

Noel Swain: Don't Sign for your Child's Student Loans

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Eve loves her daughter, Sara, very much and believes that Sara is so smart she can achieve

anything she wants in life. And since Eve, a single parent, never had the opportunity to follow her passion in life, she wants Sara to have every opportunity to follow hers.

Sara's passion is acting. She wants to get her degree in that art.

The college she wants to attend is in New York and the tuition is about \$45,000 a year. Since Eve has not been able to save the money to send her daughter to college, Sara will need to depend on student loans to get her through. Since Sara has no credit and her mother does, Eve will need to co-sign on the student loan for her daughter to be able to get into the college she wants.

The conversation her financial advisor had with Eve went like this:

Eve: "Sara is a really good actress. She wants to attend the Tisch School, and I don't want to stand in her way."

Advisor: "After tuition increases, Sara will graduate with about \$200,000 in student debt. If Sara can't make the payments, the lenders will look to you, and those payments will start soon after she graduates."

Eve: "But Sara is really good. I think she'd make an excellent actress."

Advisor: "Me, too. However, even though the current unemployment rate is below 4 percent, the unemployment rate for actors in acting jobs is around 90 percent. Listen Eve, I'm a numbers guy. The odds are not in Sara's favor to get a high-paying job in acting right out of college.

You are 48 years old. You have a nice sum built up in your 401(k). Do you even want to take a chance that you will have to start making payments on a \$200,000 debt at 52?"

Then Eve's advisor gave her some other statistics. According to the Consumer Financial Protection Bureau, over the 10-year period from 2005 to 2015, the number of people age 60 or older who were saddled with student loan debt increased from 700,000 to 2.8 million.

No, these folks weren't paying for their own college educations. They signed loans for their children and, in many cases, their grandchildren.

Parents, grandparents, if your children are young and you are financially able, you can start a college fund for your kids and grandkids in a 529 savings plan.

The one we normally recommend is the South Carolina Future Scholars plan because they have some good investment choices and all contributions are state income tax deductible. You can build a substantial value in a 529, lessening the burden for anyone to have to come up with all the money for college at one time.

But if your child has arrived at age 18 with little or no savings for college, you may want to think twice before signing for a large loan for him or her to get her degree in acting.

That goes double if you are close to "that" age and need the money you'd be paying in college loan payments for your own upkeep in retirement.