DOE Finally Implementing Student Loan Rules that Make Sense

April 26, 2016 â€“ It has been several years now since we told our readers that we thought the DOE needed to look at the potential future earnings of college students â€“ based on their declared majors â€“ when handing out student loans. After all, it makes absolutely no sense at all for someone to run up $200,000 in debt when expected annual earnings will be $35,000 a year. Now it looks like that will finally start happening with private colleges and universities. It isnâ€™t exactly what we wanted to see â€“ since it doesnâ€™t apply to state run institutions â€“ but it is a good start.

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Essentially, the new lending rules will require the Department of Education to look at the expected annual income of students after graduation when deciding how much money to loan students. The rule requires college programs that are eligible for student loans to prepare graduates for â€œgainful employment in a recognized occupation.â€• But this requirement doesnâ€™t simply mean that graduates need to be able to find a job. It will also mean that their debt canâ€™t be too high.

Specifically, the amount of debt the students have must be able to be repaid using 8% of their gross expected income or with no more than 20% of their expected disposable income. Under the new rules, programs that donâ€™t meet these criteria must be reported to the DOE and they wonâ€™t be eligible for student loans.

Students and graduates currently have more than $1 trillion dollars of owed student loans nationally. And there is growing evidence that it is affecting the overall economy by delaying major purchases - such as buying a home.

This debt is also becoming a growing concern for taxpayers. Federal student loans are backed by taxpayer money. When borrowers default, the rest of us are on the hook to pay the bill.

The logic for starting with private colleges and universities is soundâ€¦ especially with for-profit institutions. Default rates on loans with these institutions are significantly higher than with state run colleges and universities. In some cases exceeding 20%.

Graduation rates among this group of schools also tend to be lower. That means that individuals are running up debt while they are students but leaving school without the benefit of a degree. The chances are very good that those who find themselves in this position will never find gainful employment using the skills they were studying. And the chances of default for these former students is significantly higher than for those who actually graduate.

According to the DOE, there are more than 1,300 programs nationwide that will become ineligible for student loans under the new rules, and more than 800,000 students who will be impacted.
byJim Malmberg
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