

Here's Why Bernie Sanders Will Never Be Mistaken for an Economist

The day after Christmas, presidential candidate Bernie Sanders asked on Twitter: "You have families out there paying 6, 8, 10 percent on student debt but you can refinance your homes at 3 percent. What sense is that?"

My snarky tweet in response was, "Because you can foreclose on a house but you can't repossess an MFA in creative writing."

A more thorough (and thoughtful) explanation is provided by Megan McArdle. She explains why loans secured (such as for a house) always have lower interest rates than unsecured loans (such as student debt):

Student loans are two-for-one in terms of risk: They are frequently made to people with no income, no credit history and somewhat imperfect prospects; and they carry no guarantee of payment other than the borrower's signature. If someone fails to pay their auto loan, you can take their car away. This ensures repayment in two ways: First, you can auction the car and recover some of the money that you lent out; and second, people need their car, and will scrimp on other things in order to keep from losing it. The immediate personal costs of failing to pay your student loans, on the other hand, are pretty minimal, and people are going to take that into account when they decide whether to pay you or the auto finance company. That's why the government has to guarantee these loans; the low-fixed-rate, take-any-course-of-study-you-want-at-any-accredited-institution, interest-deferred-in-school is probably not a financial product that would exist in the wild.

Secured loans have thus always carried lower interest rates

than unsecured loans, and will do so until the heat death of the universe renders moot such questions.

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