Number of Americans defaulting on student loans reaches 4.2 million

Philip Andrea, Genevieve Leigh
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A new analysis released this week by the Consumer Federation of America found that the number of Americans in default on their student loans jumped by nearly a fifth in 2016. Rising 17 percent from 3.6 million in 2015, there are now at least 4.2 million Federal Direct Loan borrowers in default. A borrower is put in default when no payment is made in more than 270 days.

In addition to more borrowers defaulting on their loans, both the number of borrowers and the average amount borrowed continues to increase rapidly. The new analysis shows that the total amount of student debt owed adds up to a staggering $1.3 trillion, triple what it was a decade ago.

The report also emphasized the relationship between student debt and homeownership. Not surprisingly, it was found that people with student debt have a significantly lower chance of owning a home when compared to graduates without debt, namely those aged 30 to 36.

Attaining a college degree has been shown to increase the probability of owning a home, but this statistic still keels to the prospect of debt damaging the borrower’s credit score. According to a recent study by the Federal Reserve Bank of New York, graduates with a bachelor’s or higher degree without debt are about 53 percent more likely to own a home, as compared to those with debt, who are about 7 percent less likely. Those with an associate’s degree and no debt hover around 41 percent, while associate’s graduates with debt are near 32 percent.

The report also showed that among high-balance borrowers, those owing $75,000 or more, only one-quarter to one-third of their debt has been paid down, a sign that repayment has slowed.

Per the New York Fed study, new graduates who take out student loans are leaving school owing an average of $34,000, a 70 percent increase from just 10 years ago.

These figures correlate with the rising cost of tuition, up $2,790 on average at public four-year colleges over the last decade, and $7,100 on average at private nonprofit four-year institutions. Other factors, such as the dwindling job market and growing cost of living, are putting pressures on students that make it more difficult to pursue a decent life while attending and after leaving college.

In a press briefing last week called to discuss the new figures, Federal Reserve Bank of New York president William Dudley attempted to draw something positive from the analysis, an incredible feat considering the findings.

Dudley pointed out that while the overall number of borrowers in default has increased significantly, the number of people in default for the first time, particularly among graduate students, has fallen. He noted that this “reflects something good,” adding that graduate students are utilizing government programs intended to ease the repayment process.

There is nothing that even remotely resembles something “good” reflected in the report. The only reflection is that of thousands of struggling students and graduates drowning in debt. Defaulting, even once, on a federal student loan often means financial disaster for the borrower. As revealed by the recent analysis, those borrowers who are 30 days late even one time, are nearly 50 percent less likely to own a home than those who are never late.

Unlike other types of debt, most student loans cannot be disburdened in bankruptcy. Without this option, the repercussions for those who go into default can include wage garnishment, damaged credit scores, added costs

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in late fees, interest and, in some cases, legal fees. To make matters worse, the number of people defaulting for the second time or more has risen significantly.

Moreover, there are serious problems with the programs that are ostensibly meant to help borrowers pay back their loans. It has recently been announced that the more than 550,000 people who signed up for a federal program that promises to repay their remaining student loans after they work 10 years in a public service job may not be given their promised relief.

In a legal filing submitted at the end of March, the Education Department suggested that borrowers could not rely on the program's administrator to say accurately whether they qualify for debt forgiveness. They claim that the thousands of approval letters sent by the administrator, FedLoan Servicing, are not binding and can be rescinded at any time.

The new statistics released by the Consumer Federation of America for 2016 become all the more appalling when one considers the accumulation of wealth by a small handful. Forbes Magazine's annual survey recently reported that the combined wealth of those on Forbes' billionaires list rose 18 percent in 2016, to $7.67 trillion, enough to foot the total student debt bill nearly six times over.

Despite former President Obama's claim of "economic recovery" since the 2008 recession, and the stock market boom of the Trump presidency, the reality is quite the opposite for the working class.

An 18-year-old working class youth, upon high school graduation, is left with two options: attend university and take on massive amounts of student debt, accepting the risk of living through four years of food insecurity and even homelessness, or, enter the job market where the unemployment rate among youth is at 10.4 percent and the majority of the jobs available pay no more than minimum wage. Alternatively, some choose to enter the military, an even deadlier risk, as a way of paying for an education.

The psychological effect that accompanies living with the burden of thousands of dollars of debt is incalculable. Even the fear of being unable to earn a liveable income after graduation compels students to discard any aspirations of a career in fields such as art, music, film and the humanities. All critical questions of social life become subordinate to the looming cloud of student debt.

Over a quarter of the generation known as "millennials" have reported delaying starting a family due to the economic constraints caused by student debt. For the first time in the last 130 years, Americans between the ages of 18 and 34 are more likely to be living with their parents than with a spouse or partner.

These conditions, created by the failure of the capitalist system, are crippling the development of an entire generation. The rising student debt crisis is just one of many indices that reveal the dire state of this generation.

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