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WHY STUDENT LOAN DELINQUENCY IS FALLING

A strong labor market is part of the story—but not all of it—as more borrowers take advantage of forbearance and income-driven repayment

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The share of new delinquencies on student loans has fallen to the lowest level in more than decade – and it's not just due to the healthy labor market.

In the first quarter, slightly over 9 percent of student debt outstanding was newly delinquent, based on Federal Reserve Bank of New York figures smoothed for seasonal volatility. The student-loan delinquency rate is still far higher than rates for any other type of consumer debt and would be much higher if it excluded certain borrowers, such as students still in school, who do not have to make any payments.

Still, the rate for new delinquencies on student loans has fallen steadily in recent years.

Several factors are likely behind the decline. Unemployment, at 3.9 percent in April, is at its lowest point since late 2000, and economic growth picked up over the past year, while wages are rising. More borrowers are likely in a better position to make payments.

Another factor is that more borrowers are using options to postpone payments, or to reduce the amount they are required to pay each month.

The first option, known as forbearance, allows borrowers to go months without making a payment while remaining in good standing on their debt. The government provides the option for people going through hard times, such as unemployment.

The second option, income-driven repayment, sets borrowers' monthly payments as a share of their income – typically 10 percent of "discretionary income," as defined by a formula.

Government reports show the number of borrowers using those options has risen sharply in recent years.

A recent Government Accountability Office report highlights how schools have hired companies known as default-management consultants to help reduce their cohort default rates. The consultants are urging many students to seek "forbearance," in which the government allows them to suspend payments for a period, in many cases 18 months, the GAO says.

With forbearance, and in many cases with income-driven repayment, borrowers' balances rise as interest accrues. The effect is that while those options help borrowers avoid falling into delinquency, it extends the amount of time required to make the payments. And some borrowers in income-driven repayment plans will eventually have a portion of their debts forgiven, at a cost to taxpayers.

The New York Fed data show a separate measure of delinquencies on student debt has also fallen.

During the recession, delinquencies across categories of debt including auto loans and credit-card debt spiked. Around 2011, debt delinquencies reversed course, except for student-loan delinquencies, which rose through 2012 and remained at an elevated level for several years.

In the first quarter, 10.7 percent of student-loan debt was considered delinquent, meaning a payment hadn't been made on the debt in at least 90 days. This figure marked the smallest share of student-loan borrowers in serious delinquency since 2012.

Josh Mitchell contributed to this story.