US student debt crisis deepens as federal loan interest accrual resumes

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Interest accrual on US federal student loan debt resumed on September 1, impacting 43 million borrowers who owe more than $1.7 trillion through various Department of Education lending programs.

On October 1, student loan holders are due to resume payments, after 42 months of pandemic forbearance first enacted in March 2020 by then-President Donald Trump and extended multiple times by both the Trump and Biden administrations.

At the beginning of June, as part of the political horse-trading between President Biden and Republican House Speaker McCarthy over a deal raising the federal debt ceiling, the White House agreed to end the pandemic student loan holiday as of August 30.

At the time of the debt ceiling deal, Biden claimed he was working on a new student debt forgiveness program. His initial proposal, announced in August 2022, would have forgiven up to $20,000 in debt per student and reduced loan balances to zero for 20 million borrowers. It was struck down by the Supreme Court in a 6-3 ruling this past June.

The court ruled that Biden did not have the executive authority to cancel $400 billion in student loan debt, saying the plan amounted to “seizing the power of the Legislature” in violation of Congress’ “control of the purse.”

The corporate-financial elite, which dictated the decision to scrap Biden’s loan relief scheme—itself wholly inadequate to rescue millions from a lifetime of debt—is well aware that many student loan borrowers have no means of making their payments. With the average debt per student loan holder at $37,338, the combination of inflation-driven increases in the cost of living and declining real wages, even for those with a college degree, has put borrowers in an impossible financial situation.

The volume of student loan debt in the US stood at $1.766 trillion as of the second quarter of 2023, according to data maintained by the Federal Reserve Board. This is greater than the total amount of US credit card debt ($1.031 trillion) or US auto loan debt ($1.56 trillion).

According to the Consumer Financial Protection Bureau (CFPB), approximately one in five student loan borrowers has “financial risk factors that could cause them to struggle when their payments resume in the fall.” The CFPB reported that one in 13 holders of federal student loans was already behind on other payment obligations in advance of the end of the repayment pause.

As of March, around 2.5 million people with student debt were delinquent on another of their loans or payments, an increase of 200,000 compared to data collected in September 2022. Kentia Elbaum, a spokesperson for the CFPB, told CNBC in June, “These borrowers might be unable to make payments on their student loans if they are already missing payments on their credit cards or auto loans, which research suggests people often prioritize over their student loans.”

The likelihood that a significant percentage of student loan borrowers will not begin repayments in October is very high. According to a survey conducted in August by the research company Intelligent.com, 62 percent of respondents say they are unlikely to start repaying, and approximately one half believe that a payment boycott will lead to total forgiveness of their debt.

Another survey conducted by the consumer financial services company Bankrate showed that 48 percent of borrowers see student debt as a national crisis. The Bankrate study said most households with student debt “have had to put off major financial decisions and milestones because of their loans.” It added, “They’re delaying buying a house, having children or getting married, and are saving less for retirement or emergencies.”

The Biden administration, concerned about the potential economic and political impact, has been working with the corporate media to communicate its yearlong "on-ramp" program. Under this scheme, any payments missed between October 1, 2023 and September 3, 2024 will not be considered delinquent and will not impact credit scores. According to the *New York Times*, "Your loan servicer will automatically put any missed payments in forbearance, which, in this case, means they will be tacked on to the end of your loan term."

In other words, for an entire year, loans without payments will increase in size because interest will continue to accrue on them, putting borrowers further in the hole.

The public relations campaign by the corporate media points out that borrowers who were already in default will be getting a "fresh start" if they are at least 270 days behind in their payments. The borrowers will first have to call the US Department of Education's Default Resolution Group and have their loans put into a special program.

Another promotion by the corporate media concerns a March 2020 government rule change that permits employers to offer educational assistance by repaying up to $5,250 per year of employee student loans, tax-free.

In a statement, IRS Commissioner Danny Werfel said: "The IRS wants to remind both employers and employees about this special feature that can help with student loans. There is a limited window of time [until December 31, 2025] for this educational assistance program, and the IRS wants to make sure employers don't overlook this option that can help businesses attract and retain workers."

These paltry offerings do not address the financial disaster facing young people and their families from the soaring cost of a college or university education and the consequent necessity for tens of millions to borrow enormous amounts of money to have access to higher education—something that should be available and free for everyone.

No one can seriously claim with a straight face that "there is no money" to finance this basic social right when the government allots $1 trillion a year for the military, spends billions each month on the proxy war against Russia in Ukraine, comes up with hundreds of billions to bail out bankers and rich depositors, and maintains an economic system that funnels ever greater fortunes to the wealthy elite while further impoverishing the working class.

As the *World Socialist Web Site* explained in a previous report on the Biden administration's failed attempt to provide limited forgiveness to student borrowers, Wall Street is feasting off of student loan debt through the securitization of loans, made possible by the government's use of third-party "loan servicers."

Companies such as the recently created AidVantage are packaging what are known as Student Loan Asset-Backed Securities (SLABS) and selling them to investment banks and other financial organizations.

As a 2019 article titled "Wall Street has been gambling with student loan debt for decades," published by OpenDemocracy.net, explained:

> These companies [loan servicers] also issue Student Loan Asset-Backed Securities (SLABS) in collaboration with major financial institutions like Wells Fargo, JP Morgan and Goldman Sachs. For these firms and their creditors, debt isn't just an asset, it's their bottom line.
>
> Investors holding SLABS are entitled to coupon payments at regular intervals until the security reaches final maturity, or they can trade the assets in speculative secondary markets...
>
> Yet the financialization of student debt is almost never reported on in the media. There is little public awareness that when student borrowers sign their Master Promissory Notes (affirming that they will repay their loans and "reasonable collection costs"), their debts may be securitized and sold to investors.

The student loan racket must be shut down through the mobilization of the working class to expropriate the banks and speculators, terminate the debts of student loan holders, and redirect social resources to vastly improve public education and provide free higher education for all who desire it.