US student loan delinquency rises

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11 May 2011

A recent study by the Institute for Higher Education Policy (IHEP) has pointed to the increasingly permanent phenomenon of student loan delinquency and future prospects for students in debt.

Student loan debt in the US has ballooned over the past 20 years in correspondence with spiraling school costs and a worsening job market. The non-profit Student Loan Project reports that between 1994 and 2008, average debt levels for bachelor's degree recipients doubled, to a staggering $23,200.

In the period since the onset of the economic crisis, states have gutted higher education funding, eliminating many education grant programs and triggering even higher tuitions at public universities. As a result, millions of students are forced to take on loans with usurious rates with virtually no consumer protections from lenders in the event they cannot make payments.

The IHEP report, released in March and entitled "Delinquency: The Untold Story of Student Loan Borrowing," found that a huge percentage of those with student loans find themselves falling into delinquency or default within a few years of leaving school. The report begins by stating, "Despite periodic increases in grant funding, students and their families have increasingly relied on borrowing to cover more of the costs of higher education."

Due to lack of statistical information, simply citing the rate of defaults does not provide an accurate picture of the effects that a rising percentage of the population face with the reliance upon loans. Though it is considered a lesser offense in comparison to defaulting, many borrowers in delinquency face similar stigmas associated to credit scores and borrowing in the future.

The IHEP study notes that for every default on a loan, there are another two student borrowers who find themselves in delinquency. A borrower is considered officially delinquent when he or she has failed to make a payment on a loan for over 60 days, and in default when a period of 270 days elapses without a payment being made.

From data gathered at five of the largest student loan guaranty agencies over a 5-year period, focusing primarily on the 2005 loan pool, the study breaks down statistics based upon total borrowing, age of borrower, institution type, graduation data, as well as which year of enrollment a loan was first taken out and highest level obtained.

Primarily focusing on the 1.8 million students who took loans out in 2005, the study found that while 37 percent (or 667,000) went through the repayment steadily without incident, nearly two in every five borrowers fell delinquent within the first five years of entering payment, or 41 percent (712,000 people).

Of those who never fell behind, 23 percent availed themselves of postponement options in a bid for more time. Roughly 26 percent of borrowers became delinquent on their payments, but through postponement were able to pay off their loans eventually. Of this group, a total of 21 percent entered default at some point.

When broken down using graduation as a criterion, the study found that the majority of students who failed to graduate had difficulty repaying their loans (59 percent), while roughly 26 percent later defaulted. Of those students who achieved their diploma, a lesser, though still significant portion (21 percent), had difficulty making payments, with 16 percent defaulting. Even among those who had successfully graduated, an astounding 57 percent had either entered delinquency or had defaulted.

In the downturn of the 2008 recession, many were forced to seek educational opportunities at lower-tuition two-year institutions. Of students attending two-year public and private institutions, the IHEP study found that nearly half were either in delinquency or had already defaulted, with only about 25 percent keeping up with regular payments.

Likewise, for four-year institutions, the level of delinquency for non-graduating students was 27 percent, with 11 percent defaulting. Unsurprisingly, the majority of payment difficulties came from those who last attended a for-profit institution.Also significant was the highest grade obtained. The majority of loan defaults and delinquencies arose from those who completed less than a year at an institution, the IHEP data showed.

The study pointed to a lack of "academic preparation, college awareness" and "institutional capacity" as potential challenges and causes for delinquency and/or default. But also mentioned were the amount of "financial barriers created by rising college prices and stagnating family incomes, which have been exacerbated by the current economic downturn."

Older borrowers tended to have better records of repayment, the study found, citing better financial literacy and spending habits, as well as knowledge of potential options for repayment.

In addressing the report's intent, IHEP President Michelle Asha Cooper stated, "We hope these findings will inform policies that can help borrowers avoid facing the negative consequences of delinquency and default as well as institute practices that will include proactive and timely communications about repayment options."

The American working class collectively owes nearly $1 trillion in student loan debt. Decent employment, however, is scarce, with one opening for every five job seekers. Wages are sinking even among sectors that required a highly skilled workforce. Youth unemployment is double that of the already high national unemployment rate, and young people are compelled to compete with older workers over what jobs are available.

The evaporating prospects for obtaining adequate wages while carrying increased burdens of debt, coupled with diminished borrowing opportunities in the future, bear sinister implications for American workers. In this sense, the student loan industry is of a piece with the overall drive to lower the living expectations of the working class in general.

At the same time, Congress and the Obama administration have targeted federal student grant aid for cuts. The Federal Pell Grants program is facing a cut of $5.7 billion after a reported $20 billion shortfall was reported in its funding. The shortfall is due largely to students increased reliance on the program as tuition costs skyrocket.

In the past decade, the Pell Grant awards have barely risen, making for a substantial decline relative to inflation. Over the same period, state tuition assistance programs have been axed by an average of $700 per student, according to an analysis of governmental data by the Delta Cost Project.

In light of the impending cuts to the Pell Grant program, nine out of 10 of the largest four-year public universities have already begun demanding that students rework their college payment plans to coincide with the slashing of one of their main means of paying for college.