Senator Jeff Sessions
Questions for the Record
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1. In your testimony, you argued that the best solution to ever-increasing costs of tuition and the inflation of the student loan bubble may be for the government to get out of the student financial aid business altogether. But if private loans were made dischargeable in bankruptcy, the result could be that the government is the sole provider of student financial aid. What do you think will be the effect on the student loan bubble if the government becomes the sole provider of financial aid?

Were the federal government to become the sole loan provider it would have little effect on the expanding loan bubble because the federal government is already very close to that monopoly position. As I noted in my written testimony, in the 2010-11 school year only $6 billion was originated in private loans, versus $104 billion in federal loans. Add federal grants, tax benefits, and work study, and federal aid leaps to $169 billion, dwarfing private lending.

By far the biggest threat to what remains of private student lending is not changing bankruptcy law, but the willingness of the federal government to spend seemingly without limit on student aid. Recent history bears this out: Private lending reached a peak in 2007-08, hitting $22,080 according to the College Board, and then dropped precipitously. Why? In part it was likely a result of the economic downturn tightening credit markets, but much more important was a huge increase in federal aid. As a result of several aid-increasing laws passed during or after 2007 (as well, notably, as increasing enrollment) federal loans rose from $72 billion in 2007-08 to $104 billion in 2010-11, a 44 percent jump. Federal grants, largely due to student-aid legislation attached to the sweeping 2010 health care act, more than doubled, from $22 billion to $49 billion. Basically, Washington crowded out private lenders.

By far the biggest threat to make Washington the monopoly student lender isn't changing bankruptcy law, but the federal government's willingness to endlessly expand student aid. And it is not clear that making private loans dischargeable in bankruptcy would itself push private lenders out. While the risk incurred in lending would rise, entering into bankruptcy is not something one can easily do, rendering unclear how many borrowers would pursue that option. Perhaps as important, if potential borrowers were to *believe* that they could easily escape private loans in bankruptcy – even if that were not the case – they might be more inclined to pursue private loans than federal loans, which are not dischargeable. That could *increase* private lending, though likely not much relative to total federal aid.

There is a very real and present danger that the federal government will become the sole provider of student financial aid, and will continue to fuel rampant college price inflation with continued, ballooning aid. But that danger does not stem from proposals to change private loan bankruptcy laws. It comes from a federal government that seems utterly unwilling to face the inflationary reality of aid, and instead insists on shoveling evermore taxpayer money to evermore people in the name of college affordability.