



Government projects to make \$50B in student loan profit

David Jesse | Detroit Free Press

DETROIT — The U.S. government projects to make more money off student loans this fiscal year than ExxonMobil, Apple, J.P. Morgan Chase or Fannie Mae made on their respective businesses last year, a new analysis shows.

According to the Congressional Budget Office's latest projections, the federal government projects a record \$50-billion profit on student loans this year. ExxonMobil made \$44.9 billion in 2012, according to published reports, making it the most profitable company in the country. And if Congress doesn't stop rates on some loans from doubling on July 1, that profit will rise more, up to an additional \$21 billion, a recent report found. However, there are those who claim the projections don't accurately reflect risk taken by the government and the profits are much smaller.

"I can understand private companies making profits off student loans — part of mine are private — but it doesn't make sense for the government to be making huge profits off the backs of young students just trying to make themselves employable in a terrible economy," said Kristy Currier, 26, of Detroit.

Currier said she pays between 3.9% and 10% interest on her various student loans, which total about \$75,000.

The record-high profits on student loans come during a time of historically low interest rates on home mortgages and car loans. While a home buyer can get a 30-year mortgage at about 4.5% interest, the federal government is charging as much as 6.8% interest on unsubsidized student loans and is less

than a month away from automatically doubling the interest rate on the loans headed to poor students unless Congress takes action.

Jonathon Whaley's loan payments suck out about \$750 a month from his bank account. The 25-year-old Grand Rapids resident is paying off both federal and private loans. His private loans charge him 4% interest. His federal loans charge him 7%.

"Because the government has almost ensured anyone who applies will get the loan they need, schools have been able to drive prices up with no concern as to where funding will come from," Whaley said. "With prices skyrocketing, students are taking on way more debt than they can handle but have no other option to compete in the modern economy."

Whaley, a compliance manager/attorney at an investment firm in Grand Rapids, took out about \$250,000 in loans to finance his education at the University of Dayton and Ave Maria School of Law.

"I was lucky to fight through a terrible job market and scrape by enough money to make my loans a burden and not a killer. However, I have dozens of friends who are not so lucky.

"The government needs to remove itself from the student loan industries or else it will continue to destroy my generation."

When Nathan AuBuchon graduated from Walsh College last fall, he did so with \$35,000 in federal student loans he used for schooling at Western Michigan University, Wayne State University and Walsh. The 31-year-old

Commerce Township resident, who co-owns a realty company and works in production for Performance Springs, pays \$172.66 a month in loans.

He doesn't have a problem with the government making money off his loans.

"I see it as the taxpayers who are making the money, and I have no problem with that. ... The taxpayer should be compensated for their opportunity cost and the risk of loss of their money."

Where do profits go?

The Congressional Budget Office's May look at the federal student loan account forecasts the federal government will make more than \$173 billion in profits from student loans over the course of the next 10 years.

Those projections are higher than the Obama administration's projection — which forecast a \$34.3-billion profit this year vs. the CBO's \$50-billion projection. Using the administration's projections, the government is making an average of about 18 cents in net profit from every dollar it lends out.

The government books its profits by lending out money at rates higher than it borrows. The CBO projects the government rate will be 2.1% during 2013. Loan interest rates for borrowers run from 3.4% to 7.9%.

The profitability of the student loan program is under increased scrutiny as the debate over the cost of higher education and debt levels revs up in Washington under the watchful eyes of college students and their parents.

The interest rate on the federally subsidized Stafford loan is set to double on July 1. Congress is debating a number of bills designed to hold that rate down closer to the current 3.4%.

The Congressional Budget Office projects that keeping the loan rate at 3.4% on subsidized loans would cost the government \$41 billion over the next decade, while getting rid of the subsidized program altogether would increase the profit by \$49 billion.

Budget projections from the Obama administration show an expected profit of \$26.3 billion in 2014, with a slight uptick in the profit rate to nearly 19 cents for every dollar lent out in 2014.

"I think the government should cover costs, but certainly not profit off (student loans)," said U.S. Rep. Tim Walberg, R-Mich., a member of the House's higher education subcommittee. "You're basically taking that money from citizens who could use it."

Tracking exactly where the profit ends up is complex. Some was sent by law to help fund the Affordable Care Act, while some went to lower the federal

budget deficit.

Predicting the exact profits is tricky and based on projections about interest rates. That's illustrated in the 2012 audit of the federal Office of Student Aid, the latest audited data available. Projections had been for the federal government to make \$22.9 billion on student loans in 2012. However, that number was lowered by \$12.2 billion. Interest rate changes; increases in death, disability and bankruptcy rates; and a slight decrease in loan volume all lowered the profit number.

Low-risk business for the federal government

Borrowers have a number of federal loans to choose from when they look at financing their education.

The most commonly talked about loan is the subsidized Stafford loans, which are available to students meeting financial-need guidelines. Students can borrow up to \$5,500 from these loans a year, depending on what year in school they are in. The federal government pays the interest on these loans while you are in school.

As a result, these loans aren't profitable for the government. In fact, budget projections show the government expects to lose just over 3 cents on every dollar it lends out under these loans. The average subsidized Stafford loan in 2013 is projected to be \$3,204, budget documents show.

The other common loans are the unsubsidized Stafford loans and the PLUS loans, which are made to parents of dependent students.

It's in these two areas that the government makes its money.

The unsubsidized Stafford loans are the most common loans the federal government gives out, budget documents show. The average loan is projected to be \$5,394 this year. On those loans, the government expects to make just over 26 cents on every dollar it hands out.

On the parent loan, the projected average loan is \$14,410 this school year. The federal government expects to make nearly 34 cents on every dollar it lends out this year under this program, budget documents show.

Experts say the loans are relatively low-risk in terms of the government eventually collecting the money.

"In some cases, such as for student loans, the federal government has tools to collect from delinquent borrowers that private lenders do not have, giving federal programs a real advantage over private-sector companies," the nonpartisan Congressional Budget Office wrote in a June 2012 report on the federal loan system.

The loans aren't dischargeable in bankruptcy. The government can set up liens against income tax refunds. The government has also stepped up its collection of past debts, hiring private firms to go after scofflaws. That includes an increased effort by private attorneys working on contingency contracts from the federal government to haul people into federal court to get judgments against them, allowing wages to be garnished and assets to be seized.

The government projects handing out about \$133.5 billion to nearly 23 million borrowers this school year.

Projecting how much money the government will make — or have to pay in a subsidy — on those loans is a tricky, complex formula, based on a variety of factors, experts said.

The federal Credit Reform Act of 1990 set the way the government has to account for its loans. It measures the cash outflow as the disbursement of the principal loan amount and the inflowing money as the payments of interest and principal, minus amounts not paid, plus any fees the government receives from the borrower.

But there are those who believe this is a bad way to measure and predict what loans cost the government. They like something called fair value accounting, which they believe does a better job of factoring in the cost of collecting delinquent or defaulted loans and looking at the risk taken by the government when it lends out money. They believe there is actually little to no profit. The CBO projects that by using fair value accounting, the government's profit this year would be \$6 billion.

The federal Office of Student Aid ended 2012 with more than \$948 billion in its student loan portfolio. It spent \$18.94 per borrower on loan servicing, according to its 2012 annual report — the latest report available. It doled out a \$28,350 bonus to its chief operating officer and gave the five members of its operating committee who received the highest review marks bonuses averaging \$20,607 a person.

Changes may mean even higher profits

Terri Lowe is helping to pay her son's loan off while he looks for a job. She pays about half of his \$120-a-month loan payment to federal government.

"He's working part-time and paying what he can," the 54-year-old Chesterfield Township resident said. "I don't want to see his credit ruined, so I'm happy to help out. I had no idea the government was making money of these loans. I thought they would be breaking even or even using tax money to cover the cost. If they're making money, they should lower the interest rates."

Mark Kantrowitz, a leading financial expert and publisher of FinAid.org, says recent changes to student loans, including the federal government no longer paying the interest on subsidized Stafford loans during the first six months after graduation, will continue to impact the profits.

"In the future, we're likely to see more changes that make student loans more profitable," he said.

That means there's likely to be more graduates mirroring Kristy Currier's experience. She graduated in December 2011. She found a job six months later but was laid off five months later. She was unemployed until this past January, when she found a job that doesn't pay enough to cover her roughly \$600-a-month loan payments, plus living expenses.

"I feel like I will never get out of student loan debt and am not saving anything really. If I was not living with my fiance, I would have to be living with my mom, because I have so much to pay back."



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