



Insight

Student Loans – A Tired Summer Tradition

SCOTT FLEMING | JUNE 10, 2014

In what's becoming an annual occurrence, Washington has decided to spend another summer bemoaning the student loan crisis. With both the White House and the Senate weighing in with coordinated proposals this week, as well as the convenient opening of the movie *Ivory Tower*, it has all the trappings of a blockbuster week for student lending wonks. As with most things, however, the hype is overrated. [AAF has already found](#) that the Senate bill refinancing would cost taxpayers \$1,200-\$3,200 per student borrower. It also carries a hefty price tag according to the CBO – just under \$58 billion, up \$7 billion from prior estimates and of course, no one gets a free lunch in Washington, so the Senate has also included \$72 billion in new taxes.

Now the president, citing the ever-growing volume of borrowing and rising default rates, is promoting executive changes to law governing student loan repayments. His executive action rolls back dates for students to enter pay as you earn (PAYE) repayment programs, potentially permitting up to 5 million borrowers to cap loan repayments at 10 percent of their monthly discretionary income.

While popular, the PAYE programs have a number of drawbacks. First, they do nothing to limit student debt, help manage the cost of college, or promote access to college at all. In fact, they may [exacerbate all of these](#) by making cheaper credit available for students with no consideration for how it may impact college tuition rates – part of the focus of this weekend's movie opening. Making loans cheaper to borrow doesn't discourage anyone from borrowing more money, and may actually encourage tuition inflation on the part of colleges eager to capture more federal funding, thereby making college even more unattainable for some.

Second, the changes themselves may prove costly. As numerous [outlets](#), including the [White House](#), have already stated, the cost differential between traditional loan repayments and PAYE programs is significant. In fact, it turns federal direct student loans from black to red. The magic money-making system touted by supporters of the direct lending program becomes a hemorrhaging boondoggle once students leave traditional repayment and enter PAYE programs.

Finally, the president's proposal will do nothing to improve college access. Student loan repayment benefits may be appealing to those who have already entered and exited a postsecondary education program, but for those aspiring to enter college and complete a degree, a few dollars less a month in student loan repayments long after the fact are not nearly as helpful as grant aid that might help reduce the need to borrow in the first place.

At the end of the week, we'll be treated to what many are calling a well-researched documentary showing the ironies of the current higher education system and the rampant cost inflation occurring in many of our ivory towers. It's too bad the president and the Senate are not doing anything to address it.