Student Loan Debt

June 4, 2012 - Over the years, we've done numerous reports on student loan debt in the United States. These loans now represent more than $1 Trillion and the number continues to grow. A lot of economists believe that it may be the next bubble in the economy to burst. And there is good reason for this opinion.

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Federally backed student loans used to be offered from private lenders through Sallie Mae as well as through the federal direct loan program. Who you borrowed from was largely dependent upon which institution your college was aligned with. But that all changed last year when Congress and the Obama administration passed a law that placed all future student loans under the direct loan program. This was done supposedly to save taxpayers money by eliminating the fees charged by lenders who were posing as middlemen. Some also thought that the move would help reduce interest rates on these loans.

But student loan interest rates have not gone down. In fact, they are slated to double in July unless Congress acts. And that's not likely in our estimation. Even though current law won't even allow bankruptcy judges to dismiss student loan debt, these loans remain among those with the highest default rates. That means that if Congress does reduce interest rates, taxpayers will be left to pick up the slack. That's probably not going to happen in an election year where the economy is likely to be the number one topic of discussion.

The prospects for bringing down the default rate on these loans aren't much brighter that the prospects of reaching a new agreement on interest rates. Much of the reason for this is due to the fact that the prospects for new graduates to find a high-paying job are currently very slim. In fact, it has become quite common for parents and students to take out hundreds of thousands of dollars in student loans, only to the students move back in with their parents upon graduation. Simply put, higher education has become a high risk investment for many. By default, that means higher interest rates.

One solution that could be considered would be to base student loan interest rates, and the amount that can be borrowed, on the student's actual field of study. We certainly have shortages of medical professionals and engineers in the United States. On the other hand, there are a variety of other majors that are not in high demand. It certainly would be an interesting study to look at default rates by college major and then set interest rates and maximum loan amounts accordingly. This would also force colleges and universities to cost-justify their tuition amounts based on projected future earnings of graduates and their ability to repay taxpayers for their educational expenses.

That aside, there are other problems with student loans. There is no doubt that many students and their parents are getting the short end of the student-loan-stick through often exorbitant and unreasonable fees. We've run across a recent video that explains some of what is going on in this arena.

A warning here. This video does cover topics having to do with the presidential candidates and we don't necessarily agree with either side - or the commentator - on this topic. But once you get by the political aspects of the video, you will find that it contains some good information for anyone considering a student loan. If nothing else, it talks about some of the fees that are being charged to students and should help anyone considering a student loan to come up with a list of questions for their school's financial aid office.

byJim Malmberg
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