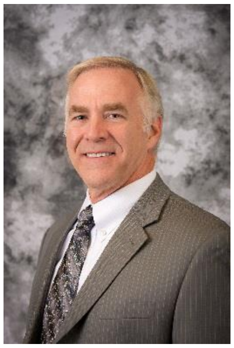
The Burgeoning Crisis of Student Loans: What to Do and Where to Go!



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In a recent study released by the U.S. Department of Education ("USDE"), the number of people severely behind in their student loans has soared in the past year, and continues to grow. This is evident by the sheer number of student loans that default on a daily basis which was last reported to be approximately 3,000 student loans defaults! Further, the Consumer Federation of America (CFA) released a recent study finding that millions of people had not made a payment on the more than $137 billion in federal student loans for at least nine months, a 14 percent increase in defaults from a year earlier.

According to the CFA report, the average amount owed per federal student loan borrower, is $30,650.00 which is a 17 percent increase since 2013. Although the study cannot point to any one reason for this increase, it did state that the borrowing to attend expensive graduate programs and an overall rise in the cost of a college education are contributing factors.

As stated in the USDE's recent release, a Senior Fellow at the CFA stated that "our broken system works well for the student loan industry but is failing borrowers, tax payers, and our economy." Ultimately the free flow of cash between the lending institutions and schools of higher education allows for recently graduated high school students (and their parents) to borrow thousands upon thousands of dollars for student loans with the ability to put off the consequences of having to pay back such significant amounts to a much later date.

The CFA report apportions the cause for this condition to a wide range of reasons, but puts the blame in part on the colleges doing a poor job of graduating students who are taking on debt to earn a less than marketable degree leaving them with limited prospects of earning enough to repay their significant loans. A portion of the blame was also given to the Education Department which the CFA felt did not hold schools accountable for their marketing claims of high incomes upon graduation.

In recent months, several states have filed law suits against Navient, which was spun off from Sallie Mae in 2014, claiming that the loan process was paramount to predatory lending and has extended billions of dollars in private student loans that should never have been made. The State of Washington's attorney general's office stated in its pleadings that the "loans were designed to fail". Within the lawsuits, it was also alleged that Sallie Mae used private subprime lending with expected default rates as high as 92 percent! Once a person defaults on their student loans the default provisions are triggered resulting in the assessment of double digit interest charges creating a cascading, downward spiral of financial distress for the borrower!

While the frequency of student loan defaults has continued to increase, the ability to seek relief from those loans through the U.S. Bankruptcy Court has continued to increase in difficulty! While there is a redress through the Bankruptcy Code under §523 (a)(8) a debtor must first be able to demonstrate that he suffers from a "substantial hardship" in order to get relief. While this may sound like a simple matter, the courts in interpreting the application of this increased burden have made the results anything but promising.

One glaring consequence of the growing student loan debt is the impact to young couples seeking to purchase their first home. A recent article posted by an on-line service that works with such young couples stated that 41 percent of college educated individuals have postponed their attempts to buy a home due to their crippling monthly student loan payments or simply because they cannot qualify for a mortgage.

A number of options have been made available to the harried borrower, but those options are limited for those with private student loans except through the direct outreach program by the Department of Education. If a person's loans are based upon the Federal Student Loan program, more options are available and are generally based upon an income driven analysis. Here is a link that may provide some insight and assistance:

https://studentaid.ed.gov/sa/repay-loans/understand/plans/income-driven