Wall Street: The Real University President

The Student Labor Action Project (SLAP) believes that higher education is a public good for all, yet Wall Street continues to eye higher education investments as a new way to increase its bottom line. By charging interest on student loans and promoting for-profit colleges, Wall Street has reaped billions in profit while borrowers struggle, students are set up for failure, and taxpayers and working families foot the bill. Corporate executives have become increasingly present on university governing boards, allowing trustees to profit from these shifts while accelerating the privatization of college campuses. Below are some shocking ways that Wall Street has corporatized higher education across the country.

1. **Wall Street rakes in $45 billion on average per year through higher education spending.**[i] The three core components Wall Street uses to create profits off higher education are student loans, for-profit colleges and the institutional debt of colleges and universities. In 2012, Wall Street made $34 billion on interest charged on student loans, more than $500 million from for-profit colleges, and $10.5 billion in interest paid by colleges on their institutions' debt. As recently as 2011, one in every 10 dollars spent on higher education was absorbed by Wall Street through these and other profit-driven schemes.

2. **Working families paid $34 billion in interest on student loans in 2012.**[ii] As Pell Grants and other need-based financial aid programs shrink to their smallest size since their formation, state spending per student has also reached an all-time low, forcing students to take out student loans to finance their education. Throughout the 2000s, interest rates for private loans increased rapidly, reaching 13 percent in 2006, despite much lower interest rates for the banks borrowing from the federal government.[iii] Following the 2013 federal student loan interest rate compromise, interest rates are now fixed to the 10-year Treasury note,[iv] meaning that the amount paid on interest will increase over time as interest rates rise.

3. **In 2013, the Wall Street-traded student loan giant Sallie Mae generated more than $1 billion in profits.**[v] While under investigation by three federal government entities[vi] and facing probes from multiple state attorneys general,[vii] Sallie Mae continued to be the most profitable private student lender, whose shareholders include large Wall Street hedge funds and private equity firms. In May 2014, Sallie Mae was fined $97 million by the Department of Justice and the FDIC for overcharging active-duty servicemembers and engaging in discriminatory lending practices.[viii] Despite these findings and mounting pressure from all sides, the company continues to profit from taxpayer dollars through its lucrative debt servicing contract with the Department of Education and its management of state 529 savings plans.[ix]

4. **The Department of Education paid private debt collectors $1 billion in 2013 while tens of thousands of borrowers were incorrectly left in default status by those collectors.**[x] The Department of Education actually grants a larger commission to collection agencies that "perform" best, meaning they effectively squeeze the most money out of struggling borrowers.[xi] Although many of the debt-collecting agencies are privately held companies, several are owned by publicly traded corporations. For example, Pioneer Credit Recovery Inc. is owned by Sallie Mae[xii], and NCO Debt Recovery is owned by the private investment arm of JP Morgan Chase.[xiii] In 2013, the Department of Education paid Pioneer Credit Recovery over $144 million – on top of the $104.5 million it paid Sallie Mae to service federal student loans.[xiv]

5. **Eighty-six percent of the revenue that funds publicly traded for-profit schools comes from federal student aid programs.**[xv] The Senate Committee on Health, Education, Labor and Pensions conducted a federal investigation between 2008 and 2010 that found that **federal taxpayers invested $32 billion in for-profit colleges**.[xvi] Although for-profit colleges only enroll 10 to 13 percent of all students attending college in the United States, they receive 25 percent of all federal financial aid dollars.[xvii] In fact, Pell Grants to for-profit college students increased by 581 percent from 2002 to 2012.[xviii] So while the $32 billion only reflects funding

from the Pell Grant, taxpayers also fund for-profit universities through the G.I. Bill, as well as other federal and state grants and loans because military tuition assistance through the G.I. Bill is not counted as "federal student aid." Twenty for-profit colleges received over $500 million in veterans' benefits from the Department of Defense in 2010, accounting for one-third of the benefits from the G.I. Bill.[xix]

6. **In 2011, 75 percent of students at for-profit colleges were enrolled at institutions owned by publicly traded companies or private equity firms.**[xx] Recently, for-profit colleges have been bankrolled by Wall Street to better capitalize on higher education funding. The priorities of these institutions are clear when reviewing their spending habits: 17.2 percent of revenue went to instruction while they claimed 19.4 percent for profits.[xxi] And big banks have taken over individual for-profit higher education institutions. In 2006, the Education Management Corporation (EDMC) was taken over by Goldman Sachs, which shifted priorities – and resources – from instruction to marketing and recruitment. Enrolling over 150,000 students, EDMC alone received $486 million in Pell Grant funding and made $501 million in profits in 2011.[xxii]

7. **Credit card companies paid colleges and universities $270 million from 2009 to 2012.**[xxiii] Universities and colleges have signed contracts with financial institutions to issue and promote specific bank credit cards, regardless of the other, better financial options available for students on campus. These contracts grant banks access to over one million students every year, leading them to take on even more debt.

8. **More than 850 colleges and universities are paid by banks to promote debit cards, prepaid cards and other banking products to students on campus while details of these agreements are not disclosed.**[xxiv] According to a report by the Government Accountability Office, 852 colleges and universities – which account for 40 percent of country's college enrollment – have financial agreements to provide debit or prepaid card services to their students, the details of which are often not made public to students. As Consumer Financial Protection Bureau Director Richard Cordray stated, "Students and their families should know if their school, whether well-intentioned or not, is being compensated to encourage students to use a specific account or card product. When financial institutions secretly give kickbacks to schools, they are engaging in risky practices."[xxv]

9. **One in four private colleges had board of trustee members with a financial conflict of interest in 2010.**[xxvi] *The Chronicle of Higher Education* found that one in four trustees at private colleges and universities had a business relationship with the higher education institution on whose board they served. These connections vary in scale from multimillion-dollar contracts to a few thousand dollars' worth of business, involving insurance agencies, banks, law firms and construction companies. Aside from mandatory tax documents, the details of these relationships are rarely disclosed. The number of institutions that allow business relationships with trustees has risen from 46 percent in 2008 to 58 percent in 2010.[xxvii]

10. **The billionaire Koch brothers have invested millions to effectively "buy off" university economics departments to promote the Wall Street agenda.**[xxviii] In return for the Charles G. Koch Charitable Foundation's pledge of $1.5 million to the Florida State University economics department, foundation staff and representatives were given the power to approve any department hires for a new program promoting "political economy and free enterprise."[xxix] Similar agreements have been negotiated at George Mason University, West Virginia University and Clemson University. Banks have also found a way to influence curriculum: a grant from BB&T funds a course on ethics and economics at Florida State University in which Ayn Rand's *Atlas Shrugged* is required reading.[xxx]

The data above paints a troubling picture about the priorities of higher education in the United States. Students cannot afford to leave decision-making power in the hands of the reckless 1%, who continue to target higher education as their next business conquest. The crisis is real: we must stop Wall Street from raking in billions of dollars on the backs of students.

Citations

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