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Should Anyone Be Eligible for Student Loans? No: We end up hurting the students we are trying to help

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Believing that everyone should be able to attend college is understandable. People with college degrees tend to significantly outearn those without, and equal opportunity is a bedrock American value. But good intentions often yield bad policy, hurting those we want to help. Federal student loans are a case in point.

Federal loans are essentially available to anyone with a high-school diploma or GED certificate. A GED often doesn't reflect the same level of learning as a high-school diploma, and a high-school diploma frequently doesn't signify true readiness for college work. Students without a diploma or GED, meanwhile, can either take a college-administered test or complete six credit hours of course work to qualify.

These flimsy standards, coupled with a heavily subsidized higher-education system, have encouraged millions of unprepared people to enroll in college.

Warning signs

Remediation is the clearest symptom. One-third of first-year students take at least one remedial course, and they struggle: A federal study found that 68% of students who entered postsecondary education and took no remedial courses earned a credential—itself a low figure reflecting broad lack of preparation—but only 51% who took one remedial class finished. And only 42% who took two such courses completed.

Many dropouts acknowledge their academic challenges. A 2009 survey by Public Agenda, a nonprofit policy-research group, found that non-completers most often cited a need to work for dropping out, but also pegged academic problems, including 34% who said some classes "were too difficult," and 47% who admitted to having "spent too much time socializing and not enough time studying." Given the normal bias against blaming oneself, these probably understate the problem.

Many dropouts have loans, which are much harder to repay when one fails to finish, or gets a worthless degree. Borrowers on the academic margins, who often attend community colleges and for-profit schools, likely struggle the most to repay even though their debts tend to be relatively small. The Federal Reserve Bank of New York found that 34% of borrowers with debts between $1,000 and $5,000 defaulted, versus only 18% with debts in excess of $100,000, a level of debt associated with advanced degrees.

Qualifications matter

What this demonstrates is that, for the sake of the people we want to help, Washington should be more strict about the academic qualifications of those to whom it lends. Giving loans to people who will likely struggle to complete, and then struggle to repay, does not help them, no matter how pure the intention.

To enroll in an associate degree program or higher, perhaps a minimum GPA of 3.0 on a 4.0 scale, and an SAT or ACT score equal to the national average, should be required.

There are, of course, problems with this. Are a 3.0 GPA and 1000 SAT score the right threshold? And it is troubling to have government give some people loans while refusing others, especially since "objective" measures may not tell us everything important about individual borrowers.

But it does not help people who have gotten bad K-12 educations to saddle them with debt for programs they are unequipped to complete or that do not confer in-demand skills. And vainly attempting to have colleges make up for K-12 failure takes pressure off what must come first: fixing elementary and secondary education.

All of this is why lending should be in private hands. Private lenders would have strong incentive to work with even the financially poorest, when college-ready, based on the likelihood they will succeed and repay their loans. Private lenders also would be using their own dollars, and so would have a powerful incentive to be honest with unprepared students, telling them, "The loan you want does not make sense for me…or you." This would all be coupled with the flexibility to consider multiple measures of postsecondary readiness, as well as differing loan terms, and thus to treat potential borrowers as the unique people they are.

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