May 21, 2013

HUFF POST POLITICS

Obama Student Loan Policy Reaping $51 Billion Profit

Posted: 05/14/2013 11:18 pm EDT | Updated: 05/15/2013 3:49 pm EDT

The Obama administration is forecast to turn a record $51 billion profit this year from student loan borrowers, a sum greater than the earnings of the nation's most profitable companies and roughly equal to the combined net income of the four largest U.S. banks by assets.

Figures made public Tuesday by the Congressional Budget Office show that the nonpartisan agency increased its 2013 fiscal year profit forecast for the Department of Education by 43 percent to $50.6 billion from its February estimate of $35.5 billion.

Exxon Mobil Corp., the nation's most profitable company, reported $44.9 billion in net income last year. Apple Inc. recorded a $41.7 billion profit in its 2012 fiscal year, which ended in September, while Chevron Corp. reported $26.2 billion in earnings last year. JPMorgan Chase, Bank of America, Citigroup and Wells Fargo reported a combined $51.9 billion in profit last year.

The estimated increase in the Education Department's earnings from student borrowers and their families may cause a political firestorm in Washington, where members of Congress and Obama administration officials thus far have appeared content to allow students to line government coffers.

The Education Department has generated nearly $120 billion in profit off student borrowers over the last five fiscal years, budget documents show, thanks to record relative interest rates on loans as well as the agency's aggressive efforts to collect defaulted debt. Representatives of the Education Department and Congressional Budget Office could not be reached for comment after normal business hours.

The new profit prediction comes as Washington policymakers increasingly focus on soaring student debt levels and the record relative interest rates that borrowers pay as a potential impediment to economic growth. Regulators and officials at agencies that include the Federal Reserve, Treasury Department, Consumer Financial Protection Bureau and Federal Reserve Bank of New York have all warned that student borrowing may dampen consumption, depress the economy, limit credit creation or pose a threat to financial stability.

At $1.1 trillion, student debt eclipses all other forms of household debt, except for home mortgages. It's also the only kind of consumer debt that has increased since the onset of the financial crisis, according to the New York Fed. Officials in Washington are worried that overly indebted student borrowers are unable to save enough to purchase a home, take out loans for new cars, start a business or save enough for their retirement.

Policymakers also are worried about the effect that high interest rates on outstanding student debt may have on the broader economy. Congress sets interest rates on federal student loans, with rates fixed on the majority of loans at 6.8 and 7.9 percent.

But as the Federal Reserve attempts to lower borrowing costs for everyone from households and small businesses to large corporations and Wall Street banks, student borrowers have not been able to benefit.

Compared to a benchmark interest rate -- what the U.S. government pays to borrow for 10 years -- student borrowers have never paid more, increasing the burden of their student debt as wage increases and yields on investments and bank accounts fail to keep up with the relative increase in student loan interest payments.

President Barack Obama recently asked Congress to tie federal student loan interest rates to the U.S. government's borrowing costs. In a possible sign of congressional intent, leading Democratic senators on Tuesday proposed legislation that would keep existing interest rates on some student loans for the neediest households fixed at 3.4 percent, rather than allowing them to revert back to their original 6.8 percent rate.

The legislation, dubbed the "Student Loan Affordability Act" and proposed by Senate Majority Leader Harry Reid (D-Nev.), Sen. Patty Murray (D-Wash.), Sen. Jack Reed (D-R.I.), and Sen. Tom Harkin (D-Iowa), aims to help a small subset of future student borrowers who take out loans over the next two years. The bill does nothing for existing student debtors.

"Today's figures from the CBO underscore the urgent need for Congress to prevent the July 1 interest rate hike and address the crushing debt placed on students," said Tiffany Edwards, spokeswoman for Democrats on the House Education and Workforce Committee.

Rohit Chopra, the Consumer Financial Protection Bureau official overseeing the regulator's student debt efforts, has warned policymakers to not focus solely on future borrowers.

“The whole student loan problem is a problem that should be of deep concern to this body,” said Richard Cordray, CFPB director, during testimony last month before the Senate Banking Committee. “These are young people that we should care a great deal about.”

“They’re the ones with the ambition, aspirations and dreams, and they're getting saddled with debt that they don't understand,” Cordray said of student borrowers. “It's holding them back and it's making them unable to rise and succeed and become leaders in our society.”

He added: “It's a significant problem and we're going to be doing everything that we can to address it at the bureau.”

The CFPB has been focusing on helping existing borrowers refinance high-rate debt or modify the terms of their loans. In a report earlier this month, the CFPB lamented that borrowers are unable to refinance their obligations after they have graduated from college and secured well-paying jobs.

"Corporate entities, homeowners, and many others have been able to refinance debt at quite low rates, and student loan borrowers are wondering why they can't do the same," Chopra said.

The CFPB suggests that increased concentration in the student loan market may inhibit refinancings and debt workouts. Lenders and the Education Department profit when borrowers pay higher rates than they otherwise would in a normally-functioning market.

Unlike traditional lenders, though, the Education Department's profits are barely dented by loan defaults. For loans made in 2013 that eventually default, the department estimates it will recover between 76 cents and 82 cents on the dollar. Bankruptcy rarely discharges student debt.

The Education Department's collection efforts are aided by loan default specialists, including NCO Group Inc., a company owned by JPMorgan.