Seven million Americans in default on student loans

George Gallanis
26 August 2015

According to recent data released from the Education Department, 6.9 million Americans are in default on their federal student loans. In other words, they have not made a payment in at least 360 days, which the Education Department defines as the threshold for default. The figure of nearly seven million, which translates to about 17 percent of all federal loan borrowers, is up six percent, or 400,000 borrowers, from this time last year.

The figure does not take into account those who are not making payments, but are below the official threshold for default. Recent data suggests the number of delinquent federal student loans, payments that have not been made in 90 or more days, has increased to 11.5 percent, up from 11.1 percent from last year.

According to the Federal Reserve Bank of New York, the total student loan debt in the US as of March 31, 2015, which includes federal and private loans, stood at a staggering $1.19 trillion dollars, an increase of $32 billion from the previous quarter and $78 billion from one year earlier. This is a larger figure than either total auto loan ($968 billion) or total credit card ($684 billion) balances in the US. WalletHub notes, “Save for mortgages, student loans constitute the largest component of household debt for Americans.”

According to the same WalletHub study, Pennsylvania ranks first on the list of states with the highest proportion of students with debt and third on the list of states with the highest average student debt. California, Oregon and New York are the top three on the list of states with the highest student debt as a percentage of the income-adjusted cost of living. West Virginia has the highest unemployment rate for people aged 25 to 34 and ranks fifth on the list of states with the highest percentage of student-loan balances in past-due or default status.

For those who default, a litany of possible harsh consequences awaits. According to the Federal Student Aid website, some of these include:

? The entire unpaid balance of your loan and any interest is immediately due and payable.

? Your loan account is assigned to a collection agency.

? The loan will be reported as delinquent to credit bureaus, damaging your credit rating. This will affect your ability to buy a car or house or to get a credit card.

? Your employer (at the request of the federal government) can withhold money from your pay and send the money to the government. This process is called wage garnishment.

The Economic Policy Institute notes, “The cost of higher education has grown far more rapidly than median family income, leaving students with little choice but to take out loans which, upon graduating into a labor market with limited job opportunities, they may not have the funds to repay.”

The EPI explains that from 1983-84 to 2013-14, adjusting for inflation, the cost of attending a private four-year college, including tuition, room and board, and fees, increased by 125.7 percent. The cost of a public four-year college increased by 129 percent during the same time period.

The Economic Policy Institute further writes, “The Great Recession has had lasting effects on employment prospects of young people entering the workforce after graduating from high school or college. Despite officially ending in June 2009, the recession left millions unemployed for prolonged spells, with recent workforce entrants such as young graduates being particularly vulnerable.”

For college graduates, ages 21-24, the unemployment rate, according to the EPI research, currently stands at

7.2 percent, whereas in 2007 it was 5.5 percent. Furthermore, the underemployment rate is 14.9 percent, which was 9.6 percent in 2007. The EPI defines underemployment as “those who are working part time but want and are available to work full time (‘involuntary’ part timers), and those who want and are available to work and have looked for work in the last year but have given up actively seeking work (‘marginally attached’ workers).”

The struggle for the 7 million and counting who have not made a payment on their loans in close to a year is not the result of some character flaw or a sense of “entitlement” that is often ascribed to them, the generation described as “millennials.” The growing student debt crisis is an indictment of capitalism, an economic system that places profit before human needs and strangles the right to an education and the ideals it represents.