Obama to Announce Executive Order Extending Student Loan Cap, Other "Action"

By Ed Krayewski

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President Barack Obama will announce an executive order that will extend a cap on student loan payments this afternoon, according to *The New York Times*, which quotes an unnamed White House official. The president is scheduled to speak and sign a "Presidential Memorandum" on student debt at 1:45 p.m. today. You can watch it here then.

The order will extend the cap on student loan payments to students who began borrowing before 2007 or stopped borrowing before 2011. The cap is 10 percent of the borrower's monthly income, and was instituted in the Health Care and Education Reconciliation Act of 2010. The extension is supposed to go into effect at the end of next year; student borrowers already have the option to set their payments to lenders based on income.

Obama promised "action" this week on rising student debt in his weekly address, where he also pushed for passage of legislation that would have the federal government pay for the refinancing of student loans. The president framed it as a choice between protecting "young people from crushing debt" or "tax breaks for millionaires."

Yet the president's plan is going to create more debt, not less. Via *Politico*:

The economic reasoning behind the maneuver is questionable, however, [director of the New America Foundation's Federal Education Budget Project Jason] Delisle said. The president is making the case that "we need to help [student loan debtors] with debt so they can go into even more debt," such as taking out a mortgage to buy a home. But student loans already helped these borrowers consume beyond their means, he said.

And it's nothing new. Last summer President Obama proposed a "scorecard" for colleges that would also be tied to loan forgiveness. As *Reason*'s Shikha Dalmia explained:

One of the most under-reported aspects of administration's scorecard is its loan forgiveness provision. Currently, "new borrowers" who obtained their first federal student loan after 2007 are eligible to signup for something called the "Pay As You Earn" program. This program caps their loan repayment at 10 percent of their income for 20 years after which the remainder is written off. (For professions such as nursing it takes only 10 years to get the write off.) In other words, students take loans according to their needs, and repay them according to their ability and hit taxpayers for the rest. The president wants to expand this socialist prescription to all students who receive federal loans.

The federal government played a key role in helping create the more than $1 trillion in student loan debt currently being carried in the U.S. In 2012 the Cato Institute's Neal McCluskey highlighted a report from the House Committee on Education and the Workforce, "The College Cost Crisis," which managed to identify that nearly 50 years of federal subsidies for higher education (beginning with the Higher Education Act of 1965) have helped along tuition inflation. As McCluskey explained:

On the supply side, this federal aid makes universities less sensitive about their own costs. "[I]ncreases in financial aid in recent years have enabled colleges and universities blithely to raise tuitions, confident that Federal loan subsidies would help cushion the increase," then-Secretary of Education William J. Bennett said in 1987. The "Bennett hypothesis" — the theory that as long as the government ensures the bills will get paid, colleges will raise tuition — makes sense, especially in light of Washington's guarantee of an affordable college education for all who want one. It's a reality corroborated by Murray State University President Dr. F. King Alexander, who in a recent hearing centered around *Crisis,* told the House Subcommittee on 21st Century Competitiveness that some schools do, in fact, raise tuition because government will cover it.

Or as Steven Greenhut explained it for *Reason*:

Lax student loans make it easier for colleges to spend money poorly. If the federal government provides a loan to virtually anyone who applies for one, then university administrations can spend foolishly. There's so much money, why not hike salaries and pensions for professors? Why not offer programs and majors that are of questionable intellectual or economic merit?

I know people with six-figure loan debt, multiple degrees and few job prospects. There were few lending standards – hey, it's only government money – so they racked up loan after loan. Others use loans to gain useful degrees with lucrative job potential, but these graduates come out of school with a crushing load of debt that will take decades to repay.

And as Professor Glenn "Instapundit" Reynolds writes in his latest book, *New School*, the kids may be on to the college hustle.