THE HILL

Obama, Dems all in on student loans

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The White House and Senate Democrats are seeking to make relief for student loan borrowers a pivotal issue in the 2014 elections.

President Obama on Monday signed an executive order to allow 5 million more borrowers to qualify under a student loan repayment program that caps student loan payments to 10 percent of a person's discretionary income.

Separately, the Senate is set to vote on Democratic legislation that would allow student loan borrowers to refinance their existing loans at a lower rate.

The twin efforts come amid signs that crushing student loan debt is holding back the economy and preventing people from entering the middle class and buying first homes.

The White House and Democrats see student loan relief as a populist issue, and would pay the $51 billion cost of the Senate bill over the next decade with higher taxes on millionaires — a poison pill for Republicans who have long opposed tax hikes.

"I want Americans to pay attention to see where their lawmakers' priorities lie. Lower tax bills for millionaires or lower student loan bills for the middle class?" Obama said on Monday.

"Take a look and see who is it that's fighting for you and your kids, and who is it that's not."

Republicans argue the inclusion of the tax provision shows Democrats are playing politics and aren't serious about moving legislation.

Sen. Lamar Alexander (R-Tenn.) called the Senate bill a "political stunt."

Some Republicans also have argued that government efforts to provide relief to students seeking a college education have actually contributed to the higher college costs. They argue that the more money the government makes available in aid and relief, the more colleges can get away with charging.

Tuition is definitely on the rise — a May study from the Brookings Institution study found that average college costs were up 16 percent from 2002 to 2012, although it says it is unclear what role public support played in that increase.

The expansion of the student loan relief program would make it available to borrowers with older loans — those who got loans before October 2007 or stopped borrowing by October 2011.

It directs the Education Department to write rules implementing it, making it available by the end of 2015. Under the plan, borrowers in public service who make regular payments would see all outstanding debt forgiven after 10 years, while those in the private sector would see unpaid debt forgiven after 20 years.

The White House is working with major tax preparers H&R Block and Intuit to publicize the relief come tax time, and plans to push private companies that service those loans to work to accommodate borrowers.

Total student loan debt has climbed above $1 trillion and is now the second-largest type of consumer debt in the U.S., behind mortgages, with volume tripling from 2004 to 2012. Seventy-one percent of college seniors are now carrying some amount of student loan debt, and the average debt load is $29,400, according to the Institute for College Access and Success. As debt has risen, so too has the default rate on those loans — one of the only kinds that cannot be escaped via bankruptcy.

And there are indications that the growing pile of student loan debt may be holding borrowers back from contributing to the broader economy. May research from the New York Federal Reserve found that in the last few years, young Americans with no student loan debt were actually more likely to buy a house than Americans with student loans, flipping an earlier trend where those with student loans — who presumably enjoyed greater earnings thanks to their degrees — were more likely to take on a mortgage.

Some of that shift could be because poorer students are now going to college, but it could also be a sign that some are holding off on taking out a mortgage because they are still paying off college debt.

The Brookings study also found that a 30-year-old with student loan debt has a credit score that is, on average, 24 points lower than a non-borrowing peer, making it even harder to secure a home or auto loan.

Critics of significant government assistance for higher education acknowledge it is hard to isolate the exact impact of public help, but say it is logical that pumping more money into the system will raise prices.

“There’s really no question that one of the things that aid does is enable colleges to raise prices at rates far in excess of almost anything else,” said Neal McCluskey, education analyst at the libertarian Cato Institute.

Others contend that research shows only a portion of government aid leads to higher tuition, with the rest benefiting students.

“There’s a hint of truth in that argument, but in general, things like Pell Grants and tax credits help students pay for college and keep costs down,” said Ben Harris, a Brookings fellow. “I have not seen any evidence that would suggest otherwise.”