The great student loan scam by the editorial board of the Wall Street Journal

Some economists are predicting a recession in the next year, but the New York Federal Reserve quarterly household debt survey last week showed few portents. What it did show is that more Americans are defaulting on their student loans and that government budget gnomes have vastly underestimated the future taxpayer charge. Defaults have fallen for most forms of Consumer Debt as the economic expansion continues. Mortgage delinquencies last quarter hit a historic low. But severely delinquent student loans have soared since 2012 and are now 35% of severe derogatories, more than credit cards 23%, auto loans 21%, and mortgages 11%. About 10% of the 1.5 trillion-dollar federal student loan portfolio is 30 days or more past due. Another 20% is in deferment or forbearance and about thirty percent is in income-based repayment plans that allow most borrowers to cap monthly payments at 10% of discretionary income and discharge the remaining balance after 20 years or 10 for folks in public service.

Congress created these Nifty plans in 2012 for new borrowers. But then the Obama Administration expanded them retroactively to reduce the defaults, buy off Millennial voters, and disguise the cost of its student loan take over. This may be the biggest accounting fraud in history.

Democrats in the 1990s created a public student loan option to compete with subsidized private lenders. Then in 2010, they nationalized the market to help pay for ObamaCare. The Congressional budget office at the time forecast that eliminating private lender would save taxpayers 58 billion dollars over 10 years. This estimate was pure fantasy and now we're seeing how much. The government student loan portfolio has since doubled while severely delinquent loans have spiked despite a good economy. Many borrowers in income-based repayment plans aren't repaying principal. So, their balances are growing as they accrue more interest.

By 2012 a majority of new borrowers had bigger balances after 2 years of making payments. Yet during the Obama years CBO scored student loans as a government profit Center by under estimating the growth of income-based repayment plans. CBO has slowly scaled back its 10-year revenue projections for student loans to a 31.4 billion-dollar government cost in this year's forecast from a 219 billion-dollar 10-year revenue gain in 2012. Using fair market accounting that prevails in the private economy CBO now projects a 306.7 billion-dollar cost to taxpayers over the next 10 years. The red ink will be far worse beyond that 10-year budget window. Another non surprise: The government is spending more to administer student loans than the Obama crowd forecast. In 2010 The government spent eight hundred million dollars on administrative costs, which CBO projected would increase to 1.2 billion dollars in 2019.

The government overhead tab this year was 2.9 billion dollars. Income-based repayment plans have also encouraged schools to raise prices and enroll students who probably won't earn enough to pay off their loans. Someone with a master's degree in dance from New York University shoulders on average $96,000 in debt, according to government data. Imagine if the government created income-based repayment plans for mortgages.

Capping student loan monthly payments has also enabled more borrowing since most lenders review a customer's total monthly debt payments when underwriting loans. Americans who borrow more than they can repay typically default first on student loans. Cars and homes can be repossessed if borrowers don't make payments. Past-due credit card bills incur late fees and hefty interest payments. Borrowers who default on student loans on the other hand are encouraged by loan servicers to enroll in income-based repayment plans. As long as borrowers are making de minimis monthly payments on student loans, their credit scores won't be hurt.

The upshot is that student loan borrowers collectively are paying down a mere 1% of their balance each year according to a recent Bloomberg News analysis. At this rate the US treasuries existing student loan portfolio wouldn't be repaid for 100 years. But many loans will be written off long before then due to the Obama repayment plans. "We are running a big experiment here. No generation before has carried student debt burdens anything like what today's students are carrying" former Obama higher education advisor, James. Kvaal told Bloomberg. There will be substantial amounts of student debt that will never be repaid now. He tells us but he should have done. So, in 2010, all of this is worth keeping in mind as Democrats promise to save taxpayers billions by taking over other private Industries and expanding the Cradle to grave entitlement state.