

Letters: Both parties must bear student loan risks

Updated 1/18/2012 7:17 PM

It seems we have not learned anything from the 2008 financial meltdown. We still protect private lenders who make poor business decisions from themselves at the expense of the consumer. It is difficult to understand what rational reason exists for treating private and federal student loans the same for purposes of bankruptcy ("[Few options available to help pay off private student loans](#)").



By Robert Deutsch, USA TODAY

Jessica Fernandez, struggling to pay off her private student loans, was laid off from her full-time job two years ago.

Enlarge

By Robert Deutsch, USA TODAY

Jessica Fernandez, struggling to pay off her private student loans, was laid off from her full-time job two years ago.

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As a matter of public policy, federal loans are made available to all students, regardless of their credit worthiness, to make obtaining a college degree possible. In many cases, this policy results in a federal loan being given to a student who would not otherwise qualify for a private loan. In exchange for receiving the federal loan, the student understands that the loan is not dischargeable in bankruptcy.

Private lenders, on the other hand, can and do limit who they give a loan to and take into account the student's ability to repay. Because private lenders are able to choose who they give a loan to, they should not be protected if the loan is subsequently discharged in bankruptcy. Treating private and federal student loans the same for purposes of bankruptcy gives private lenders the best of both worlds.

A free marketplace only works if both lenders and consumers share some risk when a loan is made. It is time to quit protecting private lenders from themselves.

USATODAY OPINION

Letters to the editor

USA TODAY receives about 300 letters each day. Most arrive via e-mail, but we also receive submissions by postal mail and fax. We publish about 35 letters each week.

We often select comments that respond directly to USA TODAY articles or opinion pieces. Letters that are concise and make one or two good points have the best chance of being selected, as do letters that reflect the vibrant debate around the nation on a particular subject.

We aim to make the letters platform a place where readers, not just writers representing institutions or interest groups, have their say.

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Wayne McClain; Katy, Texas

Don't encourage irresponsibility

Two major points are ignored in Friday's Money cover story on the few options available for assistance in paying off student loans:

- If you need to take out the equivalent of a mortgage to pay for college then you can't afford that school ... period.
- Why is there little to no coverage of, or outrage about, the skyrocketing cost of college? Academics dominate Washington, [D.C.](#), and the government has been financing college via its loan programs with too little scrutiny for far too long.

And now the president wants to make it easier for loans to be forgiven! We continue to cater to irresponsibility and underachievement at the expense of our own future.

Bill McLaughlin; Avon, Ind.

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[Alan Collinge](#) ·
[Founder](#) at [Student Loan Justice](#)

This letter uses beltway rhetoric, and the citizens should not be fooled by it. It uses the fake, contrived "private loan vs. Federal loan" debate to manufacture a valid premise for the continued absence of bankruptcy protections from federal loans.

First, the vast majority of student loan borrowers were never told that Bankruptcy didn't exist prior to taking out the loans, and so assumed that they were in place for their student loans as they are for every other type of loan in this country. This is tantamount to selling someone a parachute without telling them that there was no reserve chute, and that you had taken out a life insurance policy on them.

But here is what is of the utmost importance:

The federal student loan system has become a predatory, monster due, primarily, to the absence of bankruptcy protections (although we should also mention Statutes of limitations, Fair Debt Collection Laws, Truth In Lending Laws, and others).

The Government makes or guarantees all manner of loans to all sectors of society. Yet, NONE...NOT ONE...of these government loans is specifically exempted from bankruptcy protections. Student loans stand alone in this regard. This is astonishing, especially since when bankruptcy for student loans was the same as all other loans, far less than 1% were discharged in bankruptcy. Removing bankruptcy and other protections destabilized the lending system, caused a massively inflationary environment, and caused corruption throughout the system which we are only now beginning to get a fix on.

Today, the lenders, collection companies, guarantors, and EVEN THE FEDERAL GOVERNMENT are MAKING, not losing money on defaulted loans, and making more, in fact, than loans which remain in good stead.

The result is a system which wants the students to default, and wants an ever increasing amount of debt to be piled on the students. This is intolerable, and an affront to fundamental, free market principles, and Adam Smith himself would be compelled to agree. The gentleman from Texas had better be careful who he brags to down there. He is arguing for a big government monstrosity that no red blooded Texan with any respect for freedom, free-markets, or the constitution of this Country would be able to stand. Nor should they.

Bankruptcy is an unfortunate, but absolutely essential free market mechanism that, based on clear and compelling evidence from the student loan example, simply cannot be removed be it privately made, federally guaranteed, or otherwise.

Don't let guys like this fool you, citizens. Bankruptcy absolutely must be returned to ALL student loans AS QUICKLY AS POSSIBLE, To attempt to perpetuate this governmental predation on the citizenry any further only guarantees that the people *who are defaulting at something like 40% currently) will simply reject the lending system enmasse.

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[Gordon Wayne Watts](#) ·
[Florida State University](#)

While it is good that Bill makes a good point above ("•Why is there little to no coverage of, or outrage about, the skyrocketing cost of college? Academics dominate Washington, D.C., and the government has been financing college via its loan programs with too little scrutiny for far too long."), nonetheless, why focus on Obama's 'cure,' when PREVENTION is the best medicine?

Indeed, the only 2 reasons that colleges charge sky-high tuition are as follows:

1) Colleges raise their tuition to match every time Congress raises the loan limits for student loans, knowing that students can afford more due to easy availability of student loans. (SOLUTION: The Feds should STOP making or guaranteeing ANY & ALL student loans.)

2) When Congress removed standard consumer protections for student loans, & colleges knew students could no longer defend themselves via bankruptcy filing, the students then became targets for sky-high tuition. (Solution: Return Std Cons. protections.)

If we'd return to the method we used in the 1950's, then college tuition would drop like a rock, and quality would (once again!) be tops in the world, as i document here:

<http://GordonWatts.com/Higher-Ed-Tuition-Costs.html>

or:

<http://GordonWayneWatts.com/Higher-Ed-Tuition-Costs.html>

I'm Gordon Watts, and I'm NOT running 4 office, but I DO support this message.

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[Bruce Myers](#) ·
[Northwest College](#)

The day that college loans can be discharged in a bankruptcy, is the same day there will virtually be no uncollateralized loans to young borrowers to be had. Beware of unintended consequences. I do agree that we need to do a better job of making people aware of this fact however.

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[Alan Collinge](#) ·
[Founder at Student Loan Justice](#)

Banker's threats like this are no longer impressive to anyone.

This is an INTENDED consequence. The schools can afford to lower their tuitions tremendously, by and large, and

this is the market force which will drive prices down at long last. Many students may be relegated to attending less expensive schools, but that is a far better price to pay then dealing with tens of millions of citizens whose lives have been decimated by the Student Loan Scam. Fear mongering bankers rhetoric has ruled this conversation for years, and now we see the result.

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[Gordon Wayne Watts](#) · [Florida State University](#)

Bruce, re: ("The day that college loans can be discharged in a bankruptcy, is the same day there will virtually be no uncollateralized loans to young borrowers to be had.") --> -->That's what I want! -- The presence of "easy loans" in the 1st place is what induced colleges to charge more, since they (dishonestly) knew the students could afford more, so they increased tuition to match every time college raised the loan limits.

: -)

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[Gordon Wayne Watts](#) · [Florida State University](#)

[Alan Collinge](#) is indeed correct, Bruce re yr quote ("Beware of unintended consequences.") getting rid of ALL Federal loans (be it made or merely guaranteed) IS the intended consequence -- at least MY intention, as I certainly speak for myself here.

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[Barry Levy](#) · [Beverly Hills, California](#)

once must ask what one is purchasing before taking out a loan to purchase that.

What are the jobs that are available for the degree that you are working for, what are the returns that can be earned in those jobs.

Guess too many people have taken up the government role, and model. Spend millions of dollars for a job that can never pay back the loan, but unlike government, student loans and those can't make rules that would keep up this insanity.

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[Gordon Wayne Watts](#) · [Florida State University](#)

All of what you say is factually true, but what point are you making here? When you say ""Guess too many people have taken up the government role, and model. Spend millions of dollars for a job that can never pay back the loan,"" are you in essence agreeing with my request to get the Feds out of the loan biz, as I elucidate & clarify above??

Enquiring minds wanna know!!

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[Deborah Perry](#) · [Pittsburg State University](#)

I resent the inference that I am irresponsible. I raised 6 children on welfare and was delighted that I could go to school and be able to turn around and provide a service to others in need as a social worker. I was terminated from my job because of a personality and ethical conflict with my supervisor that would not be resolved by the regional director and because the policy of 'at will' employee allowed that person to keep her employment without investigation into my claims which were valid. I still have the information if anyone is interested. I live in a low-income area. The jobs for my line of work is limited. I am now 63 and when I apply for employment against those younger with the same degree, guess who wins. I'm not begrudging those who can get a job ahead of me. But I do begrudge the government policy that prevents me from working as I would like because of unethical behavior using government policy as an excuse. I would LOVE to be working. I would LOVE to pay off my student loans in the spirit that they were obtained - to get a job that would enable me to repay them. I appreciated the opportunity to do so. And I resent the inference that I would wish otherwise. I was an honors student going through and graduating with highest honors within my class. I was the first of my family to go to college and because of that my grandchildren are now going. If I can't get employment that honors my ability to obtain the degree that I worked so hard for - what chance does my grandchildren have? Make ALL education part of the public domain - not a special treat for sale.

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