# Student Loan Delinquencies Skyrocket to 15%

January 31, 2013 - According to Fair Isaac, 15% of student loans made in recent years are now delinquent. The level is unsustainable and brings into serious question the policies surrounding how student loans are issued. Some simple changes that could make the program viable over the long term are almost certain to be opposed by colleges and universities.

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Student loan debt now exceeds $1 Trillion. That's more money that Americans' owe on their credit cards.

Unfortunately, the way that student loans are issued has absolutely nothing to do with the borrower's ability to repay their loans. Some might argue with this position however, it can be unequivocally stated that when students borrow, the government doesn't consider the student's major or the earning potential for graduates with the same major.

The result is that you have people majoring in subjects with average annual salaries in the $50,000 range who are taking out more than that - often times, significantly more than that - in loans. And the government expects those loans to be repaid in ten years on their standard payment plan. It's a recipe for disaster that is now bearing fruit.

Whether or not the government should have any role in student lending is debatable. Since the advent of government backed student loans, universities have used them as a vehicle to increase tuition far in excess of the rate of inflation.

With that said, the government IS involved in student lending. As long as that is the case, then those loans need to take on a review process that will stand up in the real world.

Earlier this month, the CFPB issued new lending rules for home mortgages that are set to go into effect next year. One of those rules is that the borrower's ability to pay the loan back must be taken into account. To do this, banks are no longer allowed to use teaser-payments in their calculations. Instead, they must make their determination based on the actual payments required to fulfill the borrower's obligations. There is absolutely no reason that a similar requirement shouldn't apply to student loans.

In the case of student loan, the borrower would have to declare their major before being able to borrow. And the amount that could be borrowed would be based on the average salary for graduates who had the same major.

Breaking this down further, the amount that people can borrow would also be based on the school they attend. Schools with a default rate that it too high would lose their ability to grant financial aid. And there would be differences in the amount that could be borrowed based on the value of a degree from the institution being attended.

It just sounds like common sense, but it isn't happening now. And any attempt to implement such a rule would likely run into stiff opposition from academics. Gone would be the days when a school could charge an out of state student $15,000 per semester for a degree that would only bring them a $35,000 a year salary.

As it stands right now, we are unaware of any serious proposals in Washington to overhaul student lending rules. That's unfortunate because if no changes are made, then the next thing any of us are likely to hear will be calls for a financial bailout of the current system. That bailout would be with taxpayer money, and it would only be propping up a crippled system that will wind up failing again unless some serious changes are made to it.

byJim Malmberg
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