

REVIEW & OUTLOOK

Obama's Student-Loan Fiasco

President Trump has promised to restore trust and accountability in government. How about auditing the Education Department? During its final days the Obama Administration slipped the news that its College Scorecard repayment rates were inflated, and on closer inspection the mistake doesn't look innocent or innocuous.

In early January the department disclosed that it had discovered a "coding error" that incorrectly computed College Scorecard repayment rates—that is, the percentage of borrowers who haven't defaulted and have repaid at least one dollar of their loan principal. The department says the error "led to the undercounting of some borrowers who had not reduced their loan balances by at least one dollar."

The department played down the mistake, but the new average three-year repayment rate has declined by 20 percentage points to 46%. This is huge. It means that fewer than half of undergraduate borrowers at the average college are paying down their debt.

The rest have either defaulted, sought forbearance or enrolled in income-based repayment plans, which are causing many borrowers who are only making minimum payments to owe *more* debt due to accrued interest. These income-based repayment plans allow borrowers to reduce their loan payments to 10% of their discretionary income and discharge their remaining debt after 20 years (10 if they work for government or a nonprofit).

Last month the Government Accountability Office (GAO) projected that loan forgiveness for borrowers enrolled in the plans could cost upward of \$108 billion. GAO rapped the department for underestimating the costs due to "insufficient quality controls" and "unreasonable assumptions." It's possible the putative "coding error" is connected to this ill-management.

The other scandal is that the Obama Administration used the inflated Scorecard repayment data as a pretext to single out for-profit colleges for punitive regulation. The punishment was tucked into a rule finalized in October allowing borrowers who claim their college

defrauded them to discharge their debt. It requires for-profits in which 50% or fewer borrowers are paying down their principal to post the equivalent of a surgeon general's warning in all promotional materials.

A 'coding error' helped justify a punitive new education regulation.

When proposing the regulation, the department claimed that its analysis of Scorecard data showed that a

large number of for-profits have repayment rates below 50% while very few public or nonprofit schools do. The department said it would not be fair to "burden" public and nonprofit colleges with a regulation that would apply to so few. Yet based on the updated data, 60% of two-year public colleges and nearly all historically black institutions have repayment rates below 50%.

Marc Jerome, president of for-profit Monroe College in the Bronx, discovered the Scorecard rate inflation last August. In several emails to Education officials, he urged the department to hold off on finalizing the regulation. If the regulation were applied evenly, a large number of nonprofit and public institutions would fail to meet the standard. But then the justification for the department's selective regulation of for-profits would vanish.

The department finalized the regulation in October anyway, perhaps anticipating a Hillary Clinton victory that would allow the repayment inflation game to keep going. Yet now it's taking credit for discovering and fixing the Scorecard error that likely would have been uncovered by the new Trump Administration.

This combination of cynicism and incompetence is what made the Obama Administration's regulatory machine so destructive. One of the biggest messes it leaves behind is the government takeover of student loans that is likely to saddle taxpayers with hundreds of billions in losses. The Trump Administration now has to begin the cleanup job.

Congress ought to use the Congressional Review Act to overturn the latest rule, while new Secretary Betsy DeVos will have to recruit a top-flight finance executive to do a top-to-bottom review of student-loan records for other goofs or deceptions. Then lay out the real facts to the American public as soon as possible.