signatures.

Though Clarke's bill is a nonstarter in the current Congress, it has the potential to serve as a rallying point for a growing movement. Among Clarke's brain trust is a former assistant Brooklyn district attorney named Robert Applebaum. In 2009, Applebaum founded ForgiveStudentLoanDebt.com in disgust over the Wall Street bailouts that bypassed everyone else. The following summer he launched a petition to forgive all student debt. Intended as a conversation starter more than a policy proposal, the petition garnered more than 700,000 signatures and became the most popular campaign in the young history of SignOn.org.

"So many indebted graduates entering a decimated job market has triggered a rapid shift in the conversation," says Applebaum, who now organizes full time around the issue. "What we're seeing are the spoils of what happens when education is treated not as a public good, but as a commodity, as just another way to turn a profit."

With the class of 2012 preparing a graduation walk that for many means walking the financial plank, it's worth asking: How did we get here?

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The student loan era begins with the Higher Education Act of 1965.

The educational cornerstone of LBJ’s Great Society, the bill fueled the postwar democratization of higher education by funding need-based grants and zero-interest student loans. The act was no civilian expansion of the GI Bill, but began to shift the burden of paying for education from the government to students. Richard Nixon sped up this shift in 1972 when he created the Student Loan Marketing Association, a government-sponsored entity best known by its maternal nickname, Sallie Mae. The outfit was tasked with encouraging banks and schools to issue more student loans, which for a fee Sallie Mae would purchase and service, backed by the U.S. Treasury.

As long as tuitions stayed in line with inflation, Sallie Mae grew without controversy alongside college enrollment. Well into the 1970s, the typical student could cover the costs of college with part-time work, government grants, and zero- or low-interest federal loans. In the event of economic calamity, those loans could be discharged in bankruptcy.

Like so much else in the U.S. economy, this changed in the 1980s. The tuition-federal loan cycle is not well understood, but it’s likely schools began charging more simply because they could: A college degree was becoming the new high school diploma, and the Treasury, not the schools, was on the hook for the loans. States, meanwhile, began reversing the postwar trend of investing in community colleges and state university systems. In Reagan’s budgets, yearly increases in need-based Pell Grants, which targeted low- and middle-income students, came to a grinding halt. Where the maximum Pell grant covered 69 percent of the cost of a four-year college in 1981, it covered just 45 percent a decade later. The number is now 34 percent.

“By the time Reagan left office, the balance between need-based grants and interest-bearing loans had shifted dramatically,” says Stephen Burd of the think tank Education Sector. “And the student loan industry began to see its profits soar.”

No one understood the profit potential of this shift better than an ambitious Sallie Mae executive named Albert Lord. Within a decade of joining the company as comptroller in 1981, Lord rose to CEO with a plan to take Sallie Mae private and shift the company’s center of gravity from Washington to Wall Street. The desire was mutual. Sallie Mae’s assets multiplied eightfold during the Reagan years. Investors were salivating over the chance to get a piece of Sallie Mae’s expanding $15 billion portfolio of government-backed loans.

With enrollment numbers and tuitions ticking up, Bill Clinton’s election briefly threatened the plans of those planning to take the federal loan gravy train private. In 1993, Clinton instituted the Direct Loan program in the Department of Education. The intent of allowing the Department of Education to issue loans was to cut out middlemen like Sallie Mae and save money. But the industry’s friends in the newly Republican Congress successfully undermined the program. In 1996, Sallie Mae went private and began trading as the SLM Corp. All of the trends of the 1980s accelerated, and by the early aughts Lord sat on a personal fortune of $230 million. Sallie Mae’s 2003 annual investors report boasted of “strong fee income growth, largely from debt management operations.” With his profits Lord began building a private 18-hole golf course on his Maryland estate. Shortly after breaking ground, he bitched to the Baltimore Sun about having to deal with zoning officials. “I hate rules,” said Lord.

Not all rules. When he uttered these words, Sallie Mae had just spearhead the lending industry's lobby effort behind the 2005 Bankruptcy Act, which stripped private student loans of bankruptcy protection. (Such protections around federal loans had long been chipped away.) Leading the effort in Congress was Lord's golfing buddy and current majority leader, John Boehner. It was around this time that Sallie Mae hired Boehner's daughter as an executive at one of its largest collection companies. Sallie Mae remains the largest donor in the history of Boehner's PAC, followed by the unctuous for-profit education industry, where private student loans are most common, most toxic and least likely to result in a college degree.

The removal of bankruptcy rights from private student loans startled education economists at the time and remains a central grievance of student debt activists. “There was and is no public policy rationale for holding private student loans to the same standards as federal income taxes or child support,” says Mark Kantrowitz, author of three books on student finance and publisher of FinAid.org. “These loans are comparable to credit cards.”

The Bankruptcy Act proved the high-water mark of student lending-and-collection industry influence. The following spring, "60 Minutes" aired an investigation that featured student borrowers in default spiral, as well as victims of sleazy lending and brutal collection tactics. For many viewers it was their first glimpse into the realities of modern student debt, where borrowers down on their luck can quickly find themselves drowning in runaway debt totals many times their initial loan. Following the segment, members of the newly elected Democratic Congress called for investigations and assembled a student loan reform agenda. They were assisted by

New York state attorney general Eliot Spitzer, who unearthed multiple instances of Sallie Mae and other major lenders colluding with financial aid departments against the interests of students. The Senate Education Committee and the New America Foundation conducted their own investigations, uncovering high-level conflicts of interest and revolving-door hiring between Sallie Mae and senior management at the Department of Education.

The revelations did not shock Alan Collinge. The Tacoma native had spent the previous two years researching the industry and collecting borrower stories for his website, StudentLoanJustice.org, some of which were featured in the "60 Minutes" segment. Among them was Collinge's personal story of watching a $38,000 debt incurred studying aerospace engineering grow into more than $100,000. In the summer of 2006, Collinge launched a one-man crusade. He gave up his apartment, purchased a run-down Winnebago, and conducted a speaking-tour of the home districts of every member of the House and Senate education committees. He ended the tour in Washington, where he met with Sen. Hillary Clinton.

When the financial crisis of 2007 and 2008 resulted in a wave of new defaults, Collinge began organizing pissed-off borrowers who were just beginning to understand the depth of their hole. He collected the stories for his website and continued to agitate on Capitol Hill. By 2010, Collinge was a well-known gadfly among education economists and members of Congress. But it was a lonely vindication he felt when during nationally televised TARP hearings, the chair of the oversight panel, Elizabeth Warren, described the student loan industry as having won powers "that would make a mobster envious."

He worried that not even Warren understood that the comparison was unfair to the mob, which actually wants fast repayment and makes plain the consequences of default.

“At least loan sharks look you in the eye and are upfront about the terms of the loan,” says Collinge. “The student lending industry, including the Department of Education, is structurally predatory and makes more money from defaulted loans. In the mob analogy, the lenders make more money breaking fingers.”

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Obama entered office with a moderate reform agenda and delivered. Fifteen years after Clinton established the Direct Loan program, Obama finally removed the right of private lenders like Sallie Mae to originate federal loans (though they continue to profit by collecting and servicing them). He created a Grad Plus program guaranteeing access to unlimited low-interest federal loans for graduate study. Most recently, he ordered the Department of Education to speed up the introduction of a new income-based repayment plan for federal loans. Less generous than Clarke’s bill, the administration’s plan caps payments at 10 percent of income (down from 15) over 20 years (down from 25) after which the balance is forgiven.

But like Clarke’s bill, Obama’s income-based repayment plan treats the symptoms, not the disease. It does nothing about the soaring costs of education, budget cuts, or widespread corruption and abuse in the private loan industry. Nor does it help the huge number of borrowers already in default with their federal loans.

“Obama’s IBR can help people entering school next year, but it’s limited to federal loans and does nothing for those who’ve already paid more than they borrowed and shouldn’t have to face another 20 years of payments,” says Collinge. “It also forces defaulted borrowers, who may have been defaulted improperly to begin with, to sign a fresh loan document that legitimizes a massively inflated amount.”

Perhaps the biggest problem with Obama’s program is that it ignores the baseline uncertainty of life in America. If you want to remain in the program, you have to stay current with payments for ten years. There’s little room for the unexpected.

As with health care, the U.S. is the higher ed outlier of the industrialized world. This November, British students staged massive protests against a new law that would have raised the maximum annual tuition charged by universities to $14,000 — or less than half of what California residents pay to attend UC-Berkeley. Closer to home, annual tuition at elite Canadian universities tops out at $6,000. But even this is too much for some regional Canadian governments. Newfoundland has maintained a tuition freeze since the 1990s, and last year it eliminated interest on all student loans. Experts say the first step in resolving America’s student debt crisis is a similar recommitment to quality public education. “You can’t fix the U.S. student debt problem without addressing disinvestment in public education, which leads you to federal and state lawmakers,” says Education Sector’s Steve Burd.

Making American higher education universally affordable again should be easy (unlike health care). There already exists a vast public infrastructure of state universities and colleges, as well as a widespread belief in government’s obligation to educate its citizens.

But nearly a half-century after the signing of the Higher Education Act, the costs of attending college make a sick joke of LBJ’s signing ceremony claim, in which he described higher education as the path “to deeper personal fulfillment, greater personal productivity, and increased personal reward.” For today’s graduates, it’s just as often a path to a lifetime of debt bondage. Whether this will be the case for generations to come is still an open question. The answer depends on the Unemployed Superhero wielding his economic ball-and-chain not as an stage prop, but as a battle flail.

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