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US College Students and Graduates are Buried in Debt: The Quiet War on Students

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College students and graduates around the nation are buried in debt and trying to succeed in an extremely difficult and competitive economic environment. Many people are graduating only to find out that they are unable to get the jobs they want, whether it be due to the small amount of available jobs or (more usually) the problem of 'experience,' and thus are reduced to having to work menial jobs while paying back exorbitant loans.

So far very little legislation has been passed to aid students in paying back their loans and many are blaming politicians for this. However, the situation goes deeper and in part lies at the feet of a little known institution called the American Bankers Association.

The American Bankers Association, according to their website, is

> "the voice of the nation's $14 trillion banking industry, which is composed of small, regional and large banks that together employ more than 2 million people, safeguard $11 trillion in deposits and extend nearly $8 trillion in loans" and believes that "Laws and regulations should be tailored to correspond to a bank's charter, business model, geography and risk profile."

While it is quite obvious that the ABA is an organization that works in the interest of the bankers, they have an interesting history with regards to student loans and how they have actively fought against the interest of students.

The ABA's war against students started in the mid-1960s with the rise of the Johnson administration. Johnson ordered the formation of a task force to examine the role of the federal government in higher education, specifically student aid, to be headed by John W. Gardener. In its report, the task forced noted that

> "Of the students who did not attend college and who had families who could contribute only $300 or less to their education, about 75 percent of the men and 55 percent of the women indicated that they would have attended college if they had had more money available."

Johnson saw this as a loss of human capital and wanted to remedy this, ultimately signing the Higher Education Opportunity Act of 1965 into law. The law included many suggestions from the Gardner taskforce, such as that the government should aid students monetarily via grants and loans, as well as creating special programs for college-aspiring low-income students.

However, this was a major problem for the ABA. The organization was worried about government encroachment on their business, specifically loans and argued that "the federal government could not replicate the working relationships that locally-owned financial institutions had with state and private non-profit guarantee programs" and "the federal government would end up taking over the industry because there would be little incentive for the state and private non-profit agencies to establish their own programs." In order to placate the bankers, the Johnson administration told them that the government would be the ultimate loan guarantor if no one else was available.

Yet, in the present-day, the ABA is without a doubt waging a quiet war on students by actively combating virtually any legislation that would ease their debt burden. With regards to being able to get rid of student loans in bankruptcy, the ABA stated in 2012 that, if allowed to go into effect, it "would tempt students to rack up big debt that they won't repay [and that] 'The bankruptcy system would be opened to abuse.'" This is rather ironic, accusing that students will engage in irresponsible lending, even though the banks themselves engaged in massive amounts of the exact same activity by giving mortgage loans to people they knew couldn't repay the amount.

The assumption that students would just borrow money and they declare bankruptcy is rather ridiculous as filing bankruptcy has severe negative effects such as "negatively affect your credit and future ability to use money" and can "prevent you from obtaining new lines of credit and may even cause problems when you apply for jobs." Yet, due to the bankers and other groups fighting against being able to get rid of student loans in bankruptcy, the only other option is default, which works quite well for the banks. When a person defaults on their student loans, a number of effects:

1. **Your entire loan balance will be due in full, immediately.**
2. **Collection fees can be added to your outstanding balance.**
3. **Up to 15% of your paychecks can be taken.**
4. **Your Social Security, disability income, and state and federal tax refunds can be seized.**
5. **You will lose eligibility for federal aid, including Pell grants.**
6. **You will lose deferment or forbearance options.**
7. **Outstanding fees and unpaid interest can be capitalized (added) onto your principal balance.** (emphasis added)

While numbers 1, 2, 3, 4, and 7 are horrible for the borrower, they work *quite* well for the banks as it allows them to get their money back no matter the cost to you in the immediate aftermath or the future. So your entire economic future has pretty much been destroyed? Well, that's just the cost of doing business.

The ABA has recently fought against efforts to not have the interest rate on student loans double from 3.4% to 6.8%. The bill in question was Senate Bill 2343, also known as the "Stop The Student Loan Interest Rate Hike of 2012."

Democrats wanted to finance the bill by closing a tax loophole in which "wealthy individuals and large corporations [would] often file using 'subchapter S' companies to dodge paying employment taxes." The ABA and other business groups such as the US Chamber of Commerce financing of the bill on the grounds that it "would make tax collection 'less enforceable than current law and will do little to increase compliance.'" Republicans with some Democratic support effectively shut down the bill and thus student loan rates have now doubled.

While many have accused the ABA of having a major sway with Republicans, a report from the organization Campaign For America's future entitled *Moneychangers In The Senate* noted that "six Democratic senators—Blanche Lincoln, D-Ark.; Mark Warner, D-Va.; Tom Carper, D-Del.; Ben Nelson, D-Neb.; Bill Nelson, D-Fla., and Jim Webb, D-Va.—sent a letter to Senate Majority Leader Harry Reid to make him 'aware of our concern' about reform efforts [to aid students] and urging consideration of 'potential alternative legislative proposals.'" Essentially Democrats who had been bought and paid for by lending companies were urging that Harry Reid abandon legislation that could aid students and instead look for supposed alternatives which would not harm the banks. Yet, what is interesting is that student loan companies all have close ties to each of these senators, such as Blanche Lincoln's former chief of staff working as a lobbyist for the student loan industry and Ben Nelson's former legislative director being a lobbyist for Nelnet, a major student lender.

It must be noted that this campaign against student loan reform has massive amounts of money on the line. From that previously cited report, it was stated that in 2009, Nelnet posted profits of $139 million and that in "In May 2008, the student lenders were bailed out by the Ensuring Continued Access to Student Loans Act (ECASLA), which gave the banks further federal subsidies. The bill allowed lenders like Sallie Mae to sell loans back to the Department o Education through a number of loan-purchase programs." This allows lenders to make even more money. The Congressional Budget Office estimated that the government would save over $68 billion over ten years if they switched over to direct lending, however, now that $68 billion will "subsidize private lenders like Sallie Mae to pay their executives exorbitant salaries and bonuses," such as Sallie Mae chairman Albert Lord who raked in over $225 million during his tenure at Sallie Mae which ended in 2013.

The situation does not end there, however. The Senate has proposed the "Protecting Aid for Students Act for 2014" and its House counterpart is entitled the "Curbing Abusive Marketing Practices with University Student Debit Cards Act," or the CAMPUS Debit Cards Act. Each of these bills is meant to "protect students from unfair banking practices involving campus-sponsored financial products, including debit cards." More specifically, the bills would "remove conflicts of interest and end kickbacks between financial institutions and schools, give students control of their financial aid and banking products, and provide transparency over campus-sponsored financial product."

Yet, this is a problem for the Ken Clayton, Chief Counsel of the ABA. He stated that this legislation "would limit financial choices for students and parents, and raise costs for everybody" and that "Attempts to vilify financial institutions and require free services will limit consumer choice, increase costs for students and universities, and stifle innovation that has helped modernize higher education financing." Apparently eliminating conflicts of interests and kickbacks between colleges and banks as well as giving students control of their finances, is a problem.

While we cannot get rid of the American Bankers Association as an institution, we can actively fight against them by organizing ourselves and demanding that we be treated as human beings, not just an investment. Politicians and colleges will not have our backs, we must do this on our own, we must fight ourselves.

This article was originally published on Occupy.com
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