

Resources

¹Brandon, Emily. "How to Cope with Student Loan Debt in Retirement." *U.S. News and World Report*, Jan. 30, 2017, loans.usnews.com/how-to-cope-with-student-loan-debt-in-retirement.

^{2,3,4,5}Sullivan, Bob. "Student Loan Collateral Damage," March 27, 2018, blog.credit.com/2018/03/student-loan-collateral-damage-182144.

^{6,7}Brown, Mike. "Student Loan Debt Not Just a Bugaboo For Young Americans, But For Parents As Well / Cosigner Survey & Study," Feb. 6, 2018, lendedu.com/blog/student-loan-cosigner-survey-2018.

⁸Brown, Mike. "53% of Generation Z Student Debtors Believe They Will Be Aided By Student Loan Forgiveness," March 8, 2018, lendedu.com/blog/generation-z-student-debt-knowledge.

to a question asking if unsubsidized student loans accrue interest during deferment. (They do.)

- A combined 39 percent of Gen. Z borrowers either answered "no" or "unsure" when asked if they would be able to fully repay their student loan debt.

- 32 percent of Gen. Z borrowers have never looked at their student loan portfolio, and 19 percent were unsure if they had private student loan debt.⁹

The bottom line is that if you feel obligated to co-sign a loan—be it a student loan or any other type of loan—know going in that you are **giving a gift**. The amount of that loan plus interest will one day be your gift to your child or grandchild. As my mother was apt to say, "Fore-warned is forearmed."

Think Carefully

Before you even consider a school loan, determine that your student is absolutely going down an academic pathway (i.e. teacher, nurse, businessperson, etc.). Many students have impressive skills in a trade (i.e. electrician, plumber, mechanic, etc.) and need no college education or less than a four-year degree. If the student wants an academic career, then encourage him or her to take the college basics at a community college during the senior year of high school. While at the community college, the student should work and save for those last two years of a bachelor's degree at a four-year college. *Bottomline: students and their parents should minimize the amount of student loans required.*

"Never cosign a loan. Once you have cosigned, you cannot get out of it—even on your deathbed."

SUZE ORMAN

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BEWARE OF STUDENT LOANS

BY GORDON BOTTING DRPH, CHES, CFC

Did you know that many people are going into their retirements with unpaid school loans? "That doesn't make sense!" I thought when I first read about it. "Why would anyone be completing a master's degree or a doctoral degree later in life?" But then I realized: their own education wasn't the cause of their debt. The real cause was that they, like a lot of caring parents and grandparents, had co-signed student loans. And now in their senior years—when they should be enjoying life—this debt is severely hurting their credit scores and retirement plans.¹ Knowing about this common situation puts a new spin on the news of the \$1.45 trillion owed on student loans in the United States.²

Co-signing

In his article "Student Loan Collateral Damage," journalist Bob Sullivan warns about the dangers of co-signing loans. Sullivan explains that most private student loans (as opposed to federal student loans) require a co-signer because young students don't have established credit. In legal terms, co-signing a student loan is almost the same thing as taking out a loan yourself. You risk lower credit scores, higher borrowing costs,

STEWARDSHIP is a total lifestyle. It involves our health, time, talents, environment, relationships, spirituality, and finances.

“NEVER EXPECT A LOAN TO A FRIEND TO BE PAID BACK IF YOU WANT TO KEEP THAT FRIEND.”

BRYANT H. MCGILL

and an endangered retirement. If your daughter misses a payment on her student loan, your credit score will go down. If your grandson defaults on his loan, you will get a bill—even 10 years or more after graduation.³

Only about 25 percent of parents use the cheaper Parent PLUS loan (a federal program), so many are shouldering heavy financial burdens when they are supposed to be planning and saving for retirement. Did you know that about 90 percent of private student loans are co-signed by a parent? Since approximately 7.5 percent of student loans are private loans, millions of parents and grandparents are taking the risk—often with disastrous results.⁴ “That’s why it’s common financial advice to avoid co-signing on loans at all costs,” writes Sullivan.⁵ I would add: unless you are prepared for the fact that you may be making a financial gift to your student.

The following statistics are from a recent LendEDU survey:

- 62 percent of parent co-signers stated they “believe that their credit scores have been negatively impacted” due to co-signing on private student loans.
- 40 percent of parent co-signers believe co-signing has hurt their “ability to qualify for a mortgage, auto loan, or another type of financing.”
- 46 percent of parent co-signers felt as if their children’s student debt puts their “retirement in jeopardy.”
- 43 percent of co-signers said their children have “made late payments which have negatively impacted” their credit score.
- 65 percent said their children have asked the parents to make a payment.

If your grandson defaults on his loan, you will get a bill—even 10 years or more after graduation.³

- 74 percent have helped children make payments.
- 43 percent of co-signers said there had been a late payment that hurt their score.⁶

If you are thinking about co-signing a loan, here is what you should know: 31 percent of co-signers surveyed said they did not fully understand “the risks of co-signing,” and 36 percent said they regret co-signing.⁷

There is only one basic reason why banks or lending organizations want a co-signer. They do not have confidence that the person who plans to take out the loan has the ability to

pay it back. And their lack of confidence is justified. According to the statistics, in 74 percent of the cases, the co-signer ends up making monthly payments.⁸ When that occurs, feelings of resentment, anger, and betrayal will likely follow, and relationships can be seriously affected. In most cases, co-signing is just not worth risking this damage.

Advice from the Bible

When I read these statistics, I am reminded that King Solomon warned of this danger thousands of years ago.

“One who lacks sense gives a pledge and puts up security in the presence of his neighbor” (Proverbs 17:18, English Standard Version). “Be not one of those who give pledges, who put up security for debts. If you have nothing with which to pay, why should your bed be taken from under you?” (Proverbs 22:26-27, *ESV*). “Whoever puts up security for a stranger will surely suffer harm, but he who hates striking hands in pledge is secure” (Proverbs 11:15, *ESV*).

So, in other words, co-signing means that a person “lacks sense,” “will surely suffer,” and could lose everything (even your bed!). Nothing in the Scriptures says co-signing is a sin, but we have been warned that it is definitely ill advised. Both Christian and non-Christian experts are pretty much united in this warning against co-signing. It can ruin your financial health, your credit rating, and your ability to get a loan for yourself in the future.

I personally have only co-signed once, and that was for my son. A vehicle company wanted him to pay \$300 a month for a vehicle lease, but if his father co-signed, it was only \$120. As a financial educator, I was not going to let my son pay an exorbitant monthly lease. In this case, I went into the co-signing prepared to pay, but the good news is my son faithfully paid the lease every month.

Further Evidence

Be realistic about the likelihood that your student’s loan will run into trouble at some point. Here are a few more sobering LendEDU findings about how unprepared current college students are to repay their loans:

- Nearly 53 percent of Generation Z borrowers (ages 18-23 in this survey) believe they will be helped by federal student loan forgiveness programs. (“In reality, a very tiny percentage of student loan borrowers, maybe up to 3 percent, will ever have their educational debts forgiven by the federal government.”)
- 60 percent of Gen. Z borrowers thought there was a federal government student loan refinance program. (There isn’t.)
- 63 percent of Gen. Z borrowers either answered “no” or “unsure”



“In most cases, co-signing is just not worth risking this damage.”

“IT’S EASY TO GET A LOAN UNLESS YOU NEED IT!”

NORMAN RALPH AUGUSTINE

