College Loan Debt Crisis Getting Worse - What Parents and Students Need to Know

May 29, 2013 - The delinquency rate for student loans is now 11%, according to a new report from the Department of Education. The report reflects data through the third quarter of 2012 and the loans that fall into this category are 90 days or more delinquent. That amounts to more than $110 Billion in delinquent loans that are insured by taxpayers. Yet many politicians across the country are trying to make college loans easier to get without addressing some very fundamental problems within the college loan system. The real question that prospective students and parents need to answer before they borrow is, "Will I be able to earn enough money to pay back my loans?"

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Frankly, the federal government should be looking at college loans and asking the very same question. But that isn't happening. The unfortunate result is that families are continuing to borrow large sums of money based solely on the "hope" that after graduation, they (or their children) will be able to earn enough to pay the loans back and also lead a decent lifestyle. Based on the latest employment figures for young people, taking out student loans may be the worst thing they can do.

Fully 1/3 of people between the ages of 20 to 24 are currently unemployed according the latest DOE numbers. And by next year, the average student loan debt will exceed $35,000. Depending upon where you go to school - and your in-state status - you could find yourself owing significantly more than this. The result of this is that many recent college graduates are going out into the world only to find that they are immediately financially handicapped.

Many grads are having to move back in with Mom and Dad; something that nobody in most families is counting on when they send their kids to college in the first place. And there is a real toll to the economy in general. Recent numbers show that people with college loans are now less likely to purchase a home or a new car than those without college loan debt.

Those statistics are opposite those from 2008.

The key to avoiding some of these issues is to educate yourself before you borrow, and to make logical choices for your (or your child's) education. Here are some things to consider:

Have you selected a major? If the answer is "no", you should probably consider starting your college experience at a community college. At the very least, stick with in-state schools to limit your tuition expenses. You can always transfer to another college to finish up your education. Just remember, no employer is going to ask you where you started college. They are only going to care about which institution you graduated from.

How much will college cost me? It really pays to do research on this. It's not just tuition that you need to be concerned with. You also need to look at the cost of books and living expenses - all things that can be rolled into your college loans. Most universities offer general information on all of these costs on their websites. If you are borrowing to cover all of these costs, then you should do everything you can to minimize the amount you owe by the time you graduate.

How much will you make after graduation? Once you have selected a major, you need to know if you will be able to afford to pay back your loans and live the life you want. How much you will make after your graduate is dependent upon a number of factors including your GPA, where you went to school and how relevant your degree is to your chosen profession. Fortunately, there is a calculator available from the National Association of Colleges and Employers that can give you some idea of your earning potential.

Families need to start looking at a college education as a business decision. A quick use of the NACE calculator told me that marriage and family counselors with a degree in sociology in Denver have a starting salary of around $27,000. Knowing that, it is a fairly simple task to determine if I want to borrow $100,000 or more for a degree. BTW, I don't see that as a good investment.

It is unfortunate that colleges and universities aren't using calculators of their own to set tuition rates based on employment data. The way that loans are granted right now, they have no incentive to do so. So it is up to students and families to determine if college is really worth the cost or if they can do better in the long run by going a different route.
byJim Malmberg
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