A Few Notes on the Student Loan Discussion - Transcript

Tom Mullooly: In episode 149 we're going to revisit student loans. So, stick around.

Welcome to the Mullooly Asset Show, I'm your host, Tom Mullooly, and this is episode number 149. Thanks for tuning in. Student loans, big topic, especially lately. Couple of the Democratic candidates for president have been talking about canceling student debt. And we have talked about this on podcasts and in blog posts. It's a hot topic, it certainly is something that's getting a lot of attention, but I don't think it's really ... okay, it's half-baked in the sense that there's a lot of repercussions that happen when you start canceling debt for a part of the population.

But very interesting article on July 1st, we'll link to it in the show notes, in the New York Post, written by one of their business columnists, John Crudele. And he kind of goes off on a rant talking about why are families, students, parents getting into these mountains of debt? Is this really a smart business decision? And some of the numbers that he threw around were in California the average student is now taking on $13,823 a year in student loans. In New York State it's $12,950. Let's just round it and say it's 13 grand. That's $52,000 of debt for a four year of education.

Now, when you get that degree, what are you going to do with it? What kind of job could you walk into with a degree? And what kind of money are you going to be making? Are you going to be able to live your life and pay down something like this? Because the compounding clock, which we talk about in previous videos, podcasts, blog posts all over this website, the compounding clock continues to work. And in this case when you're borrowing money, the compounding clock works against you.

So, plenty of blame to go around. Yeah, the student lenders, I don't really understand why students are paying 6.5, 7, 8% interest on student loans. You want to help people? Make it free. Make it borrow but pay it back. Make it 1%. Make it a rate that's affordable for everyone. We don't really get hung up too much on the interest rate when we're working at the table here with clients on their financial plans. The problems really begin to escalate when you stop making payments.

Now, this happens a lot with student loans. They can't afford it, so they stop paying loans. Guess what? That interest continues to compound at 7, 7.5, 8%. That adds up really quickly, and that's a big reason why you'll read these stories every once in a while where somebody's got $150,000 or $200,000 as we mentioned in a previous video. And they didn't go to law school, they didn't go to med school. They just got a four year degree. Or worse, they dropped out. You know, if you drop out of school, kids, you still have to pay the loan back. It comes with a big string that's attached, and there's a financial obligation.

So, the lenders are not getting off scot free on this. The schools themselves shouldn't get a pass on this either, because once student loans became available to virtually everybody who could sign their name, then schools realized, "Hey, we can escalate the price of school every single year, they'll just borrow more money to go." And this becomes a real problem.

If you want to see economics 101 at work, stop making loans available for college bound students. I know that sounds really harsh, but look at what's going to happen. You're going to see schools reduce their cost of going to school, because they know that money's not available. And, some schools will probably go out of business. Yeah, it's a business. And so this is a real problem.

The other part of the problem is ... the funny thing is the author of the article, John Crudele, got a lot of responses. And that was a follow up post, we'll link to that in the show notes too. You should read these comments. Number one because they're a little sad, but number two, they're also hilarious. But they're also a comment on what's happening in America. So, someone wrote that they were personally offended about what he wrote in this. Hey, look, I think the old saying goes stick and stones can break my bones, but words will never hurt me. Don't be offended by things you read in the newspaper, because they're not directed at you. But understand the circumstances of this situation. There's a lot of people walking around with a lot of debt, and a lot of these people can't afford to pay it.

They can't even get on with their lives. They can't buy cars, they can't buy homes. They can't get started with their own lives, and maybe even starting a family.
And so this is a very serious issue. You can't blame this on millennials when you have parents who've got their head in the cloud not paying attention, or saying, "I want my kid to make the decision." They're 17 years old. If you ask them, "Where do you want to go to college?" What do you think they're going to say? "I want to go where Johnny's going." Or, "I want to go to the most popular place in town. That's where I want to go." Doesn't matter what the cost.

Parents, you need to have these conversations with your kids. If you don't understand how compounding works, you need to get with someone who can explain compounding not only to you, but to your kids as well, before you sign on the line that is dotted, before you commit to something like this. By then it's too late.

So, sit down with a financial planner, figure out what the costs are going to be after graduation and when the payments begin, and see if that's something you can live with. You may not be able to. And so then you have to make some choices. Do I go to school at night? Do I put it off for a year and save a couple of bucks?

There are some decisions that you can make that can really help you. It's not hopeless, but you really need to know the facts going into this. That's enough of my rant on episode 149, thanks for watching, see you next time for episode 150.