



Consumer Financial
Protection Bureau

Government Attacks Lenders... While Making Predatory Loans

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Judging by the avalanche of new regulations that the Consumer Financial Protection Bureau (CFPB) has dumped on lenders, one might expect the federal government to exercise prudent judgement when it comes to the loans they themselves issue. However, according to a new report, that is not always the case.

Politico reports that Parent PLUS, a federal student loan program, has become a debt trap for many people. The program currently serves 3.2 million borrowers, who have racked up a total of \$65 billion in debt. This amounts to an average debt of over \$20,000 per borrower.

So why is this federal program harming many of its borrowers? The loans charge above-market interest rates, without adequately assessing a person's ability to repay them. These loose lending standards can lock borrowers into extreme amounts of debt. Worse, unlike other student loan programs,

ParentPLUS requires a parent co-signee. This means when the student is no longer in school, any debt is on the backs of parents who may be already looking toward retirement or other use of their income.

Additionally, the federal government is an extremely effective debt collector. Unlike most lenders, the government can garnish wages and other funds without a court order to get back student loan payments.

As the article points out, the government issues loans they can't afford. Ironically, this is the same thing the government accuses many private sector lenders of doing. The CFPB has been going after after banks and auto lenders alleging predatory lending practices, meanwhile, the federal government does essentially the same thing by charging high interest rates on some student loans.

Federal student loans are well-intentioned, but it is important to keep in mind the unintended consequences—including trapping your borrowers in significant debt. Another unintended consequence of federal student loan policies has been skyrocketing tuition prices.

In 1970, the average American family only had to spend around 16% of its household income in order to pay for a four-year tuition at a private university. Today, the average family would have to pay 36% of its income in order to pay for the same product.

If the federal government really wants to help students afford college, it should allow the free market to work. Federal student loans have inflated the price of a college education, and driven some borrowers deeply into the red. Neither the private sector nor the public sector has a monopoly on issuing bad loans to consumers.