

US student loan lawsuits increase

Bryan Dyne
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The federal government is expanding its lawsuit campaign to recover the \$76 billion of the \$1 trillion of student debt that is in default, defined as 270 or more days without a payment. Private law firms are being hired under lucrative contracts, some granting the firms 25 percent or more of what is recovered, to hunt down those in default using mail, phones and house calls. This is part of a general program of the federal government to collect delinquent civil debts.

Eastern Michigan was one of seven districts where the federal government began using private attorneys to collect student loans in default, starting in 1986. Over the intervening 26 years, the program has been expanded by the Department of Justice to 19 districts—Florida Southern, Florida Middle, Texas Northern, Texas Southern, Pennsylvania Western, Pennsylvania Eastern, Pennsylvania Middle, Puerto Rico, California Northern, California Central, Michigan Eastern, New Jersey, South Carolina, District of Columbia, New York Northern, New York Eastern, New York Western, Connecticut, and Illinois Northern.

These districts are some of the most impoverished in the country. Detroit (Michigan Eastern) poverty is 41 percent. Philadelphia (Pennsylvania Eastern) poverty is 31 percent. This is part and parcel of a deliberate federal policy of garnishing money from the poorest sections of the working class. Student loan debt has become a primary way of doing so, especially considering that federal student loan debt is more than \$850 billion, an amount that is growing with each passing quarter.

Private law firms suing those in default are in addition to collection agencies the government hires to find defaulted borrowers. The penalties for being unable to pay loans at this stage are particularly harsh. After the firm issues a summons, 20 days are given before the person will have the federal government rule against him. From then on, the attorney can garnish

wages up to 25 percent and place a lien on property. All control over how the debt is paid is granted to the firm. Nationwide, 42 firms are contracted to pursue student debt.

The conduct of these firms is especially callous. Instead of leaving if a house call yields no results, they have taken to going to neighboring houses if they suspect their target is simply hiding. Once their target is called by neighbors, informed that an agent of the firm is there to collect student loan debt, the targets often relent, not wanting the knowledge of the student loan suit spreading.

Such incidents are likely on the rise, especially considering that half of recent college graduates are either unemployed or underemployed. Nearly 6 million people in the US are more than 12 months behind on their student loan repayment. The national three-year default rate is 13.4 percent. Law firms involved in collecting this money are oblivious to this, more concerned with gaining up to 30 percent of what they seize as payment for services rendered.

Detroit is being used as a model for student loan recovery efforts of this nature. Since the program began, the Michigan Eastern District Court has accounted for more than 14,000 lawsuits, 13 percent of all lawsuits nationwide. Two hundred fifty suits in Detroit have been filed this year by Holzman Corkery, PLLC; Shermeta, Adams and Von Allmen; Goodman and Poeszat; and O'Reilly & Rancillio—the four firms involved.

Despite this aggressive collection activity, few if any restrictions have been placed on those giving out student loans. As a student loan is not shed through bankruptcy, lenders are extremely willing to lend out money, especially considering the resources that the federal government will use to hunt down anyone who goes into default. The end result of such policies is an exacerbation of the social crisis caused by student loan

debt.

Students attending for-profit institutions are particularly hard hit. Data from the Department of Education shows that the 22.7 percent of students who graduated from for-profit schools, including vocational schools, default within three years.

These policies have been criticized by educators observing the process. Ferris State University President David Eisler commented, “People will make questionable loans to students because they know they have a guarantee that it will get repaid.” The federal government claims it has recovered 80 percent of defaulted loans it has pursued.



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