



## The surprising winners of Obama's student-loan program

By Susan Ferrechio

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Students who took out big loans for graduate school and those with higher incomes stand the most to gain financially under President Obama's expansion of the federal government's loan forgiveness program.

Lawyers, doctors and other highly trained professionals who utilized federal loans throughout their post-high school education could walk away with most or all of their graduate school debt forgiven by the federal government under the program, say experts.

“You can roll it all into one balance and it has a really powerful effect,” said Jason Delisle, director of the Federal Education Budget Project for the New America Foundation, a nonpartisan think tank. “The chances that you will fully repay your grad school debt are very slim.”

Obama on Monday signed an executive order that expands to as many as 5 million people a program allowing federal student loan holders to cap monthly payments at 10 percent of adjusted gross income. The program also includes debt forgiveness after 10 years for those who work for 501(c)(3) non-profits or in the public sector. For those in the private sector, they can stop paying off their loans after 20 years.

The program already exists for those who took out federal student loans after Sept. 30, 2007. The expansion will offer it to all federal borrowers.

At the White House on Monday, Obama outlined the plan in remarks geared toward loan holders with debt from four-year colleges, who he noted on average have nearly \$30,000 in loans to repay when they graduate.

Obama said he had less sympathy for those, who like himself, took out big loans to pay for law school.

“That made sense because the idea was if you got a professional degree like a law degree, you would probably be able to pay it off,” Obama said. “And so I didn’t feel sorry for myself or any lawyers who took on law school debt.”

But Delisle argues that Obama has essentially encouraged law school loans, and even an extra year of study for law students seeking specialty degrees, who know if they take a public-sector job, they'll never have to pay back the fourth year or perhaps any of their law degree funding.

A lawyer with \$150,000 in combined undergraduate and law school loans at a 6 percent interest rate, for example, could walk away from the law school debt by going to work in the public sector with a starting salary of \$70,000.

Even with a 4 percent raise each year, the public defender or prosecutor who makes on-time payments and utilizes the monthly loan payment cap and 10 year forgiveness program will escape having to pay \$187,000.

The rest would be picked up by the government.

For undergraduates, the forgiveness factor is much smaller. That's because the average undergraduate student loan of \$29,000 is more likely to be all or nearly paid off in a 10 or 20 year time span, say experts.

Under the law, undergraduate borrowing is mostly limited to \$30,000. There is no limit on graduate school borrowing, which is \$58,000 on average.

"So this is an interesting wrinkle," said Neal McCluskey, associate director of the Center for Educational Freedom at the Cato Institute, a libertarian think tank.

"This executive order is probably going to make very little difference for undergraduate students," McCluskey said. "For the average person with regular undergraduate debt, they will have paid off most of that in ten years or 20 years. Where it really becomes powerful is for graduate student debt."

The program aims to do more than just forgive debt. It will allow graduates who pay on time to make payments based on their salary. It's a move that proponents say will help young people escape crippling monthly loan dues that prevent them from living independently, buying homes or otherwise investing in their own future.

The program also aims to help attract talent to public sector jobs, which tend to pay less than work for private companies.

"I think it makes a lot of sense to use it as a way to participate in high-demand fields that just don't pay well, like public school teaching," University of Wisconsin-Madison professor Nick Hillman, an education policy expert, said.

But Hillman said the program Obama expanded on Monday has so far been poorly executed, is hard for loan holders to access and has never been analyzed by the government to see if it is actually working.

"It's like apple pie," Hillman said. "Who couldn't like that idea? But you start to dig for that evidence that it's working and it's really kind of flimsy."

DeLisle points out that the federal government already offers a similar program to all borrowers, capping the monthly payments at 15 percent of salary and including the loan forgiveness timetable. The new program merely lowers the cap by another five percent.

The difference is likely to be small for many borrowers, but will be much more generous for those who earn bigger salaries, he said.

For someone earning \$27,000 in adjustable gross income, for example, the average loan payment will drop from \$128 per month to \$85 per month. But for someone earning \$80,000 per year, payments will plummet over \$200 per month, from \$619 to \$412.

“The people who will see the biggest reductions are people earning higher incomes,” Delisle said. “That is the effect of this change. You put that together with the loan forgiveness, and this is tailor-made for graduate students.”