

## Chased Away From Student Loans

On April 16, JP Morgan/Chase Manhattan, the bank that recently worked with the Fed to acquire the former Bear Stearns investment bank, announced that they will not be making student loans to entering or continuing students enrolled at schools that have a poor repayment rate. Yet their spokesperson refused to mention the schools that would be affected by the announcement.

When I checked out comments on the Chronicle of Higher Education online, commentators speculated that the affected schools would be community colleges and for-profit colleges. They gave no reasons for their speculation, though I can offer one of my own: low graduation rates, meaning, that if students did not finish their education they were less likely to repay their student loans. I guess that government guarantees were not enough for Chase to continue lending to students at these schools. No surprise, they weren't good enough for Citibank 30 years ago during the Chrysler bailout.

I would understand the rationale of Chase's decision better if I knew which schools were on their list. Without seeing the list, I have to wonder if they have something to hide, such as a lending methodology. The last thing prospective borrowers need to hear is that a money center bank is "redlining" by providing more favorable loan terms to students who attend some schools over others. The very next things prospective borrowers should do, if their college-bound student is sincerely interested in a "redlined" school, is to look at other schools or cease doing any business with that bank.

Lending officers have no qualifications to make academic judgments about loan applicants or the academic qualities of a school. If university administrators fear the growing importance of media rankings, I can only imagine their fears if lenders determine the schools that will be their "haves" and "have nots."

Secretary of Education Margaret Spellings has assured schools and borrowers that there are still plenty of lenders who will make student loans as well as the capacity to expand direct lending, where the government acts as lender of last resort. But she should be concerned that Chase's decision will have a ripple effect on other lenders. Even with no comments from Chase, word will get out on the Internet from prospective borrowers and that word will spread to other financial institutions as well. It's difficult to say if other lenders will fill the void to offer loans, offer tougher terms or refuse to take the same risk with Chase's targeted schools.

If nothing else, Chase's decision has spurred a need for a new form of government intervention in the student loan markets: to publish an annual listing of "deadbeat" schools. There would be only one criterion for this list: a below-average repayment rate for government-supported student loans.

The federal government would make no judgment on the academic quality of the schools, nor their graduation and retention rates. This list would be made available to educators, parents, students and lenders so that each may make their own decisions. It's true that the government would be taking the lenders off the hook; the banks would not need to disclose lending practices to the public if the government becomes the published resource.

However, government would be doing all parties: educators, lenders and borrowers an important service. And the federal government has every right to use such a list as a means to collect their money.

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## About the Author

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