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Alan Collinge

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Department of Education: Over half of federal student loan borrowers were not paying before Pandemic.



Alan Collinge Nov 10 : 3 min read



StudentLoanJustice.Org

November 11th, 2021

(updated 11/12/21)

Recent (Q3, 2021) data from the Department of Education reveals several

R disturbing and unreported facts about both the Federal Direct Student Loan Program, and also the Federal Family Education Loan Program (FFELP). These two programs account for the vast majority of all federal student loans in the country.

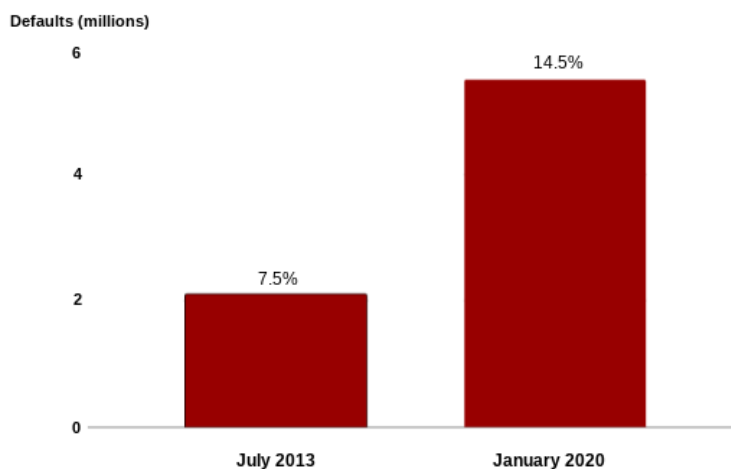
First, the data show that just before the Covid-19 pandemic had arrived in the U.S., over half of all federal student loan borrowers were not making payments on their loans (ie. they were either in default, forbearance, deferment, or were otherwise not making payments).

	In Repayment (millions)	Non-payment (millions)	Non-payment %
Direct Loans	18.5	20.9	53.0%
FFELP Loans	7.2	5.2	41.9%
Q4 2019 Totals	25.7	26.1	50.4%

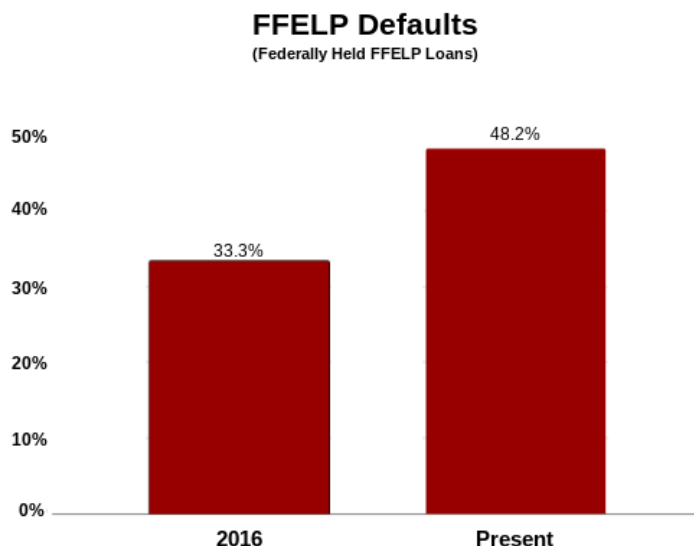
Source: [Department of Education Loan Status Report, Q3 2021](#)

More significantly, the data showed a large increase in defaults and default rates for both types of loans since 2013. For Direct Loans, the number of defaults nearly tripled (from 2.1 million to 5.7 million) and the default rate nearly doubled (from 7.5% to 14.5%) between July 2013 and January 2020.

Direct Loan Defaults



For the FFELP program (which was ended in 2010), defaults have grown dramatically worse. For federally held FFELP loans (which can be cancelled by executive order), the percentage of borrowers in default climbed from 33% to nearly half of all borrowers in a shorter time period (2016 to the present). For FFELP loans generally, the percentage of loans in default grew from 19.2% in 2013 to 32% in Q3 2021.



Note: *The Department of Education acknowledged in 2015 that 1 in 5 defaulted borrowers are compelled to pay to bring their loans out of default through loan rehabilitation, a very expensive, and extremely unwise process where 80% of rehabilitated loans default a second time. This implies true default rates of 25% higher than what is shown here.*

These defaults will increase quickly going forward. The Brookings Institute predicted a default rate of 40% for all borrowers who left school in 2004, but this class borrowed less than a third of what is borrowed today. In December, 2019, Education Secretary Betsey DeVos remarked that 75% of all federal borrowers were “not making headway” on their loans (ie they were either unable to pay, or were paying, but their loan balances were increasing). Taken together, these data suggest that something like 75% of all borrowers were ultimately going to default on their loans even before the pandemic. The subprime home mortgage default rate during the Financial Crisis of 2008, by contrast, was only 20%.

Because federal student loans have been uniquely stripped of bankruptcy protections and statutes of limitations, the real harm these loans have caused tens of millions of people has been especially severe, and the harm that the federal lending system is now poised to inflict upon the citizens is immeasurable. **This is not acceptable.**

The President and Congress should act swiftly to resolve this problem. Passing the bankruptcy bill S.2598 is the least that Congress can do in the near term. This legislation will return standard, constitutionally enshrined bankruptcy protections to federal student loan borrowers who have been out of college for ten years or more. It has both republican and

democratic sponsorship and could be passed quickly.

President Biden should immediately order the Department of Education and its contractors to stop opposing student loan borrowers in bankruptcy court. However, it would probably be better at this time to simply cancel the loans entirely by executive order (which could be done without needing any funds from the Treasury, and nothing added to the national debt), and use this pandemic as an opportunity to replace the lending system with a more rational- and less expensive-funding model for higher education in this country.

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I am Founder of StudentLoanJustice.Org, author of The Student Loan Scam (Beacon Press), and creator of the petition Change.Org/CancelStudentLoans

Aug 5 ★

Press Release



Student Loan Justice

Durbin, Cornyn Introduce Critical Bankruptcy Legislation for Student Loans: S. 2598

August 5, 2021

We strongly applaud Senator’s Dick Durbin (IL) and John Cornyn (TX) for introducing [S. 2598: The Fresh Start Through Bankruptcy Act of 2021](#). Returning bankruptcy protections to federal student loans is the first step that must be taken to address this national crisis. ...

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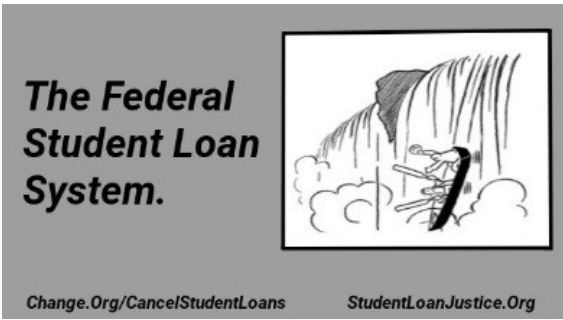
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[Jun 8](#) ★

[An Open Letter to President Biden.](#)



This message was submitted to the White House on June 8th, 2021:

Mr. President,

Before the election, you said you would “eliminate” federal student loans for people who went to public colleges and earned less than \$125,000 per year, and that you were endorsing a bankruptcy plan that included both...

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Apr 25 ★

Petition to Cancel Student Loans Reaches One Million Signatures



April 27th, 2021

A petition calling on the President to cancel student loans by executive order has reached 1 million signatures. ...

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[Feb 22](#) ★

Over a third of U.S. States owe more than their entire state budgets in student loan debt.



[Revised 2/26 **](#)

Student loan debt in the United States stands at about \$1.8 Trillion. Analysis of the most recent Department of Education data, and also the most recent state budget data (2017) compiled by the National Association of State Budget Officers (and assuming a uniform distribution of private student debt across the...

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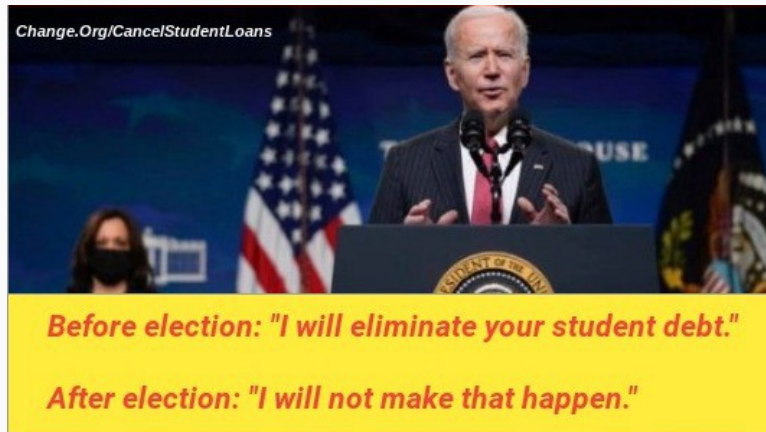
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[Feb 19](#) ★

The real reason President Biden doesn't

want to cancel student loans by executive order.



Before the election, Joe Biden and the media had tens of millions of distressed student loan borrowers believing that he was going to eliminate their student loan debt- perhaps by executive order- on day one.

Since winning the presidency, however, he (and the corporate press covering him) are singing a...

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