College Loan Debt Continues to Rise

May 13, 2014 - College loan debt, the largest single consumer debt category, continues to increase. Consumers now owe $1.11 Trillion as a result of borrowing to go to school. With growing evidence that student loan debt is affecting the overall economy, you might think that congress and the White House would be anxious to change the way that student loans are awarded and administered. But the primary proposed solution to the growing problem of student debt has been to hold down interest rates. While that may help individual borrowers, it does nothing to address the issue increasing tuition costs, increasing default rates or increased risk to taxpayers who are ultimately responsible for federal student loans.

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Federal student loans were supposed to provide students with reasonably sized loan, with reasonable interest rates. But it didn't take long for colleges and universities to figure out that the federal government would be willing to lend students much larger sums of money if they simply raised their tuition rates. Anyone who wonders why college tuition has increased much more rapidly than inflation need look no further than federal student lending rules.

Furthermore, the amount a student can borrow is based largely on the tuition being charged by a particular university. At no time in the lending process does the government look at the student's major field of study, or income and employment statistics for that field of study. The end result of this is that student who major in fields of study with average annual income of $40,000 or less can actually have well over $100,000 of student loan debt by the time that they graduate.

These issues are compounded by the fact that certain schools have extremely high default rates and low rates of graduation. The worst of these tend to be for-profit colleges; many of which are online. While the government knows this, it has done little to reign in these colleges.

The end result of this is that as a nation, we are now sending large numbers of college graduates into the job market, already heavily indebted, and with little hope of ever being able to get out of debt.

This is a sad commentary. The goal of most students in pursuing a degree to be able to earn a decent living and to share in the American dream. But if owning a home is a part of that dream, many graduates are being forced to put off that rite of passage. They simply can't afford a mortgage and their monthly student loan payments.

Not only is this a tremendous change when compared to prior generations. It is also having a large impact on the economy which is largely driven by construction. Clearly, some changes in student lending are needed.

Specifically, if the government is going to use taxpayer money for student lending, it has an obligation to make good lending decisions. Here are a few things that we believe should be taken into account in the lending process:

Tie loan amounts to income and employment statistics - This should be done on a university by university basis. Loan amounts should be capped based on those statistics. This would have the added benefit of driving tuition costs down in fields that pay less.

Tie loan interest rates to the default rates at the university being attended - This would force schools with high default rates to change their programs or go out of business.

Limit the overall amount of money each school can award in student loans and reduce that limit for any school that raises tuition rates by more than the rate of inflation - While this would do nothing to drive current costs down, it would restrict future tuition increases.

These seem like common-sense policies that would protect students and taxpayers. They would likely face stiff opposition from universities across the country. But without reform, student loans may pose a risk to the economy that is just as great as that of the collapse of housing markets in 2008. And simply forcing interest rates down will do nothing to address some of the systemic issues mentioned above which plague student loans.
byJim Malmberg
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