August 2, 2017 | Allegheny Institute Op-Ed

530 words

Hazards abound in student loan forgiveness plan

By Colin McNickle

A Pittsburgh City Council entreaty to the commonwealth to create a statewide program that would retire a portion or all of a person's outstanding college loans when they buy a home is fraught with taxpayer peril, say researchers at the Allegheny Institute for Public Policy.

The proposal, which came in a July 11 "Will of Council" message, would require at least $1,000 of student loan debt but would limit the forgiveness amount to 15 percent of the purchase price of a primary residence.

"In other words, a participant in the program with $15,000 in student loan debt buying a home for $100,000 would get the entire $15,000 of (his) student loan debt paid off," say Jake Haulk, president of the Pittsburgh think tank, and Eric Montarti, a senior policy analyst there.

Additionally, the buyer would have to agree to reside in the home for a term to be determined by the commonwealth, the scholars note (*in Policy Brief Vol. 17, No. 31*).

If a student loan assistance program were to be put together by the governor's office and approved by the General Assembly, Haulk and Montarti say it presumably could mandate that participating jurisdictions identify savings from their operating budgets to pay for it -- or raise taxes to fund it.

"Would (Pittsburgh) City Council then find the idea to be appealing?" the researchers ask.

"After all, the commonwealth does not have enough money to fund its operating budget, nor is it likely to for some time to come, given the massive pension liabilities that must be funded and its unwillingness to make expenditure cuts."

Pittsburgh City Council's proposal appears to modeled after a similar program in neighboring Maryland. But The Old Line State's effort, called "Maryland SmartBuy," only applies, at least ostensibly, to the purchase of properties from a state-owned inventory. It is not known if that would be the intention of the program Pittsburgh now seeks.
"(I)f only state or municipality-owned houses will be eligible for the (Pennsylvania) program, that would require an entirely new program for the government to get into the home-buying business," Haulk and Montarti caution. "That seems to be a very improbable scenario."

In light of the myriad fiscal problems that state and city governments face, "why even start down the road of another taxpayer-funded giveaway program?" the Allegheny Institute researchers ask. "More importantly, it is not the government's responsibility to bail people out for bad borrowing decisions."

Haulk and Montarti also remind that such a program would create yet another "moral hazard" situation.

"Knowing that a program of loan forgiveness is in place will cause many people to borrow more than they otherwise would and, in many cases, far more than they should."

Noting that taxpayers already have been stuck with too many such programs, the think tank scholars say the governor should return the proposal to city officials with a strongly worded note:

"Pennsylvania cannot afford this, it is a bad idea and I will not waste my time on this recommendation."

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