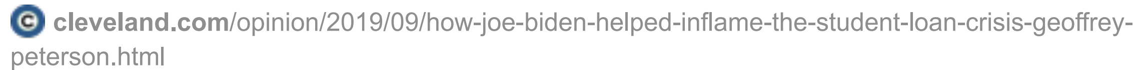
# How Joe Biden helped inflame the student loan crisis: Geoffrey Peterson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SHAKER HEIGHTS, Ohio -- “Get in, get out, and get on with your life. Navient, here for you.” This is the optimistic, yet odd, on-hold message which student-loan-servicing giant Navient greets you with while waiting for a representative. I am one of its more than 12 million customers and owe over $102,000. Navient Corp. is based in the bank-friendly state of Delaware, along with about 50 percent of the U.S. credit card market.

Student loan debt has ballooned to its current conservative estimate of $1.62 trillion. However, the actual figure may be closer to $1.65 trillion. This amount includes both federal and private loans, along with accrued interest on the debt (a minor discrepancy of roughly $30 billion.)

The student loan debt crisis has been widely reported on by the media. However, there are some significant aspects that have received little attention.

The roots of the crisis originated from changes made to the U.S. Bankruptcy Code in 1978, and resulted nearly three decades later with the Bankruptcy Abuse Prevention and Consumer Protection Act of 2005. The extensive overhaul of the bankruptcy code makes it nearly impossible to discharge student loan debt unless the borrower can prove that it would cause “undue hardship,” a legal designation rarely upheld by the courts in the majority of cases, and typically only granted to individuals who are permanently disabled.

Though the law was a huge triumph for Wall Street, it was disastrous for consumers, making it extremely difficult to file for bankruptcy.

Among Democrats, then-Sen. Barack Obama voted against it, along with the late Sen. Edward Kennedy, who declared that the bill “sacrifices the hopes and dreams of average Americans to the rampant greed of the credit card industry” and “turns the United States Senate into a collection agency for the credit card companies, reaching the long arm of the law into the pocketbooks of average Americans who have reached the end of their economic rope.”

Notably, current senator and Democratic presidential candidate Elizabeth Warren, at the time a respected law professor specializing in bankruptcy law at Harvard Law School, was so outraged by the law’s passage that she ultimately decided to leave her tenured position to run for political office.

One of the 2005 bankruptcy bill’s most ardent Democratic supporters was Joe Biden, then a Delaware senator, now a presidential candidate.

In Elizabeth Warren’s words, from a 2002 Harvard Women’s Law Journal article, “Without his sponsorship, it is widely believed a hard-to-explain bill that favors big banks over families in terrible financial trouble would be dead.”

Former Sen. Russ Feingold referred to the bankruptcy bill in 2001 as “a poster child for the need for campaign finance reform.”

As mentioned before, Delaware is a haven for the financial industry. Major credit card companies such as Chase, Citigroup, Discover and MBNA (acquired by Bank of America in 2006) have or previously had headquarters there. Biden’s close association with MBNA was well-known by Washington insiders at the time. In fact, so chummy was his relationship with the Wilmington-based company that some called him the “Senator from MBNA” because it had been one of his biggest campaign contributors since 1989.

Throughout his political career, Biden has consistently been a lapdog for the financial industry. The evidence of his allegiance to Wall Street over the American people is overwhelming.

The 2005 bankruptcy bill Biden supported proposed a major change, to make student loans nondischargeable in bankruptcy. The stated intention was to protect banks from potential fraud by debtors who might abuse bankruptcy to not pay back their loans. Additionally, it was argued by some proponents of the bill that giving further protection to banks would enable them to offer private student loans at lower interest rates. However, as stated in a 2015 report by the

U.S. Department of Education recommending that private loans be dischargeable in bankruptcy, "There has been no evidence that the 2005 changes to bankruptcy caused interest rates on student loans to decline or access to credit to increase significantly."

One of the more troubling consequences of the 2005 bankruptcy law was the securitization of student loans into student loan asset-backed securities. Known as SLABS, they are strikingly similar to the subprime mortgages that triggered the 2008 financial crisis. Taylor Mann, founder of the Texas-based financial management firm Pine Capital, and an expert on SLABS, discovered fundamental risks in Navient's business model of repackaging student loans like mortgage-backed securities and selling them. Like investor Michael Burry shorting subprime mortgages, depicted in the film "The Big Short," Mann successfully shorted Navient's stock.

When I consolidated my loans in September 2004, it was slightly above $76,000. In 15 years, capitalized interest has increased that by more than $26,000 or 35 percent. Sadly, my situation is typical, but I consider myself fortunate. I was very privileged to receive an excellent education at some of the best colleges in the country. I have not defaulted (yet) on my loans, had my credit score destroyed, had my tax refunds withheld and applied to my debt, had my wages or a portion of my Social Security benefit garnished, or sued, charged court costs, and collection and legal fees.

All things considered, I am in relatively good shape, right?

*Geoffrey Peterson is a composer and musician and lives in Shaker Heights.*