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City Proposes State Action to Help Erase Student Loan Debt

Summary: By an action known as a “will of Council” Pittsburgh’s legislative body proposed that the Commonwealth enact a program that will provide “...financial assistance to a purchaser for the purpose of purchasing a primary residence and making payments on the purchaser’s student debt”.

According to the City Clerk’s office a will of Council message is used as a way to ask for action or consideration of an issue by the state or Federal governments. It is delivered to the party the message is asking consideration from, in this case, the Governor of Pennsylvania. Presumably the intent of the student loan assistance message is to convince the Governor to embrace the idea and make it a budget initiative. Otherwise the proposal would have been sent to the General Assembly.

The latest will of Council has specifics in its message. The first: the home purchaser’s student debt must be at least \$1,000 but must not exceed 15 percent of the purchase price of the home. Apparently the intention is to limit the eligible assistance to 15 percent of the home price (the language states “the program shall make a payment on the purchaser’s student loan debt equivalent to an amount up to 15 percent of the purchasing price of the 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 their student loan paid off. Great thinking. If the buyer buys a \$200,000 house and had \$30,000 in debt, that purchaser would get \$30,000 in loans paid off. And so on with more expensive homes. The second specific: the purchaser would have to reside in the home for some duration of time, but that is not specified (that is to be “determined by the Administration (Governor) and agreed to by the purchaser”).

Most of the components of this proposal appear to have come from a program in neighboring Maryland called “Maryland SmartBuy”. It has the \$1,000 student loan minimum and the 15 percent of the purchase price payoff toward the student loans. However, the fact sheet of the Maryland Department of Housing and Community Development (DHCD) stipulates that the only eligible properties for purchase are ones under ownership of the state through its Department of Real Estate. That means participating in the program requires purchasing a home from an existing state-owned inventory.

The legislation creating the Maryland program went into effect July 1st of 2016 after being passed by the General Assembly and being signed into law by the Governor. A fiscal and economic note on the legislation by the Department of Legislative Services anticipated that the program would

be paid for with existing resources within the DHCD but that there would be less of a return on the proceeds from the sale of state-owned residential real estate because that money would be dedicated toward student loan debt. The note did not foresee any effect on local government or small businesses in the state. And while the note says that the priority for properties to be offered would be state-owned but did not limit it, the DHCD fact sheet (which was published this past February, later than the fiscal and economic note) seems to indicate that only state-owned properties are eligible.

It is anyone's guess as to what kind of program would be proposed in Pennsylvania should Pittsburgh's will of Council be taken seriously enough to even be considered. Obviously, the City Council's wish is for the Governor's office to take the lead on the effort, and find the money to boot. The will of Council ends with language encouraging the Administration to promulgate regulations and guidelines as it sees fit. If a student loan assistance program were to be put together by the Governor's office and approved by the General Assembly presumably it could mandate that municipalities of all classes, including Pittsburgh, identify savings from their operating budgets to pay for the loan forgiveness program or raise taxes to fund the program. Would City Council then find the idea to be appealing? 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.

Then too, if only state or municipality owned houses will be eligible for the program that would require an entirely new program for the governments to get into the home buying business. That seems to be a very improbable scenario.

In light of all the financial problems facing the state and city governments, why even start down the road of another taxpayer funded giveaway program? More importantly, it is not the government's responsibility to bail people out for bad borrowing decisions.

Further, this 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. Taxpayers are already stuck with too many such programs. This is one proposal the Governor should send back to Pittsburgh as soon as he gets it with a strongly worded note saying: Pennsylvania cannot afford this, it is a bad idea and I will not waste my time on this recommendation.

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