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Interviews

A Failed Lending System

by Alan Collins

September 30, 2020

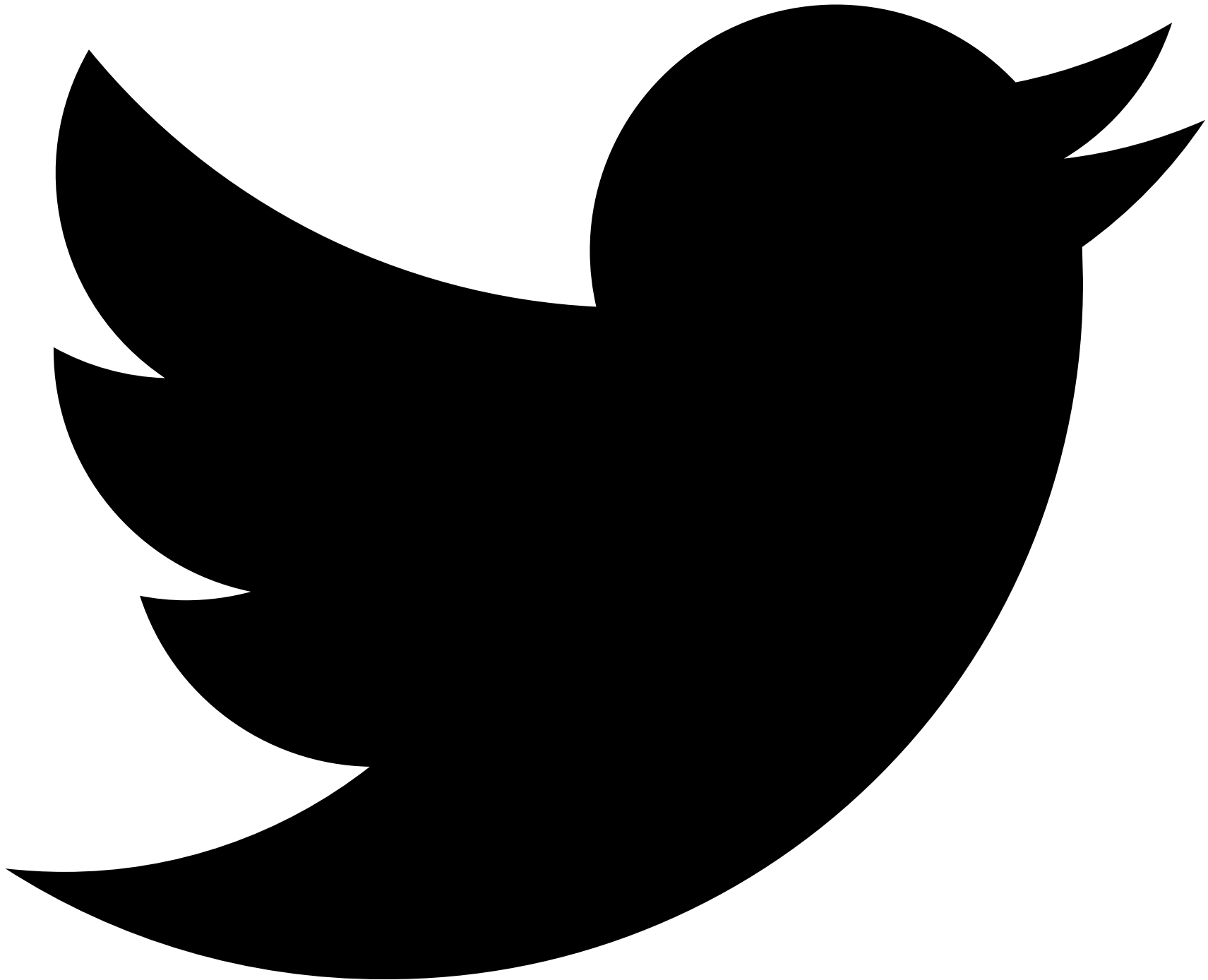
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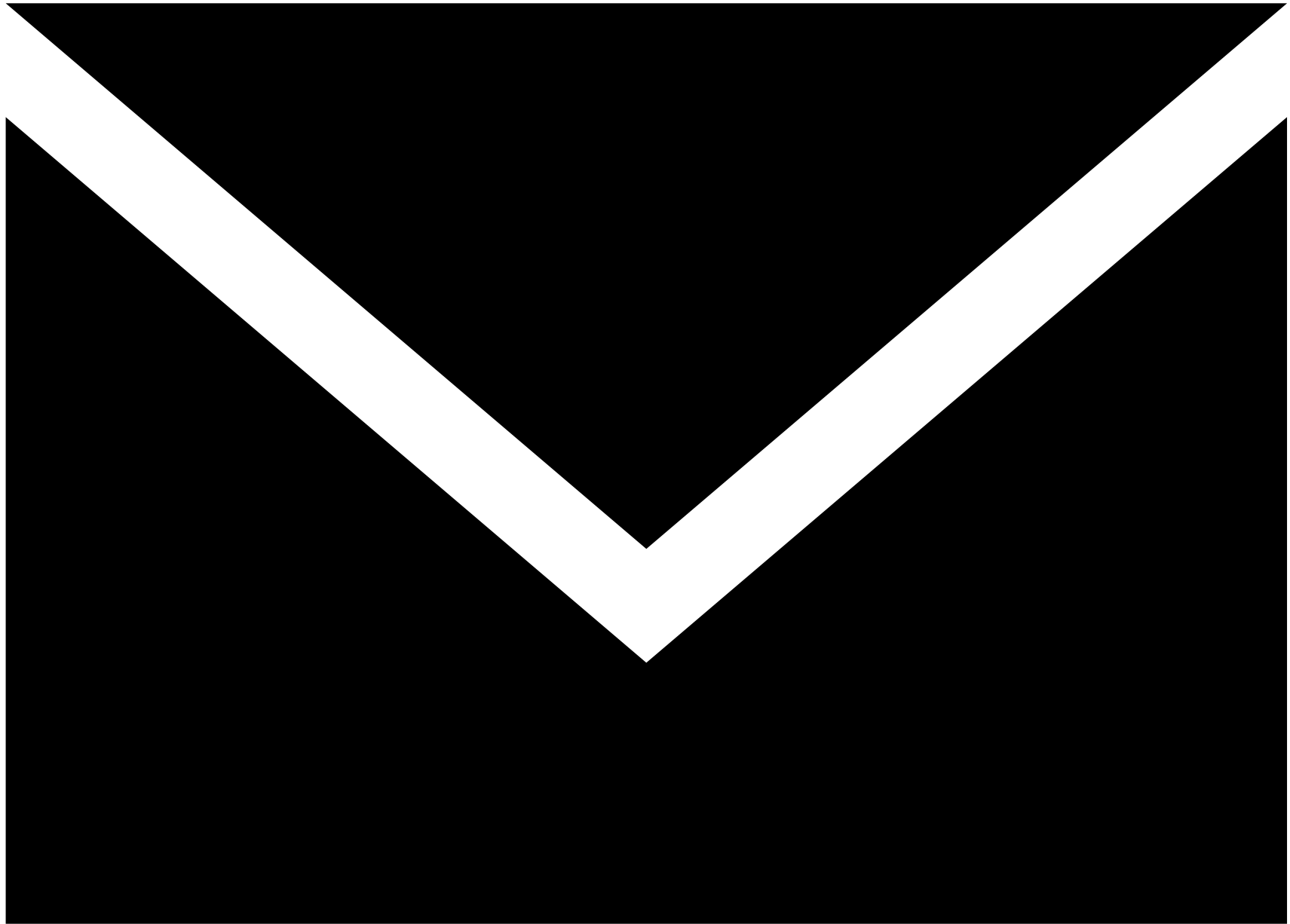
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interviews









Alan Collinge, founder of StudentLoanJustice.org, was conducted and condensed by franknews.

Alan | I have a bachelor's, a master's, and an engineer's degree. I began looking deeply at the student loan problem because of my own student loan issues, and in 2006 I decided to dedicate myself to this work full time. The debt crisis, unfortunately, has only become worse since those days.

frank | And how do you articulate what the problem is?

The problem is that student loans have been exempt from the most fundamental consumer protections — some of which are called for in the constitution. Unlike every other loan in this country, student loans do not have bankruptcy protection. Student loans do not have a statute of limitations. [Fair Debt Collection Practice laws](#), [Truth in Lending laws](#). Even state usury laws have been restricted or eliminated for most student loans.

The founding fathers themselves were savaged under the predatory British banks and merchants. They understood the importance of bankruptcy protections. And indeed, if you look at [Article I, Section 8 of The Constitution, the founders call for uniform bankruptcy laws](#) ahead of the power to raise an army, declare war, and even coin currency. But student loans have been essentially stripped of this protection.

We are left with a predatory, hyper-inflationary lending product. At this point, I consider it a wholly

failed lending system.

Within that failure, what do you seek to do as an organization?

Well, for the first 15 years of our existence, we were fighting only for the same bankruptcy protections as every other type of loan. It hasn't worked, unfortunately. Congress failed us.

The Republicans have failed us, and the Democrats have been not much better. It has been a real sham, politically, and as a result student loans have continued to grow.

When I started this, student loan debt stood at \$400 billion. There is now \$2 trillion in outstanding student loan debt. Some of the official numbers are lower than that, but those numbers do not include a lot of the interest charges or private loans — home equity loans, for example — that families take out to pay for college. With these taken into account, we are well over \$2 trillion of college debt. Now, in addition to the return of

standard bankruptcy rights, we are advocating for all federal student loans to be canceled.

The student debt crisis is a national threat. We now know that the default rate for the class of 2004 was around 40%, and students in 2004 were borrowing only a third of what students today borrow. By our best estimates, before the pandemic, 80% of borrowers were never going to be able to pay back their student loans. Today, when 50 million people are losing their jobs, many of which will not return, it seems like it is time for all federally owned student loans to be canceled.

Does the increase in college accessibility and the inability to declare bankruptcy go hand in hand?

That is a good point. College accessibility has increased dramatically since the 1970s, when some of these consumer protections were rolled back. Around 30% of the population was going to college then, and now around 60% of the population is attending college.

But at what cost? There is a human toll to this savagely predatory lending system. We've documented many suicides, broken families,

expatriation, and much more.

There are better ways to make it more accessible. We should fund community and state colleges to a point where people can take on little to no debt.

So how did these consumer protections get stripped away?

My theory might be slightly controversial. There's something called the Powell Memo that Lewis Powell authored as a special advisor to President Nixon. He wrote it as a result of watching the cultural revolution of the 1960s. Mr. Powell outlined a series of steps that conservatives should take to prevent what happened in the 60s from ever happening again. He advocated for the changing of the guard across the country. He says that monied and conservative interests should infiltrate colleges, media, NGOs, and think tanks in order to sow the seeds of their ideology.

Sallie Mae was established months after the Powell memo was published, and in the 1970s we began removing bankruptcy protections.

Prior to 1977, student loans had the same consumer protections as all other loans — including the right

to bankruptcy. In 1977 that began to change.

In 1998, federal student loans became forever impossible to discharge in bankruptcy, and, astonishingly, this exception to discharge was extended to private student loans in 2005. This gave the lenders carte blanche to hound borrowers for the rest of their lives. This led to a huge boom in lending for colleges. This is also when the colleges began to really raise their prices.

While Sallie Mae began as a government-sponsored entity, they decided to go private around the mid to late 1990s — this around the same time they acquired the largest loan collection companies and largest guaranty agency in the country. This government-sponsored entity essentially morphed into a fully for-profit, privately held monopoly over the student loan market.

And what are the consequences of stripping these consumer protections away?

It's an incredibly predatory system. People can have their wages garnished for defaulting on loans. Senior citizens and the disabled can lose their benefits. People can be fired from public employment. They can lose their professional licenses, and in some cases, they can even lose their driver's licenses if they default on federal student loans. It is a sort of one, two punch. There are no consumer protections, and on top of that, there is

also a draconian, mafia-like collection regime.

After 15 years of working on this, you have a bill in the House and a bill in the Senate that aims to restore protections.

At long last, we have good legislation. We have two bills right now: S.1414 in the Senate, and HR 2648 in the House. Dick Durbin is the sponsor in the senate, and Jerry Nadler and Republican John Katko are the sponsors in the House.

There is no good reason that this bill shouldn't pass. The sticking point is the Republicans in Congress, to be quite frank. Right now our number one goal as a group is to get a Republican senator to co-sponsor this legislation.

Every Republican, Senate or House, should support this move. The Republicans claim to be the party of small government — well, this is truly a big-government lending scam the likes of which this country has never before seen.

Outside of Congress, we have conservative support from places like the Cato Institute,

The National Review, David Brooks, the conservative commentator at the New York Times, AND conservative scholars at George Mason University. These places agree that bankruptcy protections must be returned to student loans, but because of the way the industry has courted Republicans, as well as Democrats for that matter, we are stuck.

Politically, do you feel like either party has a good grasp and effective communication plan to tackle this issue?

Again, 80 percent of people, according to the Department of Education, will likely never be able to pay their loans. That is 44 million people in the country walking around, losing sleep over their student loans. And these people vote far more than average. 44 million votes can turn a loss into a landslide; even a third of that can turn a loss into a landslide. This is an electoral bonanza, the likes of which we have never seen before. In any other issue in this election — healthcare, defense, civil rights, etc — the battle lines are drawn and it is hard to move many people from one side to the other. It is the wild west with the student loan issue. Neither party has gotten their arms around this thing, and frankly, no sitting member of congress wants to touch it because it is such a big problem that has continuously been kicked down the road.

We started a petition calling on the president to cancel student loans through an executive order.

This is a very important point because right now, no one's plan for student loan cancellation is going to work — not Joe Biden's, not Elizabeth Warren's, or Bernie Sanders' as they proposed them in their campaigns.

In Congress, if you pass legislation that costs the taxpayer anything, you have to come up with funding to support the legislation. So in order to cancel \$1.7 Trillion in student loans through congressional legislation, you have to find that money. That requires cutting an equal amount from other areas, raising taxes, or adding to the national debt. That is just never going to happen. Congress will never pass legislation that cancels student debt fully. If they pass legislation it will be limited; there will be many strings attached, and ultimately, very few borrowers will actually see their loans canceled.

However, the president has the executive authority to demand the Department of Education to cancel all the student loans that it owns, which is about 85 percent of all student debt. The president can do that without needing one dime of tax appropriation or any congressional approval, and, I might add, without adding one penny to the national debt. The taxpayers already paid for these loans. There is no good reason that they need

to pay twice! That is the solution we are pushing for, and we have over 700,000 signatures from people who span the political spectrum. I estimate that 40% of student loan borrowers are politically independent, and about 20% identify as Republicans. This really is a huge voter bonanza for whichever candidate steps up to solve it by executive order.

Are you hopeful that politicians will acknowledge that and act on it?

I am very happy to report that last week, Elizabeth Warren and Chuck Schumer have adopted our strategy and are now championing it. They introduced a Senate resolution calling on President Trump to cancel "up to \$50,000" in federally owned student loans by executive order. While their plan is frankly vague, and a bit suspicious this close to the election, it is very encouraging to see that the concept of federal loan cancellation by executive order proposed. I believe we have really started something good here.

I can only hope that both parties will converge on this solution. There is no better opportunity than this pandemic to reset this failed lending system, massively stimulate the economy, free the 44 million Americans from the jaws of this nationally threatening lending system, and replace it with a more rational and just funding model for higher education in this country.