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Elizabeth Warren Wants to Let You Pay for College Like a Car

Unlike loans for homes or nearly anything else, Americans can’t refinance student debt to save money. The senator has a bill to change that.

Elizabeth Warren wants paying for college to be like paying for a car.

No, she doesn’t want mandatory airbags in colleges or Presidents’ Day sales on tuition. Instead, the senator from Massachusetts wants students to be able to refinance federal student loans.

Unlike a loan to pay for a house, a vehicle, or just about anything else your heart desires, you can’t refinance a student loan. The result is that student loans have become a rare way for the federal government to generate revenue, making $66 billion in profits off them between 2007-2012. Warren told The Daily Beast that she is discussing legislation with colleagues that would allow students to refinance their federal loans at rates currently offered to new borrowers. The legislation will be introduced in the coming weeks as Warren continues to work with other senators from both parties on the exact language.

Warren has long been working to reduce the $1.2 trillion in student loan debt currently held by Americans, seeing it as deeply problematic that the federal government makes a huge profit on student loans. In her opinion that “does not reflect our values” and presents a threat to the economic recovery. Warren cited a recent report that cited student borrowing as hurting the economy because the debt overhang kept many purchasing cars or houses.

The senator helped lead an unsuccessful fight against the Bipartisan Student Loan Certainty Act in the summer of 2013, which allowed the interest on future student loans to float freely at market rates, rather than face a government cap. Now, she simply wishes to apply those market principles to existing student loans. With current interest rates at around 3 percent, she notes that “the ability to refinance for someone who has an high interest loan could make the difference” about whether they’re able to pay the rent or not.

The obstacle though is that any reduction in interest rates would need to be paid for. Despite the decline in the deficit on Tuesday, there is still a significant cost to allowing students to refinance (without a bill though there is no CBO score for the exact cost). Warren is unfazed by this, pointing out that there are “millionaires and billionaires who can take advantages of major tax breaks and major corporations that pay zero taxes” who can make up the revenue gap. The problem is that such a tax increase would have difficulty passing the Senate, let alone the GOP-controlled House.

In fact, Neal McCluskey, a higher education expert at the libertarian Cato Institute, had difficulty finding objections to the concept of Warren’s bill though he cautioned that was without any legislation for him to read. Instead, he was agog at the issues involved with reducing government revenue through lowering interest rates because the lender has to pay for it and, in this case, the lender is the American taxpayer.

Warren’s proposed bill seems to encapsulate the free-market principles underlying the recent student loan compromise. After all, if the rates at which students can borrow float freely, just like interest rates for anything, else it seems logical that students should be able to refinance freely as well. But the problem is that this costs money and raising revenue is not exactly in fashion in Washington right now. In the mean time, the federal government is projected to make $185 billion in profits over the next ten years from student loans.