Millions of Americans who went to college seeking a better future now face crushing debt from student loans—while the industry makes a handsome profit. How a broken system landed so many in this mess.

ConsumerReports

Almost every American knows an adult burdened by a student loan. Fewer know that growing alongside 42 million indebted students is a formidable private industry that has been enriched by those very loans.

A generation ago, the federal government opened its student loan bank to profit-making corporations. Private-equity companies and Wall Street banks seized on the flow of federal loan dollars, peddling loans students sometimes could not afford and then collecting fees from the government to hound students when they defaulted.

Step by step, one law after another has been enacted by Congress to make student debt the worst kind of debt for Americans—and the best kind for banks and debt collectors.

Today, just about everyone involved in the student loan industry makes money off of the students—the banks, private investors, even the federal government.

42 million

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Once in place, the privatized student loan industry has largely succeeded in preserving its status in Washington. And in one of the industry's greatest lobbying triumphs, student loans can no longer be discharged in bankruptcy, except in rare cases.

At the same time, societal changes conspired to drive up the basic need for these loans: Middle-class incomes stagnated, college costs soared, and states retreated from their historical investment in public universities.

If states had continued to support public higher education at the rate they had in 1980, they would have invested at least an additional $500 billion in their university systems, according to an analysis by Reveal from The Center for Investigative Reporting.

The calculus for students and their families had changed drastically, with little notice. Today, there is a student debt class like no other: about 42 million Americans bearing $1.3 trillion in student debt that's altering lives, relationships, and even retirement.

"I feel I kind of ruined my life by going to college," says Jackie Krowen, 32, of Portland, Oregon, a nurse with a student loan balance of $152,000. "I can't plan for an actual future."

One of the beneficiaries in the profit spree behind this debt is the federal government. By the Department of Education's own calculations, the government expects to earn an astonishing 20 percent for the loans it made in 2013.

Today student debt is a $140 billion-a-year industry, and unlike many of its student customers, the industry's future looks bright.

Retreat of the States

In the summer of 2010, Saul Newton was a 20-year-old rifleman stationed at a small U.S. Army outpost in the remote, dangerous Arghandab River Valley of Afghanistan.

It was a radical change for a kid from suburban Milwaukee who only months before had been a student at the University of Wisconsin-Stevens Point.

But after two years of tuition hikes, Newton found himself with about $10,000 in student loans and the prospect of still more borrowing if he stayed in school. "I couldn't afford it any more," he says. He dropped out and enlisted, hoping one day to go back to school under the GI bill.

He wound up fighting the Taliban. His unit's worst day was when the battalion chaplain and four other soldiers were killed by a roadside bomb in August 2010.

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"My focus was on doing my job and staying alive," Newton says. But no matter what else was going on at the outpost, once a month he says he went to the wooden shack where the unit kept a laptop computer and made his online student loan payment of $100.

He worried that if he didn't pay his loans, his credit would be shot. (Newton says he wasn't aware that the government offers student loan deferments to active soldiers in wartime.)

Today, back home in Wisconsin as director of the Wisconsin Veterans Chamber of Commerce, Newton says his state's cuts to higher education will force more young people to face the same choices he did.

"You shouldn't have to go to war to get a college education," he says.

In the last decade, Wisconsin has cut back sharply on funding its state university system.

In 2003, students paid about 30 percent of the University of Wisconsin system’s total educational cost, according to data compiled by the State Higher Education Executive Officers Association. By 2013, after several rounds of state budget cuts, students were responsible for about 47 percent, and more state cuts to higher education are expected.

By 2014, 70 percent of Wisconsin students graduated with debt—the third-highest percentage in the nation for students at public and nonprofit colleges, according to the nonprofit Institute for College Access & Success, or TICAS.

Wisconsin’s trajectory follows a national trend. After World War II, the states appropriated more and more funds for public higher education, and by 1975, they were contributing 58 percent of the total cost. But since then they have steadily reduced their share, pressured by, among other things, the rising costs of Medicaid and prisons. Today, state support is at 37 percent nationally, according to data from the U.S. Bureau of Economic Analysis.

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As the states cut back funding, universities raised tuition. To cover the increase, more students borrowed, which brought in even more money for the thriving industry. The next step: collecting all the debt.

Calls, at All Hours

The work was automated and fast-paced: Calls were robo-dialed, and the delinquent borrower's account history flashed on the computer screen in Jessie Suren's cubicle. Her job, which paid about $12 an hour, was to engage with the borrower, stick to the script—and try to get some money out of people who were delinquent on student loans.

At the massive call center in Harrisburg, Pa., Suren felt like she was working for the enemy. The 28-year-old owes about $90,000 in student loans.

Some calls were scary, Suren says; angry borrowers would curse and threaten, declaring they were jobless and broke. Other calls were heartbreaking; borrowers would say they or their children were terminally ill.

Whatever their story, Suren says she'd have to tell borrowers what would happen if they didn't pay: American Education Services, a loan servicing company, could take their tax refund and garnish their wages.

After hanging up, Suren would sometimes reflect on her own student loans. "This is going to be me in a couple of years," she would think. Eventually, she quit.

The federal government holds about 93 percent of the $1.3 trillion in outstanding student loans. That makes the Department of Education, effectively, one of the world's largest banks, but one that rarely deals directly with its customers.

In the 1980s, the department began contracting with private companies to take over some debt collection. Then after privatization, a surge of investors poured into this field. Established debt-collection firms were bought up by privately held investor funds controlled by the likes of JPMorgan Chase and Citigroup.

Today, one in four borrowers are behind in their payments, according to the Consumer Financial Protection Bureau, with an estimated 7.6 million in default. As borrowers struggle to make payments, debt-collection profits rise.

Contractors are expected to make more than $2 billion in commissions from the government this year, according to the National Consumer Law Center.

With the stakes so high, complaints about overzealous debt collectors have soared. Federal and state agencies have fined contractors millions for misconduct in harassing student debtors. Some have lost their contracts entirely.

San Francisco graphic designer Brandon Hill says debt collectors from Sallie Mae began calling him "yelling and screaming" about his past-due payments as early as 5 a.m. After he complained to state regulators in 2013, Sallie Mae and Navient Credit Finance turned around and sued him for immediate repayment of a combined $73,000 in student loans, records show. "I was sued for complaining," he says. His lawyer is negotiating a settlement.

In a letter to the California attorney general's office, Sallie Mae wrote that the company had "acted appropriately" in contacting Hill. The flurry of 5 a.m. calls occurred because Hill's cell phone has a Virginia area code, so the collectors assumed he was on the East Coast, a Sallie Mae official wrote.

Retired University of Cincinnati professor Mary Franklin says student debt collectors told her they would garnish her disability insurance benefits because she had fallen behind on a student loan dating back decades.

"I tried to explain to them that I was ill," she says. "They said the federal government [doesn't] care." Eventually, she says, she managed to resume payments.

Congress revised the program again and in 2010 took back control of issuing federal student loans; the government now loans directly to students. However, it left intact the industry that had grown up to service and collect the loans.

Other progress has been made. New regulations introduced after 2013 now limit a student debtor's federal loan payments to as low as 10 percent of discretionary income. And in 2015, the Obama administration launched a pilot program to test whether federal employees could effectively take over the job of collecting unpaid student loans, while at the same time being more helpful and less aggressive than private collectors.

To Deanne Loonin, a lawyer who monitored student debt for years for the National Consumer Law Center, the Treasury experiment is focusing on one of the biggest problems confronting borrowers.

"We need to eliminate the private collection agencies from this process," she says. "They are incentivized just to collect money, not to work out ways that might be better for the borrowers. We need to see what else might work."