US lenders force students to pay off loans in full on death of co-signers

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Student loan borrowers in the US are being forced to immediately repay private lenders in the event of their parents' or other co-signers' deaths, according to a biannual report issued Tuesday by the Consumer Financial Protection Bureau (CFPB).

The report noted that the Bureau continues "to receive reports from borrowers discovering that they are in default, when their co-signer, often a parent or grandparent, dies. … Consumers describe their confusion when they receive notices to pay in full since they believed their loan to be in good standing and current."

In case the debt is not paid in full, the loan is placed into default, destroying borrowers' credit record and making it impossible for them to get additional loans, leases, or mortgages.

Not only are the banks demanding immediate payment, the report noted that "Consumers also submitted complaints describing how debt collectors threaten to place liens on property or other assets if the decedent's family members or estate administrators do not immediately pay the loan in full."

The report notes that the number of complaints against student loan issuers received by the CFPB has increased by 39 percent in the six months ending in March, compared with the previous six months, reflecting student loan lenders' increasingly predatory lending practices.

Since the 2008 crash, lenders have become even more restrictive in issuing student loans. In 2011 lenders required co-signers on 90 percent of loans, compared to 67 percent in 2008.

Student loan debt has tripled since 2004, from $364 billion to $966 billion in 2012, according to data released earlier this month by the Federal Reserve. Tuition and fees have meanwhile increased by 6 percent per year, more than two-and-a-half times the rate of inflation.

In 2012, the official delinquency rate for student loans was 17 percent, but that figure underestimates the real rate of delinquency, since it includes those whose loans are in deferral. Among those who have begun paying down their loans, the delinquency rate is nearly one in three.

Almost 40 percent of households headed by someone in their mid-thirties or younger has student loan debt, according to a 2012 survey by the Pew research center, while the average four-year college student graduates with nearly $30,000 in debt.

According to figures reported by the *Wall Street Journal*, the vast growth in tuition and debt burden has driven a significant increase in enrollment for federal income-contingent repayment and loan forgiveness programs, which have increased by 40 percent.

The programs, called Income-Based Repayment (IBR) and Pay As You Earn (PAYE), allow some borrowers to pay 10 or 15 percent of their incomes on student loans for 20 years, then have the remaining balance forgiven.

As opposed to expanding the program to meet the demand, the Obama Administration has responded to the surge in need by calling for cuts to the program. In its latest budget proposal released earlier this year, the White House proposed capping the amount of debt eligible for forgiveness at $57,500 per borrower.

A spokesperson for Education Secretary Arne Duncan made the absurd claim to the *Wall Street Journal* that the proposal was intended to defend the "neediest borrowers" and to protect the student loan forgiveness program from "institutional practices that may further increase student indebtedness."

There is a growing chorus within the political establishment, spearheaded by the Democrats, to slash the minimal student loan forgiveness programs currently in existence. “Loan forgiveness creates incentives for students to borrow too much to attend college, potentially contributing to rising college prices for everyone,” concluded a study by the Democratic Party-aligned Brookings Institution.

Last year, the White House signed a law that allowed student loan interest rates, which had previously been 3.4 percent for subsidized student loans, to float at market rates, meaning that they could go as high as 8.25 percent for undergraduates and 9.25 percent for graduates, approaching the exorbitant rates charged by credit card companies.

The cuts to student loan forgiveness programs are part of the broader bipartisan attack on working people, including the two successive cuts to food stamp benefits over the past six months and the cutoff of federal extended unemployment benefits for more than 3 million people at the end of last year.

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