

Obama's Student Loan Takeover

Not everyone may have noticed, but included in the ObamaCare legislation was the federal government's takeover of the entire student loan industry. What do student loans have to do with health care? Nothing, of course, but if the student loan proposal had been presented separately it would have faced debate in the U.S. Senate and quite possibly would not have passed. So Obama did what any good political con-man would do, bury it in the fine print.

What exactly was passed?

Well, in the "old days," if you wanted to attend college you and your parents saved and you worked your way through school. If you could not afford to go to college you did not go to college. Fewer students attended college. Most who did attend were serious about their educations. After all, it was costing them and their parents a substantial amount of money—they had skin in the game. Nevertheless, tuition was much lower then, because the free market kept schools from charging too much.

Some students, of course, borrowed money from their bank to attend college. The student was expected to pay back the loan. If he (and/or his parents) looked like a bad credit risk, he did not get the loan. In other words, common sense prevailed.

Then, years ago, the federal government came along and decided to *guarantee* those private bank loans. That meant that the banks could afford to make riskier loans, because if the student defaulted on the loan payments the bank would get bailed out by the feds (that is, the taxpayers). A bank would rather lend money to a student than to a small business because the small business might fail and the loan would not be paid back. But if a student failed to pay back his loan the government paid off the loan. Bankers are not stupid, so they approved increasing numbers of risk-free student loans and fewer risky business loans.

High school graduates who could not afford to or chose not to attend college would get jobs at factories—factories that were built with small business loans from the banks. But as the years passed no one wanted to work in the factories anymore; they all wanted to be high-paid lawyers, or marine biologists, or millionaire athletes—and for that they needed to attend college. Besides, the number of factory jobs decreased because the banks were busy approving guaranteed school loans and rejecting business loans.

The old way of doing things — "common sense" — morphed into "private profits from the good student loans, taxpayer bailouts of the bad student loans."

The federal loan guarantees made it easier to get student loans. The colleges and universities, readily seeing that easier money, routinely jacked up their tuition rates in response. After all, the student and his parents were less likely to resist the higher tuition when the interest rates on their loans were kept artificially low by the government. (The same is true, of course, with all consumer loans. Borrowers will opt for a more expensive new car or new home with a 4 percent loan than they would with an 8 percent loan.)

Now, Obama comes along and *completely takes over* the student loan industry. It is no longer *private* banking money loaned to students and guaranteed by the government, it is now *tax dollars* loaned directly to the students.

Obama says the new plan will “save money” because it eliminates the bank “middleman” and the bank’s profit. Obama neglects to mention that the plan will actually cost the taxpayers a fortune. Even though the government has now eliminated the profit made by the bank on a student loan, that loan used to be funded with private capital. That is, it was money in the savings accounts of bank customers. Under “ObamaLend,” it is no longer *private capital* being loaned, it is *tax dollars* being loaned. To “save” the money the bank earned on a \$50,000 loan, for example, Obama first needs to *spend* \$50,000 in tax dollars! Instead of a student borrowing \$50,000 from the bank and the government guaranteeing the loan, Obama will have to withdraw \$50,000 from the federal treasury to give to the student!

Those of you who have been paying attention to current events know, of course, that the federal treasury does not have \$50,000. In truth, the federal treasury has no money—but it does have more than \$12 trillion in national debt (IOUs it eventually needs to repay). As a result, in order for Obama to *lend* \$50,000 to that student, the government first has to *borrow* the \$50,000. Where has that money been coming from? Well, lately it has been coming from China because most Americans are no longer dumb enough to buy U.S. Treasury Bonds that will eventually be worthless. (China is quickly learning, however.) Obama borrows \$50,000 from China, the taxpayers pay China decades of interest on that \$50,000 loan, and the student happily heads to college and beer-drinking contests.

To make matters worse, under the Obama scheme the loan payments can never exceed 10 percent of the student's income. Obama has also generously agreed to completely forgive the debt if the student has not paid back the loan after 20 years. That is a surefire incentive for students to want to borrow even more for college, knowing that their payments will be guaranteed to be low and knowing that they're off the hook after 20 years. Why borrow \$50,000 and go to a state university? What the heck, borrow \$150,000 and go to Harvard! If you leave Harvard and still can only get a \$50,000 per year job, your loan payment cannot exceed \$5,000 per year, thanks to Obama. And after 20 years, the student says

to the taxpayers, "The rest is all yours, suckers!" Meanwhile, the taxpayers are still paying China interest on the original \$150,000.

The easier Obama-credit means that colleges and universities will certainly raise their tuition rates. Why shouldn't they? The students won't care and the parents won't care. Little Jimmy gets to go to Harvard instead of the state university, gets drunk in Florida on spring break, and then *ever-so-slowly* pays back the loan.

What is Obama's justification for this absurd program? He says he is "eliminating the bank middleman" to save money. First, the program will *not* save the taxpayers money. The default rates for the loans will likely skyrocket and the taxpayers will lose money. Second, 30,000 or so Americans who work in the student loan industry will lose their jobs. And third, as indicated above, Obama's elimination of the middleman requires that the taxpayers put up the full capital for every student loan.

"Eliminate the middleman" to save money? Using that argument, Obama should nationalize all car dealers and fire all of the nation's car salesmen. After all, the salesmen are nothing more than middlemen, aren't they? Why do we need car salesmen? Just order the car online from Obama! Why borrow money from the bank to buy a new car? Why not eliminate that middleman also, and let the government administer all auto loans? Why borrow money from the bank to buy a house? Why not eliminate the middleman there too, and let the government take over all the housing loans? (Oh, wait, Obama has pretty much already done that, hasn't he?)

What about your local supermarket? Aren't its employees all "middlemen?" Why do we need *them* involved in the grocery process? Why not let Obama take over the nationwide distribution of all food, and deliver that gallon of milk directly from the producer to your home?

Tens of millions of Americans are "middlemen." The truck driver who delivers a new sofa to your home is a middleman. The pharmacist who fills your prescription is a middleman. The pizza delivery guy is a middleman. The kid who takes your ticket at the movie theatre is a middleman. The payroll employee at your office who prepares your weekly paycheck is a middleman. Should we dispense with *all* of them and let the federal government take over *all* industries? (Obama believes the answer to that question is yes.)

"Eliminating the middleman" is Obama's *excuse*, not his *goal*. Socialism, the nationalization of *all* major American industries, is his goal. And, of course, by *controlling the cash* Obama can also *control the curricula* at all of the nation's colleges and universities:

"Dear X University:

If you wish federal loan approvals for your students' loans to continue, you are hereby required to add the following courses to every freshman's class schedule:

"Understanding Principles of Islam"

"Why America Sucks and Why Americans Should Feel Guilty"

"The Evils of Conservatism"

"How to Stop Man-Caused Global Warming"

"The U.S. Constitution: Is it Time for an Overhaul?"

"The Need for Slavery Reparations"

"Advanced Spanish for Amnesty Officials"

"Myths About Socialism"

"Che Guevara's Lasting Legacy"

These new classes *must* be implemented by the Fall 2011 semester. Arne Duncan, my Secretary of Education, will provide details shortly.

Sincerely,

Barack H. Obama."

I thought you should be warned...

Don Fredrick

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