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The Solari Report

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The Student Loan Scam

with Alan Michael Collinge



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C. AUSTIN FITTS: Ladies and Gentlemen, it's my privilege to welcome to The Solari Report someone we've written and talked about before, Alan Collinge, who is the founder of StudentLoanJustice.org. He is the author of *The Student Loan Scam*, which is the book I recommend to anybody who wants to understand the student loan industry in America.

He's very widely published, and at this point he's moved to Washington, DC to do something about it. I'm going to let him explain how he became one of the leading voices bringing transparency and trying to do something literally about the student loan scam in this country. I don't normally use the word 'scam' very often, but in this case I think it more than aptly applies.

Alan, it's really a privilege and a pleasure to have you on The Solari Report. Welcome.

ALAN MICHAEL COLLINGE: Thank you. It's great to be with you, Catherine.

C. AUSTIN FITTS: So tell us how you came to author the book *The Student Loan Scam*. What's the history?

ALAN MICHAEL COLLINGE: It actually started out as a purely personal issue with my own student loans. I attended the University of Southern California. I received three degrees in Aerospace Engineering from there, and I borrowed about \$38,000 in federally guaranteed student loans through the effort.

A couple of years after graduation, I was a scientist at Cal Tech. I left that job about two weeks before September 11th. Unfortunately the economy sort-of went sideways for six months or a year, or even more some might argue, after that point. I found myself unemployed, or



under-employed.

My lender, which happened to be a company called Sallie Mae, instead of working with me to keep my loans in good stead – that is to grant me a forbearance or a deferment – Sallie Mae instead defaulted me in my loan. What began as \$38,000 in debt had quickly ballooned to \$80,000 within about a year and a half or so of the loan being thrown into default.

By 2005 I was being hounded for over \$100,000. I attempted in very good faith and with all due diligence to maintain my loans in good stead and to work with the company, but I found that it just wasn't happening. I was just shocked that there was absolutely no negotiating power on my side, and I was being demanded these just incredible sums of money.

I began to do some research on Sallie Mae and the student loan system in general, and what I found literally made my jaw drop. After about two weeks of intense research, I decided to call a reporter, Bethany McLean at *Fortune Magazine*. Bethany is the reporter who broke the Enron story back in the day, and she had written a story about Fannie Mae.

I dropped her a note saying, "If you think Fannie Mae is bad, you should see Sallie Mae."

Over the next year or so, I gave her everything I had in terms of research. What I found was just astonishing. It was clearly a money grab going on at Sallie Mae with complete indifference – if not worse – for public interest that they were supposed to be engaged in. I found extreme profiteering, and in fact if you look at the stock value of Sallie Mae after the dot-com bust, say around 1997 and 1998, it goes up tremendously.

I scratched the tip of the iceberg, which I know now and which is commonly accepted. It is a structurally predatory lending instrument.

C. AUSTIN FITTS: We're going to get to it in a few minutes, but let me interrupt and say a few things as a disclosure matter. One of the things



that is going to make this conversation interesting is I used to be on the board of Sallie Mae, so I had a lot of personal dealings with some of the players involved. That's number one.

Number two, really in two phases that we'll talk about after we go into the student loan industry, 1994 – 1998 and then in 2005 an effort was made by the administration, Congress, and Sallie Mae to specifically engineer and reengineer the laws and regulations around student loans so that Sallie Mae could make more money from people defaulting than from them succeeding.

ALAN MICHAEL COLLINGE: That's exactly right.

C. AUSTIN FITTS: Right. You literally engineered a predatory system using the federal credit and federal authorities. We'll go into that later, but let's step back and say that one of the beauties of your book is your book is very well written. It's very simple and it's not long, but it goes into all the nuts and bolts of how this was engineered, and the different legal and regulatory issues.

“You literally engineered a predatory system using the federal credit and federal authorities.”

It was the first time I found a student loan book that basically told me, “Okay, here's how they did it.” Let's follow the bad guys around – the gophers in Washington – and figure out how they built these little tunnels.

If you look at your degrees, getting into Cal Tech, let alone getting three engineering degrees, that is no small feat.

ALAN MICHAEL COLLINGE: Science is my background and my trade and my rational thought, and following the most compelling source of data is what I do.

C. AUSTIN FITTS: Right. What we needed was an aerospace engineer to figure this out because it's very complicated.



ALAN MICHAEL COLLINGE: You know, I agree. It's a byzantine system, and I think that's by design. It baffles the casual observer, but once you start really looking at things it becomes quite simple. I mean really, this was nothing more than a political action through Congress to remove all the standard consumer protections that exist for every other type of loan.

Student loans, beginning in the 1970's and fait accompli in 1998 or 2005, every consumer protection – bankruptcy protections, statutes of limitations – have been removed from federal student loans. Truth in lending has been vastly altered in favor of the lenders for student loans. Fair debt collection practices, and even state usury laws have been taken out of the game for – and only for – student loans.

It's in that environment that it became literally far more profitable for the lenders, the guarantors, for the collection companies, and even the Federal Government when loans defaulted rather than remain in good stead. That is a defining characteristic of a predatory lending system.

C. AUSTIN FITTS: But this is an authorized predatory lending system. That's what is so important to understand about it.

ALAN MICHAEL COLLINGE: Exactly right. The mafia are dirty people, but could you imagine if the mafia had the blessing of the Federal Government? That is really what we're looking at here.

C. AUSTIN FITTS: I would say the mafia has the blessing of the Federal Government and no family values.

ALAN MICHAEL COLLINGE: Well, I would say at least Guido down the street looks you in the eye and says, "If you don't pay me back, I'm going to cut off your hand," or something like that. The student loan borrowers don't even get that sort of warning.

Most, in fact almost all, university students are never made aware of all the protections that do not exist for student loans. I mean, this is a grievous omission of fact. In my view, it really calls into question the legitimacy of the debt instrument itself.



C. AUSTIN FITTS: Right.

ALAN MICHAEL COLLINGE: So just to finish the point, I went to *Fortuna Magazine*. Bethany did a great piece, and that very quickly crescendoed into a top story on *60 Minutes* which my research was used as the basis for. That was a top story in May 2006, and Sallie Mae refused to be interviewed for the piece. That says a lot there.

It's been a long journey since then, but that was the beginning.

C. AUSTIN FITTS: Tell us about the student loan industry. What is the size? What is the history? Go into a little bit about the public and private markets.

ALAN MICHAEL COLLINGE: Sure. We can go back to the higher education act of 1965 to really look at the beginnings of the student loan industry. Probably more appropriately, Sallie Mae was started as a government/public agency, a quasi-governmental agency in 1972. They were originally chartered with the mission of purchasing loans from private banks made to students for college.

However, Sallie Mae's mission changed over the years. The executive team which you have far more intimate knowledge of than I do, Catherine, the Sallie Mae team saw the potential for private profit and, in my view, they went that way and they essentially abandoned their public mission.

In fact, by 1994, Sallie Mae threw off all formal ties with the Federal Government, although it still retained massive clout on the Hill.

C. AUSTIN FITTS: When did it lose its GSE status? I thought it maintained the GSE status.

ALAN MICHAEL COLLINGE: They finally severed all their ties in 1996 or thereabouts. I think they finished a little ahead of time, so it may have been 1995.



It's interesting as far as the timing is concerned because right after they severed all the ties for the Federal Government – surprise, surprise – the reauthorization of Higher Education Act happened in 1997 or the beginning of 1998. That was where the vacation of bankruptcy protections, removal of statutes of limitations, and so forth became essentially permanent for all intents and purposes. That is when Sallie Mae went on a huge acquisitional terror. They went and bought up nearly every large collection company for student loans in the nation. This was really kind of a horizontal move by Sallie Mae to nearly completely dominate the industry from collections to servicing to the actual lending function, and importantly also the guarantor function.

They purchased USA funds around 1999 or so and this gave them the largest guarantor in the nation for federal student loans.

C. AUSTIN FITTS: How was the federal credit involved in student loans? Is the Federal Government a lender, or is the Federal Government a guarantor? How does the Department of Education get involved?

ALAN MICHAEL COLLINGE: That's a good point. For years the government was essentially just a guarantor. The USA group called themselves guarantors. The true guarantor for federal loans for many years was the Treasury. However, on the election of Barrack Obama in 2008 one of the first things he did – in fact, this was synchronized with the Affordable Care Act – was he federalized the student loan programs, so the guarantors I just mentioned were pretty much subsumed by the Federal Government. Their function was subsumed.

Also, the Federal Government became the lender of these loans rather than just the guarantor. So Sallie Mae and other federal loan lenders sort-of shrunk in their roles. However, while the government now makes the interest on the loans and also makes all the revenue that the guarantors made previously, the big boys like Sallie Mae and Nelnet and Pennsylvania Higher Education Assistance Agency and others are still intimately involved in the student loan system.

C. AUSTIN FITTS: They're securitizing and servicing.



ALAN MICHAEL COLLINGE: Well, yes. Securitization definitely does happen, but putting that aside for a moment, Sallie Mae and the ‘good old boys’ in the industry after Obama federalized the program still have control of the collections on defaults and on the servicing. So this is the primary conflict that existed before – the predatory power that existed before for the Sallie Mae’s and the Nelnet’s – still exist in the new program.

Every perverted incentive that existed before to default loans rather than to keep loans in good stead, all of those incentives still exist in the same perverted manner.

C. AUSTIN FITTS: One of the things that happened was this growth of student loans paralleled the extraordinary growth in university and college tuition, way beyond any estimate. If you look at the Consumer Price Index or any measure of inflation, tuitions have bloomed way beyond any other. They’re rising in cost way beyond any other part of our society.

ALAN MICHAEL COLLINGE: That is exactly right. College has risen at double, or more recently, even triple the CPI. This has been a long-running trend going back to the 1980’s or perhaps even before. This has a direct correlation to the government’s incentives.

The Federal Government, and this is a very important point, if you look at all of the loans that the Federal Government does – agricultural loans, veterans’ loans, small business loans, etc. – if you look at the recovery rate on defaulted loans for the Federal Government, you look at all these loans. They range between \$0.20 on the dollar to \$0.25 on the dollar – somewhere in there. Then you look at the defaulted student loans, and you see that not only is the government not losing money on defaults, but the government is actually making money.

You look at all the federally guaranteed loans and you see a massive spike

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when it comes to student loans. For every dollar that the government pays out on default claims, it ultimately recovers about \$1.23 for FFELP loans and about \$1.18 or so for the new direct loans under Obama.

The incentives are completely screwed up, and Adam Smith would have been the first to predict this. The cost of college follows that directly. It is an inherently inflationary phenomena when you have defaults being more profitable than healthy loans. This is a sick lending system. It's administered in bad faith, and here are two data points. When I first started looking at this issue about ten years ago, we owed about \$350 billion cumulatively in student loans. Today we owe about \$1.4 trillion in student loans.

If you look at the curve of the cost of college versus the cost of healthcare or any other inflation-prone industry or market, student loans is far and away the most accelerating in terms of price.

C. AUSTIN FITTS: Speaking of price, during that period if you looked at the federal funds rate, which is the lending rate of the Central Bank of the fed to the member banks, and you compare it to what students have been getting, if you compare it essentially to what Washington has been lending to the big banks versus what Washington has been lending to our own citizens and their children, the spread is even bigger.

ALAN MICHAEL COLLINGE: It's a huge difference. You know, I give Obama some credit for federalizing the program because as a systems guy I see the inefficiency of having these middle men like Sallie Mae making the interest for private gain. But you know, Obama federalized the program and the interest rates didn't go down; the interest rates went up from like 6.5% to about 7.5% on average.

C. AUSTIN FITTS: So the banks are getting it at less than 1%, and the kids are getting 7%.

ALAN MICHAEL COLLINGE: That's right.

C. AUSTIN FITTS: It absolutely makes no sense. I mean, there is no market or



economic rationale for that kind of spread.

ALAN MICHAEL COLLINGE: No, and Congress is essentially unable to deal with this problem effectively. The students just have not been represented at all. I mean, there are more than several groups out there claiming to be fighting for the interest of the students inside the beltway, but they just aren't. They are not representing the students' interests, and this is the outcome.

C. AUSTIN FITTS: It's interesting. If you look at the bailouts, \$27 trillion of bailouts was enough to pay off all the residential mortgages and all the student loans in the country by many multiples. So you could have basically three times over paid off all the student loans and all the residential mortgages in the country. So when Congress wants to give away money, they can.

ALAN MICHAEL COLLINGE: Without a doubt. It just baffles my mind, considering the statistics that you just cited. It's absolutely baffling.

I mean, how far can we blow this bubble up? I mean, the bubble for student loans while it is analogous to the bubble to the home mortgage industry, there are some very serious differences. In the absence of bankruptcy protections, statute of limitations, and other standard consumer protections that exist for home mortgages, students who get underwater or see their student loans go into default and explode with penalties and fees have no recourse. They can't walk away naked. They can't walk away.

There is a very sinister difference between what happened with home mortgages and what is happening now with the student loan debt.

C. AUSTIN FITTS: What is the current default rate on student loans? If there is \$1.4 trillion outstanding?

ALAN MICHAEL COLLINGE: That is a great question, and unfortunately nobody except the Department of Education can put their finger on it. Here's what we do know: The two-year default rate currently is running



at something close to 10%. The three-year default rate (three years out of school) is running at close to 15%. I think the next numbers will be published in maybe three weeks or so, and then we'll know more.

Given that and also given 2003 Inspector General model which based its estimates on real people, my belief is that the true lifetime default rate across all schools and across all loans is probably approaching 40%. Quite frankly, I wouldn't be surprised if it was a bit higher than that.

C. AUSTIN FITTS: If you look at the number of what I call 'underperforming' so they're not yet in technical default but they're missing payments, that number appears to be much higher.

ALAN MICHAEL COLLINGE: Far higher. A 2011 study by the Institute of Higher Education Policy tracked 1.8 million students leaving school in 2005. What they found was that by 2010 – five years after graduation – 63% of these people, these former students, were unable to make payments on their loans. So 63% were either in default, in deferment, forbearance, or otherwise delinquent in their loans. That is a huge number.

C. AUSTIN FITTS: Right. So I suspect it's very bad.

ALAN MICHAEL COLLINGE: One of the many fights I've had on this over the years has been with the Department of Education, trying to get them to publish significant and meaningful data on defaults, on lending, on all matter of characteristics. What I found is that the Department of Education has assumed sort-of a corporate culture where they are clearly looking out for their own fiscal interests rather than the public interest. So they essentially become a cheerleader for the student loan program.

They work very hard to make their default rates look low. For example, students going to college right now – prospective students – will ask the colleges, "What is your default rate?"

The colleges will say, "Oh, our default rate is great! It's 3%." But what they're telling students are the Department of Education official covert



default rates – which only represent a tiny fraction of the true lifetime default rate. This has been the way the Department of Education has approached their business in the ten years that I’ve been looking closely at them, but I would venture to say it’s been going on for much longer than that.

C. AUSTIN FITTS: Let me just ask you two more questions about this. What I’m looking at is between the universities, colleges, the governmental bureaucracies, and then the servicers, Sallie Mae and others, and then you’ve got the state versions of that. What you’re looking at is a very extensive system of adults who are subsidizing themselves by racketeering against children.

ALAN MICHAEL COLLINGE: That’s essentially right. We have a very vulnerable segment of the population who from cradle to age 18 has it drilled into them, “Go to college. Go to the best college you can find.” Signing on the dotted line to borrow money is really an afterthought for these kids.

If they get accepted into a college of their choice, or any college for that matter, they’re going to sign whatever is put in front of them. A huge media network of social memes get thrown at them saying, “College is worth it. It’s good debt, etc.” So it’s really like stealing candy from a baby.

C. AUSTIN FITTS: One of the things that most concerns me about it is I’ve had the opportunity, working with clients and their kids who are headed to college, to drill down and price it out at a course level. So basically say, “What’s your budget for college? What’s your learning plan? What’s the knowledge you’re going to get? How do you translate that knowledge into working in the workplace?” Let’s compare that budget to what you can do by traveling around the world and teaching yourself or doing a variety of highly specialized courses in terms of getting that education?

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Anyway, I've priced the whole thing out, and what I've realized is we're watching an explosion of education globally and access to information, and what I'm realizing is that not only are you borrowing tremendous amounts of money for tuition – which is rising way faster than any other expense index – but if you dig in and look at the curriculum, the curriculum is purposefully not relevant to where the economy is going globally in many cases.

You went to Caltech. I would say that Caltech is much more relevant, but I've looked at a lot of curriculum where I've said, "Look, this is a complete waste. Forget the money – you don't have the time to learn all this disinformation that's not useful to what you want to do."

ALAN MICHAEL COLLINGE: That's exactly right. The types of degrees that are being handed out by accredited universities today, sometimes they are quite baffling. I would also add to that that the time to graduate is no longer four years; the average person who even graduates with a paper, the average is something like 5.2 years – and only 42% of undergraduates walk out with a degree.

C. AUSTIN FITTS: Oh my gosh!

ALAN MICHAEL COLLINGE: Yes. Even with the best laid plans, it's very hard for a student to tell the future. I mean, when they look at any sort of budgeting exercise that you suggest, most students are going to assume that they're going to graduate in four years. They're going to put on the rose colored glasses when they're looking out over the event horizon because they're just naturally optimistic people, and good for them. But they just don't have the information that they need.

I'm not just talking about poor students with no familial history of going to college. Even very well-bred, so to speak, kids are usually relying on their parents' experience to chart their own path, and their parents' experience was far different from the experience of today's college students. I mean, back in the day you could literally work a part-time job over the summer and pay for school with almost little or no debt. Today that's absolutely impossible, even for a community college. The prices



are just that high.

C. AUSTIN FITTS: What percentage of the 42% who graduate have student debt?

ALAN MICHAEL COLLINGE: Sixty-seven percent. About two out of three.

C. AUSTIN FITTS: Good Lord!

ALAN MICHAEL COLLINGE: Back in 1980 or so, it was one out of three. The percentage of students having to borrow to get through school has increased greatly, and I should also add that the colleges have made out like bandits out of the system. If you go to any of the colleges you see Class A architecture, you see just awesome capital improvements, and you see exploding salaries of the college presidents, the administration, and so forth.

In fact, what I've found – and this was reported out of the University of Wisconsin recently, and this has become a story – it turns out that since 2007 the colleges cumulatively have managed to stockpile many hundreds of billions of dollars in cash from their student loan revenue and other revenue. I would not be surprised if the universities in this country were currently sitting on over \$1 trillion in unreserved cash. This is over and above their endowments if they have them. This is really money that was scraped over the top of their revenues over the last ten years or so. It's absolutely astounding. I urge people to come to www.StudentLoanJustice.org.

C. AUSTIN FITTS: It's a very big business.

ALAN MICHAEL COLLINGE: It's huge business. Absolutely.

C. AUSTIN FITTS: And it's a very big business in terms of capital pooling, for gathering and organizing capital which is then used to finance big corporations and banks.

ALAN MICHAEL COLLINGE: That's one of the more effecting aspects of the



student loan problem is that so many of these loans – both Federal and private – have been bundled up and sold as securities that the Wall Street people all the way down to people who own various funds that invest in student loans, the political will of the investors goes with the will of the lending system. So even though the constitutional rights of huge numbers of citizens – 44 million people currently are walking around with student loan debt – has been so badly violated, the Wall Street invisible hand, as it were, really works against these people. I think that's a very dangerous dynamic.

C. AUSTIN FITTS: I think the thing is they're selling those securities into their parents' IRAs. So everybody is buying into the servitude system.

ALAN MICHAEL COLLINGE: That's right. I mean, it is an incredibly vexing problem.

C. AUSTIN FITTS: I think it's a simple problem, and it comes down to, I don't know if you ever watched the TV show Dallas, but JR Ewing, the famous evildoer on Dallas once said to his brothers, "Boy, nobody gives you power; You take it."

This is basically about raw power. It's a pretty simple problem. The problem is: How do you get the power to change it?

ALAN MICHAEL COLLINGE: I agree with you completely. In fact, I wouldn't be working on this problem if I didn't have great hope, but the solution to this is a political one. The solution to this starts with the grassroots. It starts with the people who are walking around with their tail between their legs with exploded debt. Maybe they've borrowed \$12,000 and now they owe \$60,000 under this ridiculously cutthroat system. It takes those people standing up and deciding to fight back.

C. AUSTIN FITTS: Let's talk about some of the things to fight back on. I want to just dive back into the un-uniform bankruptcy code and talk a little bit about what happened in 1994, 1998, and 2005. I want to talk about who the players were and why I think, both whether it's fraudulent inducement or material omission, basically what is going on is not



constitutional. It is illegal.

ALAN MICHAEL COLLINGE: That's right.

C. AUSTIN FITTS: If you read the constitution and if you understand American law, there is no way that what is going on is legal. This is illegal. It's essentially lawless, but we need a legal and regulatory structure with which to look at it.

Anyway, let's just dive in for a second. Could you describe the uniform bankruptcy code and how it relates to the constitution?

ALAN MICHAEL COLLINGE: Sure. If you look at Article 1, Section 8 of our Constitution, from the very beginning this was where our founding fathers enumerated the powers of Congress. There were 17 of them.

“If you look at Article 1, Section 8 of our Constitution, from the very beginning this was where our founding fathers enumerated the powers of Congress.”

Number three on that list is the creation of a uniform system of bankruptcies. There is a common belief that people came to this country because of religious persecution primarily, but it turns out that most people came to this country, including George Washington and Thomas Jefferson, under massive debt from the old world.

Thomas Jefferson and George Washington, for example, were hugely in debt to merchants in London, and a lot of very credible people say that the Declaration of Independence was really more of a debt jubilee.

C. AUSTIN FITTS: It was a debt relief act.

ALAN MICHAEL COLLINGE: Yes, a debt relief act. It was as much that as anything else. So clearly the fact that bankruptcy was listed above the power to declare war, ahead of the power to coin currency, to form an army or a navy, that kind of gives you an idea of how important bankruptcy was to the founders.



Well, bankruptcy is the one protection that has been taken away and removed from student loans, and only from student loans. There is no other loan in this country that has any sort of specific restriction or exemption from standard bankruptcy protections. Only student loans fit in that category.

Now we are seeing the results. Adam Smith probably would have been the first to protect this sort of activity, and it began in the 1970's. There were these trumped up charges that students were flocking to bankruptcy court shortly after graduation, and this was used as a rationale for initially restricting the bankruptcy protections for student loans.

Well, it turns out that back when bankruptcy was the same for student loans as for all other loans, far less than one percent – in fact, less than one-tenth of one percent – of federally guaranteed student loans were being discharged in bankruptcy. So there really was never a good premise for restricting bankruptcy protections for student loans, but there you have it.

Over the years the restrictions were increased. By 1998 it was essentially a done deal completely for federal loans.

C. AUSTIN FITTS: So one of the things that I found fascinating about your book and your work is when you dive in and look at the process between 1994 and 1998 of stripping away the bankruptcy and some of the other protections.

So if you dive into the nuts and bolts of what had to happen at the treasury department, how the Central Bank may have been involved, who at Sallie Mae, who in the Congress, who at the Department of Education, when you dive in and look at the financial aspects of that, it's all the same people who were building the subprime and predatory mortgage construct.

Let me give you an example. The person at Treasury working for Bob Rubin, Larry Summers, and John D. Hawke – and John D. Hawke had been the General Counsel of the Federal Reserve and then was an Arnold



& Porter partner who came back into the Federal Government under Rubin as the Undersecretary for Domestic Finance. He would have been over this area.

If you look at his role in the predatory lending in mortgages, the same group at Treasury was doing the mortgages, and the nuts and bolts of the mortgage predatory stuff was doing this. What you realize is, “Oh, wait a minute. These guys are doing both of them at the same time.” They clearly know what they’re doing.

I mean, I asked you to read the *Dillon Read & the Aristocracy of Stock Profits* story just because there was a huge debate in Washington at the time. Remember Newt Gingrich running around saying, “We need to give every kid a laptop”?

ALAN MICHAEL COLLINGE: Right.

C. AUSTIN FITTS: That was all because we knew that the globalization was happening and the American people needed to reengineer their skills and go through a transformation. If you didn’t do that, if you didn’t help them transition in terms of skills and abilities, there was going to be real trouble.

A decision was made that instead of giving everybody a laptop, let’s give everybody debt. It was a plan, and it came top-down. You were giving the parents the mortgages at the same time that you were pulling the kids into student loans, and it was right after that period that the big recruiting tool for the military was, “Join the navy,” and, “Join the army and we’ll forgive your student loans.”

It was a debt servitude system, and it came top-down. When I tell you that these were very smart people – Rubin, Summers, Hawke – they know what they’re doing. I also wrote a story which I’ll link from this Solari Report commentary about one of my former partners at Hamilton Securities followed me when I left the board of Sallie Mae in 1993 or 1994. He followed me onto the board, William Diefenderfer. Bill was a master at the nuts and bolts of this kind of legislative engineering. I



won't go into the story because everybody can read it, but if you look at the people who did this, the thing that is so shocking to me, Alan, is these were all people who had benefitted from the system. Basically what they were doing – and they were doing it very consciously and intentionally; they knew exactly what they were doing – they were shutting the door of opportunity in the face of the people who came after them.

ALAN MICHAEL COLLINGE: Yes, and you know, to me it's sort of neoliberalism gone horribly awry.

C. AUSTIN FITTS: This is the first time I'm going to disagree with you. This is not neoliberalism gone awry; this is fascism. This is Nazi International. This is a bunch of old guys.

ALAN MICHAEL COLLINGE: It started out under the premise that, "Oh, the private industry can do it better than the government can." That was sort-of the hook which brought Sallie Mae into being. I agree with you that since that time, Sallie Mae –

C. AUSTIN FITTS: This is not any of that. This is, "We are going to fraudulently induce families, we are going to fraudulently induce parents, we are going to fraudulently induce young people, and we're going to put them over a barrel. We're going to make them pay three times what they have to pay to go to college. We're going to charge them ten times the interest rate."

If you look at the multiples, it is 100 times the interest rate that we're charging ourselves, and we're basically going to soak them up. It's a vampire system.

ALAN MICHAEL COLLINGE: He who holds the gold makes the rules, right?

C. AUSTIN FITTS: I'm going to say something different: He who steals the gold and breaks the laws makes the rules. These are people I know. These are people I worked with. What I'm telling you is that there is no philosophy to this. This is theft. This is a financial coup d'état. This is



basically stealing other people's lives and money with very sophisticated financial engineering.

So this is playing on people's trust in the system, and you're basically looking for a way to take people who are free and financially secure and turn them into slaves, and in many cases just liquidate them. You've got people committing suicide or losing their health and dying. So that's why I used Guthrie's quote on the Diefenderfer article, "You can kill with a pen."

So these people were killing with a pen, and I assure you, Alan, they knew exactly what they were doing. This was not neoliberalism. This is something much, much darker.

"These people were killing with a pen, and I assure you, they knew exactly what they were doing."

ALAN MICHAEL COLLINGE: I agree, and it's unconscionable. We've documented several, like three or four, student loan suicides at this point, and that's just what I've found. Who knows what lies truly across the land. Certainly just in our small group we have maybe 40,000 numbers, and easily 400 of them or so are expatriates. They have literally fled the country as a result of their student loan debt.

Now how crazy is that? We're talking about student loans here.

C. AUSTIN FITTS: Here's the thing. It's not crazy because there's a goal here. So this was all done very consciously. It was all done very intentionally. They knew exactly what they were doing. These are very smart, capable people. They're not stupid. So their plan was to bankrupt the next generation.

I should just point out that all their kids were able to go to college and not take out student loans. So this assures that you have an aristocracy in America.

It's interesting. *The Economist* wrote a great article called *America's Aristocracy is Calcifying* and they pointed out exactly this problem. Basically it was that the kids of the rich can go to college and the kids of



the poor are getting vampired.

ALAN MICHAEL COLLINGE: You know, I believe that we're starting to see the corner turned on this problem. Our democracy has existed for hundreds of years, and the constitution of the people of this country is far stronger, by a factor of 10,000, than the collective constitution of the wealthiest one percent or however you want to divide up the demographics. Certainly the American Constitution is strong. While it has been hugely suppressed through the student loan problem and through other means – I would say that medical debt as well has been another leg.

C. AUSTIN FITTS: I'll tell you a very funny story. I was just looking at the Constitution. During this period there was a big fundraising and an organization of a US Constitution Center in Pennsylvania to celebrate the Constitution, right next to the Liberty Bell.

I just sat down and looked at the donors last night. If you look at all the people who were doing this on the mortgage and the student loans, they're all in the leadership or big donors on the Constitution Center. So literally while they're making money destroying the Constitution with student loans and mortgages – and we haven't even gotten into telecom and how the smartphones fit in with this – but while they're all sitting there vampiring the American people, they're giving money to and promoting this Constitution Center.

ALAN MICHAEL COLLINGE: The duplicity is absolutely outrageous. I could probably tell a story at this point about Albert Lorde and how he pulled some strings to have the Emancipation Proclamation – the actual document – put on display for some of his friends at one of his social events or something. But, yes, talking out of both sides of your mouth, I think, is something that the American people are generally susceptible to. I think a lot of this comes down to the media as well.

It's a thorny problem if you get too hung up about it, but what we do know is that we do still live in a democracy and that the people still should control this country because truly I've been an activist on this problem for ten years or so, and I would say that the citizens haven't



expended or flexed even a tiny fraction of the muscle that they actually possess on this issue.

I mean, truly, the citizens could delete the entire student loan system tomorrow if we tried, and that may well happen. As the default rate, as we discussed earlier, exceeds 40% or as it approaches 50%, at some point everybody is going to step back and say, “Wait a minute. This is a joke.” At that point the student loan system will evaporate.

C. AUSTIN FITTS: What has been happening in terms of getting this discussed? Although I have trouble taking the Presidential primary process seriously at this point because of the corruption in that, but it is a time when we all talk about these things. What’s happening in terms of getting this discussion elevated within the campaigns?

ALAN MICHAEL COLLINGE: That’s a great question. Back when Obama was running the first time, student loans had made it onto the map. After that *60 Minutes* piece in 2006, which was pretty influential, student loans were officially on the radar screen at that point. By the last election, I’d say they were maybe number three or number four on the domestic policy agenda of the Presidential campaign.

This campaign, student loans are among the first or second domestic issue that is being mentioned by nearly all of the candidates – certainly all of the democrats. So the profile of student loans has been raised dramatically. However, I have to say that none of the candidates so far have put forth anything that would deal with this problem.

They have crafted some very artful and convincing ways of talking about the problem, but nobody yet has proposed anything that would actually deal with the predatory lending system and would address the problems of the 44 million people who are walking around with \$1.5 trillion debt.

If you look at Bernie Sanders, Martin O’Malley, and Hillary Clinton, all of them have posed these sort-of ‘free college’ plans for down the road, and they look good, but quite frankly they’re very unimpressive. They look to me like more of throwing money at a problem without actually



fixing the structural problems than anything. And certainly nothing any of them have proposed will do anything significantly for the 44 million people who currently have the debt, and that is the problem.

You know, it's early on in the campaign, and there are probably 27 million out of 44 million people who are in severe distress on their student loans, and these people vote.

Barrack Obama won the last election with roughly 55 million or 60 million votes, so when you're talking about that large of a population group that is that concerned about an issue, you have to take it seriously. So my hope – and what my efforts going forward here in DC are all about – is getting through to the Presidential campaigns and the Congressional campaigns as well to try to get this problem defined correctly. Right now the problem is just so ill-defined on the hill.

C. AUSTIN FITTS: So among other things, why not just ask everyone to proposed that from here on out all student loans will bear interest rate at the same rate as the fed fund rate?

ALAN MICHAEL COLLINGE: I think that's a great idea, and if you talk to Elizabeth Warren and others, they are headed in that direction. I think that's a good idea. I think there are a number of exciting plans and proposals out there for the future of student loans or higher education financing generally, and even Donald Trump has said things echoing what you've just said.

That gives me a lot of hope, but the elephant in the room is the \$1.5 trillion in predatory debt that is hanging around the necks of 27-30 million citizens who are greatly distressed.

C. AUSTIN FITTS: Has anybody thought of going to court and citing fraudulent inducement or material omission? To me, clearly this whole system is nothing but a big fraudulent inducement, and the material omissions are very significant.

ALAN MICHAEL COLLINGE: My guess is that probably upwards of hundreds,



if not thousands, of people have gone down that path, but without fail they've ended up making settlements under seal with their lenders or their guarantors or whoever they were coming after. So in terms of a class action lawsuit, I haven't seen one yet. The problem there is that typically class action law firms are looking for things where the facts are easily or already out there and they are already discoverable and easily applied to large numbers of litigants whereas the student loan issue doesn't lend itself well to that because every lending situation is unique. It's a very heterogeneous system.

Quite frankly, the law firms that do class actions just don't want the headache. They don't want to go to each individual case.

C. AUSTIN FITTS: I think also people are very afraid.

ALAN MICHAEL COLLINGE: Oh, without a doubt.

C. AUSTIN FITTS: If you make this case on this \$1.4 trillion, then the case can be made on the mortgages, and you're going to have a domino effect. You're not just litigating student loans; you're litigating Nazi International.

ALAN MICHAEL COLLINGE: Well, but you know, here's the argument. Here's a good analogy. If you buy a brand new car and you go to the dealership and say, "Thanks!" and jump in your car, you drive off the dealership lot and you realize that the car actually has no brakes. So you wind up in the ditch, right?

You go limping back to the dealership and you say, "Hey, I just crashed my car. I pressed the brakes and nothing happened."

And they say, "Sir, you should have read the manual. This car doesn't come with brakes."

That's really the analogy. Students are never informed that there are no

"The law firms that do class actions just don't want the headache. They don't want to go to each individual case."



bankruptcy protections, that there are no statute of limitations, fair debt collection practices, and other consumer protections that exist for every other type of loan. This is an egregious omission of fact that I would say undermines and kills the good faith of the lending instrument itself.

But going back to the car analogy, let's say further that you go back to the dealership and they say, "Sorry, pal. You should have read the manual."

So you're waiting for a cab or something, and you overhear them talking about how they're going to spend the money they're going to get from an insurance policy that they took out against you in the event of an accident.

C. AUSTIN FITTS: Or your life.

ALAN MICHAEL COLLINGE: Right – your life or your health or whatever. That's actually a more appropriate analogy to make. So we're not just talking about lazy bureaucracy like, "You should have known better." This is not a bad borrower issue. If it ever has been, it certainly isn't that now.

C. AUSTIN FITTS: Oh, I would say that my term 'Nazi International' was highly informed.

ALAN MICHAEL COLLINGE: You know, I try to stay in my lane and not get too broad because, quite frankly, it scares me. You're not wrong. I see the term 'Banana Republic' thrown around a lot and fascism. I try to keep it simple just because I'm a community organizer on this, and my job as I see it is to get people optimistic and hopeful about changing the system – and maybe even angry – and that's what I focus on. I try not to scare people, though.

C. AUSTIN FITTS: Right. I don't mean to do that, but this one is tough for me because when I started to litigate with the Federal Government, my objection was primarily that this group – the same group that we're talking about – was dropping SWAT teams into poor neighborhoods



and rounding up innocent people and throwing them in prison. It was all part of the private prison stuff.

If you look at what was happening with bringing in drugs and then rounding up innocent kids, it was an entrapment model. It was basically slave labor camps because you're putting kids in federal prison. You're rounding up these innocent kids. They're either innocent or you're entrapping them. You put them in federal prison where they make uniforms for the Department of Defense. That is slave labor camps.

ALAN MICHAEL COLLINGE: Right. It becomes a self-fulfilling cycle.

C. AUSTIN FITTS: Right, and it's covered up with a lot of fancy financial engineering and a lot of fancy media, but it is Nazi stuff because it's just rounding up people and throwing them in slave labor camps where they make uniforms for the military, etc.

So I just said, "Look, I'm not going along with this. I'm not into slavery, I'm not into genocide, and I'm not into stealing people's private properties."

I thought it was just happening in the poor neighborhoods. What I didn't see was that this was being engineered to the middle class as well, but it was more subtle and it was called student loans and mortgages and all sorts of other things. But if you get into everything going on, we're talking about entrapment across the board. Whether you call it racketeering or mobsterism or Nazi International, it's really happening and I think part of what I try to do with The Solari Report is help people understand that if we're going to have a great life, we're going to have to understand that a lot of the systems that we've depended on to function are no longer systems; they're sort-of racketeering operations designed to harvest us.

ALAN MICHAEL COLLINGE: I agree.

C. AUSTIN FITTS: That's when parents have got to be really, really careful before they let their kids go off. I'm always saying, "Let them stay home



and take courses at community college. Let them build credits.” There are all sorts of ways you can do that without taking on these huge tuitions if it means taking out debt because the debt is dangerous.

ALAN MICHAEL COLLINGE: Yes, absolutely. I couldn’t agree with you more. I see an absolutely astonishing need for a political solution. I think it’s kind of sad the way Occupy Wall Street was put down relatively quickly without any real legislation happening out of that that addressed any of the structural problems in the finance industry and elsewhere that brought Occupy about. I think it’s just a matter of time before things coalesce. You can only screw so many people.

C. AUSTIN FITTS: We’re going through a period, Alan, of rapid automation. So in manufacturing we’re seeing rapid automation, but we’re also seeing between Obamacare and the educational testing a process where these different industries are being standardized so you can reengineer them with information systems and automate a lot of things, put a lot of things online, and now you’re talking about dramatically lowering the income of teachers, nurses, and doctors. There is also a similar effort going on in enforcement. There is a similar effort going on in banks and financial plans.

So you’re basically wiping out the income across the board of whole large portions of the middle class in every community, and as that happens these debt questions are going to get more and more difficult for those people who haven’t positioned themselves to basically be successful in the areas that are doing the reengineering.

I think the need for student loan justice is just going to grow.

ALAN MICHAEL COLLINGE: That’s true. I’m in a growth sector, that’s for sure. Political activism has definitely got a lot of upside. If I could just find out a way to make some returns on this.

C. AUSTIN FITTS: Tell us how we follow your work, find your website, buy your book and support you. What can we do?



ALAN MICHAEL COLLINGE: It's very simple. Go to www.StudentLoanJustice.org. I encourage everybody to read the articles on the front of the page. Those are the most important student loan related essays, articles, reports, etc. that have been done on this topic in the last five years or so. That will get you up to date.

Because we are a citizen-funded organization strictly, I urge all interested people to donate even a modest amount to keep us operating here in Washington DC. We are operating on an extremely small budget, so I would appreciate that.

Probably the most important thing for galvanizing public action is to come to our Facebook page so that you can talk to others. You can join your state chapter, and we can start getting ourselves mobilized. We're already there; we already have 50 functioning state chapters, but we certainly need more people. We're at 40,000 now, but literally we should be at 4 million if not 40 million. So I hope that people will come to our Facebook page and to our website. I would urge people to also push the green button on the main page of our website, and that will at least bring you through a very quick tutorial and a very quick introduction process that will get people educated about the issue and get them into a position where they can speak and advocate and fight for the people on this.

C. AUSTIN FITTS: Alan, I can't thank you enough for what you're doing. I think it's terrible you had to go through the Sallie Mae experience that you did, but the result is something that I think is helping a tremendous number of people, and it's doing a great deal of good.

Will you keep us briefed on what we can do to keep supporting you? You are a Solari hero, and I remain a devoted supporter and follower of Student Loan Justice. You keep me posted on what we can do to help.

ALAN MICHAEL COLLINGE: I certainly will, Catherine. Thank you very much. It's been a real honor and pleasure to speak with you today.

C. AUSTIN FITTS: And I'm sorry I kept interrupting you, but I'm so passionate about this issue.



ALAN MICHAEL COLLINGE: That's what we need. That passion is going to win the day for us, so thank you.

C. AUSTIN FITTS: Have a great day. Goodbye.

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