College Loan Debt â€“ What You Need to Know

Itâ€™s almost time for high school graduation and as soon as thatâ€™s over, a lot of families will be preparing to send their children off to college. The lucky ones will have their education covered by their families or by a scholarship. But the reality is that college has become so expensive that it is now common place for students to take out college loans. While this may be a good option for some, student loans have their pitfalls too. Both you and your children need to know what you are getting into prior to signing on the dotted line.

A decade ago, graduating college students with student loan obligations owed an average of about $10,000. That number is up more than 75% today, to nearly $18,000.

Unfortunately, this is often just the tip of the iceberg. Credit card companies are eager to offer college students new revolving charge accounts. When combined with student loans, it is not uncommon for the overall debt to more than double.

The sad reality of this is that many students are graduating only to find out that they are saddled with debts that they canâ€™t pay off. The debts that they accumulate in college could follow them around for years.

There is a great irony in this. College is supposed to help people get ahead in life. From an early age we are all taught that a good education is the key to a successful life. But students who arenâ€™t careful may find that their good education actually comes at a price that they are not prepared to pay.

The first thing that accumulating too much debt may do to your child is force them to change their career goals. A recent study by the Oregon Student Association determined that nationwide, 23.2% of public university students would face severe financial hardship if they went into teaching as a profession. The numbers were even worse for those attending private universities. 38.1% of them would face hardship as teachers.

The teaching profession is just one example of the types of choices that students will face after graduation. Many students will find that they need to take jobs that pay well in lieu of jobs that they want if they ever want to be debt free.

Another problem faced by students that are heavily in debt is that their debt to income ratio may be massive. This can create real problems with their credit scores, making it impossible to get new credit. This can also cause problem for them when searching for a job after graduation. Many employers check the credit of prospective candidates. Bad credit can be enough to keep that student from getting their dream job.

Prior to sending your children to college, you need to sit down with them and have a talk about financial responsibility. Itâ€™s important for them to understand that if they go wild with spending, it may really hurt them in the long run.

Take for instance the case of federally insured college loans. There are now at least two separate federal court cases involving people who have defaulted on their loans, and then filed for Social Security or disability benefits. In both cases, the courts agreed with the federal government that these payments should be garnished to pay back the loans.

In one of these cases, the defendant argued that if he was forced to pay the government back he would no longer be able to pay for his medical care. The court ruled that his plight didnâ€™t matter because Congress had enacted specific laws that state student loans must be repaid.

The point here is that the decisions your children make today may impact them for many years to come. Good advice to them would be that if they canâ€™t make a purchase with cash then they probably canâ€™t afford what they are buying. If your child believes that you are being unrealistic when you say something like this, you may want to point out that it may be even more unrealistic to accumulate a lot of debt and think that you are going to be able to pay it off when you donâ€™t even have a job. And for most college students, thatâ€™s the position that they are in.

by Jim Malmberg

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RE: Goverment Backed Student Loans

Written by cat101 on 2006-04-21 Also, it is important to realize that these types of student loans can not be wiped out by bankruptcy. They stay forever.....

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