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Higher Ed Struggles as Economy Falters

Competition for financial aid and seats at the most affordable schools is fierce. The worst is yet to come

By Kim Clark
Posted October 24, 2008

In economic storms past, the nation's college campuses often served as a lifeboat. Young people studied while waiting out hiring lulls, and the unemployed went back to learn new skills. Not this time. Declining house values, investment market meltdowns, credit tightening, government budget shortfalls, and rising joblessness are causing unprecedented turbulence for the nation's colleges and students.

There are still enough grants and loans for most students to afford at least a community college. And top students will still most likely qualify for plenty of aid from wealthy schools. But the financial crisis appears to be pricing some students out of some schools, turbocharging the demand for financial aid, and heightening the competition for seats at the lowest-priced and most generous schools. A survey of more than 500 private colleges in October revealed that 46 percent of schools report some students halting studies or switching to part-time status for financial reasons.

It will get worse. Millions of parents and students are quickly recalibrating finances and ambitions, just like the Kagans of Freeport, Maine. Daniel Kagan, a lawyer, has high hopes for son Max—a high school senior who has learned French, Turkish, Arabic, and Hebrew—and daughter Rachel, 15. But after their college savings account fell by about 30 percent in the past month, he further urged Max: "Why not give yourself options beside the prestige schools" and shoot for lower-cost schools as well as lower-tier schools likely to award him merit scholarships? The ripples of such decisions are already being felt in Washington, where applications for federal aid have jumped 16 percent. And they are reaching across to California, where seven of the most popular state universities expect to be so swamped with applicants that they are cutting off most applications after November 30.

Financial aid officials say students and parents should prepare for four unhappy developments:

Tuition hikes. Declining tax revenues and endowment returns will very likely spark schools to raise tuition. Rhode Island has already announced it will hike tuition at its public colleges in January by more than $200. It is also cutting the size of the average grant it awards by more than $125. Many other states could follow suit by next September.

Decreased savings. Because of higher living costs, about a third of all parents surveyed this summer said they had reduced or stopped contributing to a college savings account. Many of those who had invested their money for their children have watched in horror as their "529" accounts began to plummet. The silver lining: While most 529s haven't been keeping up with tuition inflation, at least they didn't crash as badly as the general market.

Smaller grants. Some scholarships may be cut next year. The demand for Pell grants is on a pace that will put the program about $3 billion over budget next year. If Washington doesn't scrape together enough extra money, the size of next year's Pells could fall. Many charities and corporations that in recent years have awarded a total of more than $3 billion in scholarships annually are also planning to reduce scholarships. "Unless a miracle in the market occurs by next April," the McConnell Foundation, which handed out 37 big scholarships to students from rural northern California this year, will offer only about 30 next spring, says David Tanner, the foundation's scholarship program officer.

Fewer loans. Many lenders, trying to conserve cash and limit risk, are approving applications only for federally backed education loans. They are rejecting a growing number of applications from those hoping to raise extra money by tapping their homes' equity or taking private loans. At the Vermont Student Assistance Corp., the employees who answer calls from parents hoping for private loans try to persuade parents to opt for federal loans instead. Students can borrow at least $5,500 at a maximum of 7.25 percent through the federal Stafford program. And those who need more than the Stafford maximum can ask their parents to take out a fed-eral PLUS loan at a fixed rate of about 9 percent to cover the rest of the student's cost of attendance.

While there are growing concerns that the crisis could push deserving students out of college, many say the tougher times might serve an educational purpose. Daniel Kagan is convinced that his children will still be able to get college educations that might be more meaningful than if things had gone swimmingly. "What if a kid earns it for himself, and Daddy didn't get that for him?" Kagan says. "It might serve him well."

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In Downturn, Families Strain to Pay Tuition

By JONATHAN D. GLATER

In difficult dinner-table conversations, college students and their parents are revisiting how to pay tuition as personal finances weaken and lenders get tough.

Diana and Ronnie Jacobs, of Salem, Ind., thought their family had a workable plan for college for her twin sons, using a combination of savings, income, scholarship aid and a relatively modest amount of borrowing. Then her husband lost his job at Colgate-Palmolive.

"It just seems like it's really hard, because it is," Ms. Jacobs, an information technology specialist, said of her financial situation. "I have two kids in college and I want to say 'come home,' but at the same time I want to provide them with a good education."

The Jacobs family may be a harbinger of what is to come. Ms. Jacobs pressed the schools' financial offices for several thousand dollars more for each son's final year of college, and each son increased his borrowing to the maximum amount through the federal loan program. So they at least will be able to finish at their respective colleges.

With the unemployment rate rising and a recession mentality gripping the country, financial aid administrators say they expect many more calls like the one from Ms. Jacobs. More families are applying for federal aid, and a recent survey found that an increasing portion of families expected to need student loans. College administrators worry that as fresh cracks appear in family finances, they will not have enough aid money to go around, given that their own endowment returns are disappointing, states are making cutbacks and fund-raising will become more difficult.

"We are looking ahead and trying to be prepared for what might be coming," said Jon Riester, associate dean of financial assistance at Hanover College, a private institution with about 1,000 undergraduates, including Justin Keeton, one of Ms. Jacobs's sons. "We're looking internally at our own budgets to see what we may be able to do in terms of providing additional assistance to students under various situations."

The concern is widespread, even though college officials say it's too soon to quantify how many students will face a shortfall. Even at wealthy institutions, financial aid administrators have begun weighing contingency plans. "Part of the conversation that's going on now in many institutions is, do we want to put a dollar figure on how much we are willing to extend ourselves," said L. Katharine Harrington, dean of admission and financial aid at the University of Southern California.

Ms. Harrington said she opposed setting a limit on aid, but added that the university's pockets were not bottomless. "If we start seeing massive layoffs," she added, "we may be in for a real bumpy ride."

The credit crisis has made it harder for students and their parents to borrow, even as their needs grow and their savings accounts dwindle. In plenty of cases, students who had been borrowing on their own have had to ask parents — and in some cases, other relatives and friends — to help cover tuition or to cosign loans, both aid officials and lenders say.

Officials at most four-year colleges say that they have not seen rampant problems so far, because students have found alternatives. The financing for the fall semester was mostly in place many months ago, before the severity of the credit crisis and the economic downturn became apparent.

Others wonder privately whether there will a rebellion by parents about paying so much for education if the country's economic distress is prolonged. A survey of nearly 3,000 parents by Fidelity Investments released earlier this month found that 62 percent of parents planned to use student loans to help finance expenses, up from 53 percent last year.

Ms. Jacobs said that with a family income of more than $100,000 a year, they had been counting on some loans to help pay for college for her 21-year-old sons, Justin and Jacob Keeton. Tuition, room and board add up to just over $32,000 at Hanover College in Hanover, Ind., which Justin attends, and nearly $29,500 at Franklin College, in Franklin, Ind., which Jacob attends.

Then, in December, Colgate-Palmolive closed its Jeffersonville plant, where her husband worked.

"I said, 'This year the loans are going to have to be in your name, I'm not going to be able to pick up as much as I have before,' " Ms. Jacobs recalled. "They said they would be willing to put the student loans in their names and continue on. We all came to that consensus, but I hate it because I hate for them to come out of school with $20,000 in student loans," Ms. Jacobs added. "To me that is so much money."

She also called the two colleges, and each contributed about $3,000 more in aid, she said.

Financial aid administrators have been scrambling in a rapidly changing market, as many companies have decided that student loans are just not profitable enough. Many student loan providers, citing reduced profit margins and greater difficulty selling loans, have stopped making federally guaranteed loans, private loans or both.

Federal loans account for about three-quarters of student borrowing, and the government has assured that money will flow uninterrupted by agreeing to buy those loans, even if fewer companies are in the business. Federal loan volume is likely to grow this year; the number of applications for federal aid so far this year has risen to 13.5 million, up nearly 10 percent from 12.3 million a year earlier.

Private lending, which helps families plug the gap between federal aid and the total cost of attendance, has been the fastest-growing segment over the last decade but has been undergoing rapid changes. Some of the biggest lenders, like Sallie Mae, have tightened their credit standards and raised their interest rates yet again in recent weeks. "The current financial markets provide no other choice," Sallie Mae wrote to colleges last week. "When conditions improve, we hope to relax our underwriting criteria and serve more students."

Tim Ranzetta, the founder of Student Lending Analytics, posted the lender's letter on his blog, where he called it "extremely bad news for students."

Michaela Rice, now a sophomore at Plymouth State University, is one of the students who had to redesign her borrowing after she learned in the spring that a student loan she had taken out with her father as cosigner would evaporate because the lender was getting out of that business. A financial aid specialist at Plymouth State, which has about 4,300 undergraduates in Plymouth, N.H., suggested the family switch to federal parent loans.

That led Ms. Rice to ask her mother, who is divorced from her father, to take on $17,000 in debt. The new loan, called a Parent Plus loan, has a more flexible repayment options and a fixed 8.5 percent interest rate. But it also puts her mother at risk if Ms. Rice does not earn enough as a teacher to cover repayments.

"We haven't really sat down and talked about how am I going to pay for it," said Ms. Rice, 19. "My senior year we'll probably sit down."The subject touched on other sensitive issues — in this case, the question of how Ms. Rice's biological father might continue to help pay for her college education and what her stepfather's role should be.

Ms. Rice's mother, Judy Krahulec, remarried to an American Airlines pilot who already had children of his own, and she did not want to saddle him with debt for children who were not his. She and Ms. Rice hesitated over the parent loan."If I sign papers, who am I really indebting? My husband," Ms. Krahulec said. "That's who I'm indebting. It's not my loan, it's his."

"It would be in my mom's name," said Ms. Rice, who said she would repay her mother, "but it's my stepdad's money if anything went wrong."

Still, she was lucky, because not all students' parents qualify for Plus loans. To satisfy companies that make private loans, more students have had to find cosigners.

Kiara S. Holiday, a sophomore this year at High Point University in High Point, N.C., learned just weeks before classes were to start that her mother had not qualified for a Plus loan.

"It threw me for a loop," said Ms. Holiday, who is 19. "Person after person, they just denied, like my mother, my aunts."

Ms. Holiday said she investigated the options. But even taking advantage of larger maximum federal Stafford loan amounts available to students whose parents are denied Plus loans, she did not have enough to cover about $31,000 in tuition, room and board at High Point.

So she called her great-grandmother, an octogenarian in Boston. Ms. Holiday, who wants to go to medical school and become an immunologist in a laboratory, said that despite the poor economy, she was not worried about being able to pay her debts after graduation.

"I'm pretty sure something will work out for me," Ms. Holiday said.

College tuition put on a credit card?

By Connie Llanos
LOS ANGELES DAILY NEWS
Monday, Sep. 01 2008

LOS ANGELES — With a slumping economy and a spike in financial-aid applications, college student Tiffany Dorgan found getting help for school was so tough this year that she had to use her credit card to pay for tuition.

"It is risky," acknowledged Dorgan, a physical-therapy graduate student at California State University, Northridge. "But I had to. This is a product of this horrible economy."

Schools across the country are seeing a tremendous increase in demand for student aid this year, driven both by the slumping economy and rising tuition costs.

Nationwide, 8.9 million students filed federal financial aid applications this year, 16 percent more than last year, according to the U.S. Department of Education.

Financial aid applications to California State University, Northridge, jumped by 20 percent. And 34 percent more students applied at Pierce College, a community college in the San Fernando Valley.

With campus aid stretched too thin, students have been turning to more creative and sometimes risky financing, such as high-interest credit cards and peer-to-peer lending.

Even less-expensive community colleges have been affected. The spike in financial aid requests at Pierce was among the largest at colleges in the region.

Pierce financial aid director Anafe Robinson said one of the factors contributing to the spike includes a concentrated effort to financially needy high school students to go to college.

But Robinson said the increase has been primarily driven by rising school costs. Currently the cost for a Pierce student who does not live at home is effectively more than $16,000 a year, including room and board.

Private schools also have seen increases in their financial aid applications this year, but the increases have been smaller than at public schools.

"We have always had to promote financial aid to our students to avoid parents getting sticker shock from our tuition," said Don St. Clair, vice president of enrollment and marketing at Woodbury University in Burbank.

At public schools such as California State University, Northridge, Lili Vidal, director of financial aid and scholarships, said the increase creates other issues, such as longer wait times for students, while others may only have access to student loans. At Vidal's university, state grants ran out two months ago.

"Normally during a whole year we authorize about 21,000 financial awards. As of July, we had already handed out 25,000," Vidal said.

The situation has left many students with tuition bills to pay and no funds to tap.

Harry Hellenbrand, vice president of academic affairs at the Northridge campus, said it is a growing trend at the school with a high percentage of first-generation college students.

"These students do not have parents who are savvy about college finances — no one who can guide them through the process," Hellenbrand said.

One Internet option that has emerged for students is peer-to-peer lending that lets students get low-interest loans from friends, family and strangers.

"Interest rates on these loans are lower than private loans," said Akash Agerwald, CEO of Greennotes.com, a peer-to-peer lending site for students.

Agerwald said his company acts as a mediator between students and the lenders, collecting money for the students, tacking on an interest rate that currently can be as high as 6.8 percent, and reminding students when loan payments are due.

Even though students' credit is not checked to approve the loans, their credit can be affected if loans are not paid.

Agerwald said in the last few months, loans have varied from as little as a few hundred dollars to as much as $40,000.

"They are trying to get money based on their character, their profile, their life story. And their loans are being underwritten by individuals who want to support them ... and they get a fair rate of return, too."

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TIME IN PARTNERSHIP WITH CNN

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Putting College Tuition on Plastic

By Kathleen Kingsbury

Credit cards. Retirement funds. Home equity. All should be last resorts for families seeking funds to pay for college. But amid the current credit squeeze, a new poll indicates many parents and students are making these less-than-brilliant financial moves to pay for tuition.

The nation's biggest student loan company, Sallie Mae, and polling firm Gallup just released the results of a survey, conducted in May, of 1,400 undergraduates and their parents about how they plan to pay for college this year. One in five parents borrowing money reported either taking out a second mortgage of more than $10,000 o charging some portion of college expenses to a credit card. In a study released earlier this summer, consumer advocate U.S. Public Interest Research Group (PIRG) found roughly a quarter of students reported billing their tuition to a credit card. Such borrowing practices generally carry along with them much higher interest rates and fees than private student loans. "Using a credit card to pay for your education is absolutely the worst financial decision you can make," says debt counselor Catherine Williams of Chicago-based Money Management International.

But many parents and students say they have little choice other than to deplete their savings or grapple with high interest rates down the road. Indeed, among respondents in the Sallie Mae/Gallup poll who said they were using credit cards to pay tuition bills, no parents and only 15% of students said they were doing so because they though they'd get a better interest rate. Nearly half reported using Visa or MasterCard to finance their education because they had no alternative. Some 3% of survey respondents said they have resorted to withdrawing money early fron retirement savings, which can carry up to a 10% penalty fee.

When deciding how to pay for college, families should start by contacting their school's financial aid office. About $130 billion a year is available in scholarships and grants. The first step in borrowing money for school is to max out on low-interest government programs such as federal Stafford loans. In the past, lots of families have turned to private loans to make up the difference, with borrowers taking out about $17 billion in such loans during the 2006-2007 school year. But as credit markets dried up last spring, many private lenders either went out of business or became much stricter about approving loans. And the people least likely to get a bank loan are often the same ones credit card companies are trying to reel in with low interest rates that quickly jump sky-high.

Also of concern from the Sallie Mae/Gallup poll is the finding that some 40% of families didn't factor cost into th decision about which school their undergraduate should attend, which is astounding given the price difference among schools. Tuition at a private, four-year college averages about $24,000 a year, while a good public institution may be as little as $10,000, even for out-of-state enrollees, according to the College Board, the nonprofit that administers the SAT. "We eliminate homes and cars all the time due to price, but then don't go through the same exercise for college," says Tom Joyce, a Sallie Mae spokesman. "That's got to change."

Another troubling finding: some 70% of survey respondents said they didn't consider what a student's potential post-graduate income would be. This is bad news for today's college students, who graduate with an average of some $9,000 in credit card debt, which will cost young wage earners more the longer it takes to pay back. Aggressive on-campus marketing by credit card companies "equates signing up for a new card to impulse shopping," says PIRG spokesman Ed Mierzwinski. "No one tells students that if they don't buy off the balance each month, the price of that pizza they just charged is going to compound steadily." And if the price of a pizza can really add up over time, just think about four years of tuition.

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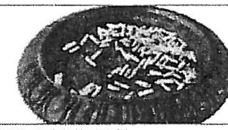
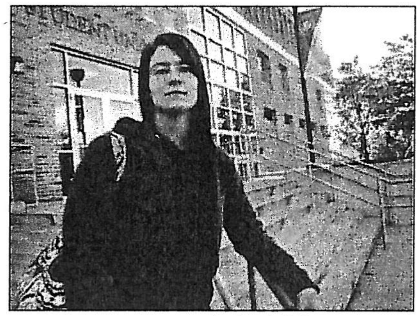


Posted Oct 27, 2008

FOCUS: EDUCATION

Financial stress felt on campus

By William Hamilton
PBN Staff Writer



PBN PHOTO / FRANK MULLIN

FINANCIAL AID? Chelsea Hathaway, a nursing major at RIC, says she is concerned about shrinking student loans.

Rhode Island College nursing student Chelsea Hathway doesn't want to think about how much she'll be in debt by the time she graduates two years from now.

The 21-year-old junior from Swansea is largely on her own in making her tuition payments – her father died a few years ago, and her mother can't afford to help.

So, despite patching together some scholarships and grants, Hathway has taken out federal student loans so far totaling about $18,000. What that amount will be at graduation, she doesn't know.

What she does know is that the cost of everything is going up, a lot. Fees, tuition, books and even the cost of borrowing itself.

"I can't deal with it now," she said recently. "I'll get upset. I just want to get my degree."

Local financial-aid experts say many students and their families are like Hathway: Despite a credit crisis, tighter lending standards and a shrinking number of lenders offering students loans, most local student borrowers aren't having too much of a problem getting federally backed student loans they need.

But some say where the economic upheaval is really going to hurt students and their parents is in paying those loans back.

David DeBlois, director of the College Planning Center of Rhode Island, sees the signs of trouble all the time.

For years, students and parents have come to the center ready to co-sign a large student loan, with no idea how they are going to pay it back. Lately, many parents have told staff at the center that they are worried about the debt, but they admit they don't have the heart to say no to their child.

DeBlois said a decision to push forward with that loan could prove costly nowadays.

With the economy sputtering, DeBlois noted that it is not clear there will be high-paying jobs out there that will allow graduates to make their loan payments. And with eroding retirement nest eggs and home equity, parents may struggle to assist.

"I see some real dangers out there," DeBlois continued. "I think this financial crisis is going to rear its head for this graduating class."

Parents and students who can't afford high loan payments should change their focus from getting into high-priced, first-choice schools to the "good-value" school, DeBlois said.

"I know the old thought is, 'You can't put a price on education,' " he added. "But people should be asking if $200,000 is worth it."

There are signs that value assessment is already happening.

An online survey conducted by the Web site Meritaid.com found that 57 percent of the 2,500 students who responded nationwide said they were researching "less prestigious" schools because they are more affordable.

Locally, the Community College of Rhode Island - which features relatively low fees - reported record numbers of students this fall, the highest since the economic doldrums of the early 1990s. CCRI officials have touted the ability of students to attend affordable classes there, then transfer the credits to other schools.

There is no question the financial crisis has changed the student loan landscape.

Since last year, 137 lenders have stopped making federally backed student loans, according to Finaid.org, a Web site that tracks the industry. And 36 of those lenders also have suspended private student loan programs.

President Bush recently signed a bill extending funding for the Ensuring Continued Access to Student Loans Act, granting the U.S. Treasury Department temporary power to use federal funds to purchase students loans. The downside: The act cut fees that lenders are paid to process the loans, making them wary of the student loan business because of a smaller profit margin.

Some financial companies still making private loans have raised their interest rates in response to the credit crunch.

John Canning, director of financial aid at Bryant University, said families should beware of direct-to-consumer loans. Some of them can have interest rates as high as 18 to 22 percent, he said.

"Don't go out on the Web and pick what looks good because it really [can cost the borrower] thousands of dollars more in the end," Canning said.

Families have instead turned to Stafford loans, a federal program that offers annual loans of up to $5,500 to students, depending on the circumstances.

The Rhode Island Student Loan Authority has seen loan volume in the agency's Stafford program - which features interest rates of either 6 percent or 6.8 percent - increase 60 percent over last year's numbers.

Noel Simpson, the authority's chief financial officer, said the use of the government-backed PLUS parental loan program - which allows parents to take out loans up to the full cost of attendance, minus any other aid - is also on the rise, up 20 percent over last year. That program offers an 8.5-percent interest rate.

The authority, a quasi-public agency, also offers a "private-loan" program called the Rhode Island Family Education Loan Program, which carries a 7.74-percent interest rate and 15-year term with a $35,000 limit.

"We've had good demand for that program," Simpson said.

Local financial aid officials said they have seen most families and students get the financing they need. At Bryant, there is relatively little concern so far among the 3,200 students and their families about financing the $30,000 annual tuition, according to Canning. "But we are watching very closely for students who may be finding themselves in trouble," he said.

At Rhode Island College, it is a different story.

Janet O'Connor, associate director of financial aid, said RIC students and their families tend to be less affluent and thus feel the effects of the economic downturn more acutely.

As a result, she is seeing more frazzled parents.

The family of one student told O'Connor recently that the father had just lost his job and the mother - a real estate agent - is making little money. They wanted to make sure the higher family income from the year before wouldn't diminish the aid they would receive.

In addition, O'Connor said the R.I. Board of Higher Education has approved a tentative tuition increase for the spring semester because of the shrinking amount of aid from the state. And the R.I. Higher Education Assistance Authority recently has said it is reducing by 25 percent the $600 grant it issues to about 1,700 RIC students each semester.

"The combination of the two is going to cause financial hardship," O'Connor said.

Hathway, the nursing student, is working as a waitress three days a week to make ends meet, but she said there will be plenty of time to worry about the rising cost of college.

She is living in a dormitory on campus, adding to her loan amounts. "I didn't want to miss out [on] living on campus," she said, adding that she probably won't live there next year. "This will be the last time I can do this, so I might as well enjoy it." •

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Turmoil threatens student loans

Friday, October 24, 2008

By STAN FREEMAN
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While funding for federal student loans remains available, money from private lenders may be drying up because of the current credit crisis.

Last week, Citibank joined Bank of America in closing down certain of its educational loan programs. Other banks have made loan requirements more stringent.

However, federal loans account for almost 75 percent of student loans, and Congress moved last summer to guarantee sufficient funds for them. So, college financial aid officials remain hopeful that students and their families can still find ways to pay for a college education.

"The message we're trying to get across all the time is that people should not throw up their hands and say, 'Oh my God, I can't go to college'," said Kathryn P. Blaisdell, director of student financial services at Mount Holyoke College in South Hadley, on Thursday. "This is not the time to panic. There is still lots of access to financial aid and financing, and colleges are doing their utmost to make sure they are affordable."

Blaisdell estimated that about 60 percent of the college's students received some amount of federal aid, while five percent received loans from private sources, such as banks. The remaining 35 percent had their education paid for by their families, some of which received federal or private loans to help in the payments.

Edward J. Ciosek, the director of financial aid at Springfield College, estimated that about 30 percent of students there use private loans to pay for some portion of their education.

"Certainly, the short-term forecast for private loan availability is that it will be tight," he said. "However, federal loans are still pretty safe."

Private loans are a student's last resort, said Lindsay E. McCluskey, a senior at the University of Massachusetts-Amherst who has financed her education, in part, with federal loans.

Typically, she said, there is a gap between the costs of college and the amount offered under the federal student loan program, so students bridge the gap with private loans.

"I had several friends with (private) loans that are no longer available," she said. "So they had to seek other private loans at a higher interest rate."

In addition to limiting loan availability, the economic crisis will hurt students by potentially raising tuition and fees at UMass as state funding falls, and it will hurt their prospects for finding work after college to help pay back their loan debt, said McCluskey.

"The reality is that students are graduating with more debt than ever before," she said. "They're really worried their debt payments will be so large that they can't look forward to live in the same lifestyle as their parents."

Schools such as Smith College in Northampton can afford to offer loans drawn from their large endowments.

"That has not changed because of the national economic crisis; regardless of shifts in the economy, Smith guarantees to meet the full demonstrated financial need, as calculated by the college, of all enrolled students," said spokeswoman Kristen A. Cole.

But, while large endowments are helpful as a source of financial aid, they cannot be tapped forever if they are shrinking, said Blaisdell of Mount Holyoke College.

"Obviously, if the financial markets are in trouble for a long period of time, it will affect everyone," she said. "But it's kind of early to tell how all this will play out."

NAICU

NAICU Survey Finds Impact from Student Loan Crunch, but No Widespread Loan Crisis for Fall 2008 Semester

October 21, 2008

FOR IMMEDIATE RELEASE
October 21, 2008

CONTACT: Tony Pals, *tony@naicu.edu*
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WASHINGTON, D.C., Oct. 21 - While there was no widespread student loan crisis this fall, there were multiple instances of students taking time off of school, switching to part-time status, and turning to alternative forms of financial support, according to the results of a survey conducted by the National Association of Independent Colleges and Universities. The survey, released today, also found a considerable amount of behind-the-scenes scrambling by private colleges to keep loan capital flowing to their students.

"In the main, the survey shows that independent higher education and our students weathered the student loan crunch through September," said NAICU President David L. Warren. "To varying degrees, individual students and institutions were impacted by the crunch, but no widespread access crisis materialized in the first half of the fall semester.

"However, the full-blown effects of the credit crunch and the nation's economic struggles are yet unknown," Warren said. "It is impossible to predict the possible future consequences of the nation's continuing economic struggles on students and colleges."

NAICU will continue to closely monitor the impact of the credit crunch and economic slowdown on institutional budgets, family financial need, and student choices for the coming semester and the next academic year.

► **RESULTS:** For finding highlights, and survey questions and responses, go to www.naicu.edu/StudentLoanReport

About the Survey
In September 2008, NAICU surveyed its 953 member institutions on the effects of the credit crunch on student loan availability for the beginning of the 2008-09 academic year. NAICU's September survey had a response rate of more than 50 percent, with 504 colleges and universities participating. Data collection was during the period of September 10-30, 2008.

About NAICU
NAICU serves as the unified national voice of independent higher education. With more than 1,000 member institutions and associations nationwide, NAICU reflects the diversity of private, nonprofit higher education in the United States. NAICU members enroll 85 percent of all students attending private institutions. They include traditional liberal arts colleges, major research universities, church- and faith-related institutions, historically black colleges, Hispanic-serving institutions, single-sex colleges, art institutions, two-year colleges, and schools of law, medicine, engineering, business, and other professions.

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This information was found online at:
http://www.naicu.edu/news_room/naicu-survey-finds-impact-from-student-loan-crunch-but-no-widespread-loan-crisis-for-fall-2008-semester

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Parents find tougher road getting PLUS loans

By EILEEN AMBROSE McClatchy-Tribune

Published October 23, 2008

It's harder these days to get private loans for college, but some families are also having trouble getting a federal parent loan. Unlike Stafford loans, where students qualify no matter their credit history, parents must pass a credit check to get a federally guaranteed Parent Loan for Undergraduate Students.

And they must pass this check each year they apply for a loan.

A parent PLUS loan covers the cost of college, minus any financial aid. There are no national statistics on PLUS loan denial rates.

But according to Department of Education figures, the dollar amount of parent loans for the three months ended in June was $728.5 million, down 28.7 percent from the corresponding period a year earlier.

That indicates that some parents might be having a tougher time qualifying for a loan.

And indeed, some Maryland schools have reported an increase in loan denials from a year ago.

Towson University, for instance, said 229 PLUS loan applications, or 10 percent of all applications, were denied from May to mid-October, up from 7 percent last year. And Salisbury University reports 165 parent loan applications, or 12 percent, were rejected as of the end of September, a slight uptick from a year earlier.

What you can do

If you are denied a PLUS loan, don't panic. Instead, consider your options.

You can, for instance, ask the lender - the private bank or the federal government for direct lending schools - to review its decision, says Margherite Powell, director of financial aid for Hood College. There is no guarantee that the lender will reverse its earlier decision.

But Dennis O'Shea, a spokesman for the Johns Hopkins University, says a couple of parents who were initially denied a PLUS loan later qualified after cleaning up their credit record. If that doesn't work, you can still get a PLUS loan if you can find another adult with a good credit record to be an "endorser" or co-signer, says Sarah Bauder, director of financial aid at University of Maryland, College Park. That college has also seen a small rise in parent loan denials.

A word of warning for the endorser: If the parent defaults on the loan, you will have to repay it. You can also pay for school out-of-pocket throughout the year. Schools generally have monthly payment programs that allow you to spread the cost of tuition over 10 months. You will pay an application fee for this service, but you won't have to pay any interest.

Students also can borrow additional money under the federal Stafford student loan program when a parent's PLUS application is denied.

This additional loan amount is unsubsidized, meaning the student - not Uncle Sam - will pay the interest on the loan while the student is in school. In cases where a PLUS loan is denied, a student can borrow up to $9,500 as a freshman, $10,500 as a sophomore, and $12,500 in both the junior and senior years. Mark Kantrowitz, publisher of FinAid, expects the number of parents getting loans will improve next year.

One reason is that Congress temporarily has loosened the lending criteria for getting a PLUS loan, and these provisions only recently kicked in during the summer, Mr. Kantrowitz says.

Under the new rules, you can still be considered for a loan if you are no more than 180 days late on a mortgage payment or medical bill any time between 2007 through 2009. If you are going to apply for a PLUS loan next year, and your finances aren't in top shape, use this time to clean up your record.

Even though Congress cut some slack on late mortgages and medical bills, you can't be 90 days or more delinquent on any other debt payment to get a PLUS loan.

So pay your bills on time, so you won't have any delinquencies on your record next time you apply for a loan, Mr. Kantrowitz says.

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Economic crisis hurting students' ability to pay for college

Tony Pugh | McClatchy Newspapers

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BLOOMINGTON, Ind. — Late Thursday evening, Neal Theobald, Indiana University's vice chancellor for budget administration, received a sobering letter from Sallie Mae, the nation's leading provider of student loans.

"Because of the continuing turmoil and uncertainty in the credit markets, Sallie Mae has made the difficult decision to tighten the underwriting on all our private student loan products, which will require applicants to meet higher credit standards. We believe that this action will mean lower approval rates for these loans," Sallie Mae Executive Vice President Barry Feierstein wrote.

The lending giant also announced plans to "adjust" or raise its loan pricing.

"These decisions were not easy to make," Feierstein said in the letter, "but the current financial markets provide no other choice."

At a time when student financial-aid requests nationwide are up 16 percent from last year, Sallie Mae's decision to make fewer loans at a higher price will deepen the financial pain of millions of parents and students who already are struggling to pay for college educations.

It's the latest example of how the Wall Street crisis is digging into the pockets of Americans who are far removed from New York's financial district.

Bloomington is another stop in a journey into America to chronicle these effects on folks of all backgrounds. Journalists from McClatchy and the American News Project, an independent video-news outlet, have reported on the wealthy in Connecticut, growing legal wars in New York City, family health and financial insecurity in Pennsylvania, job losses in Ohio and now higher-education anxiety in Indiana.

The project, "Fallout on Main Street," is available in print, on video and on the Internet.

Historically, when the economy starts to tank, students return to higher education in greater numbers.

"But with the credit crunch and money tight and the economy so bad, I think it's going to be difficult for students and families to pay that college tuition," said Roger J. Thompson, IU's vice provost for enrollment management. "I talk to parents fairly regularly, and they're struggling. Their kids are down to the last semester or two, money's tight and they're worried about their jobs, and they're just hoping they can get their kids the rest of the way through."

Amanda Daugherty was just a toddler when her father died, and she was still in high school when ovarian cancer took her mother's life.

Now only two months shy of her master's degree in public health, the 24-year-old Lafayette, Ind., native owes nearly $70,000 after financing almost all of her six-year college education with student loans.

The enormity of her debt first hit Daugherty last year after she received, for the first time, a bank statement that tallied all her loans, which then totaled nearly $60,000. "I kinda freaked out," she recalled. "I saw it, and my stomach just turned. It almost didn't seem real. Fifty or sixty thousand dollars? I'm like, 'Really? I racked up that much?' . . . It's so overwhelming. It feels like I'll never be able to pay it off. How am I ever going to be able to buy a house?"

Her more immediate concern is finding a position in the ultra-tight job market. Daugherty's already applied for more than 15 without success. She wants to work for a nonprofit agency, but she fears that the troubled economy may be conspiring against her.

"I think there's going to be cutbacks in funding and I feel like people won't be as willing to hire new people into organizations," she said. "I'm getting really scared because I don't know what to do if I can't pay. I mean if I don't have a job, can I claim financial hardship? I really don't know."

After graduation, Daugherty will continue working part time in the university communications department and waiting on tables at Mother Bear's pizzeria, where the entire night shift on Friday seemed to tell similar tales of financial stress aggravated by the weak economy.

Claire Miller, a freshman who buses tables at the restaurant, said that her mother, a paramedic, had taken a second job to help pay the tuition for her four children, who were all in college at the same time.

"All of us have jobs while we're in college because it helps (our parents) out tremendously. I might have to take on more shifts to help them because the economy now is just going down and everyone is feeling the effects of it." Miller said.

Antane Armstrong, a waitress, left IU last year because of money problems. She's trying to save enough to re-enroll, but with tips and business declining, her goal has become harder to reach.

Armstrong typically gets the standard 15 to 17 percent tip, with a few who always leave 10 percent. "Now the 10 percenters are tipping 5 percent, and everybody else has gone down to 10," Armstrong said.

Hostess Laura Cole, a 19-year-old sophomore, had a trust fund that was supposed to help her with college, but because it's invested in the stock market, it's been losing value.

"I'm under 21, so I can't touch my mutual fund, so I just sit back and watch it fail," Cole said. Her brother's fund dropped to $20,000 from $40,000 in a matter of months, she said.

Even future college students and their families are taking note of the costs.

On Saturday, about 20 Bloomington-area 4-H Club members met at the county fairgrounds to hear about their college financial-aid options from Roy Durnal, a senior associate director for recruitment at Indiana University.

Listening intently were Sylvia Reece of Bloomington and her 18-year-old son, Mykel Faultless.

Reece stopped working several years ago to care for her ill father and grandmother. She'll use her personal savings and help from her first husband, Faultless' father, to finance their son's freshman and sophomore years.

To save money, Faultless will have to attend a local community college for two years before transferring to IU as a junior.

"It's a little bit cheaper, and the credits will transfer," Reece explained.

Faultless also will have to contribute. He works at a car wash and local movie theater to make ends meet. He also has saved some money from livestock sales through the 4-H Club. Last year, he sold a chicken for $300 and his 310-pound pig fetched $2,000.

The budding business major still will need some student loans, however, and Durnal had a sobering warning for all the youngsters.

"I certainly hate it when I see students that are ready to graduate and facing what would ultimately be like a house payment just paying off their student loans. My first lesson for you guys is to be aware and don't get yourself too overburdened with that loan debt," Durnal said.

"I'm still new to all this college stuff and I don't really know what's going on, but when he said that, it worried me," said Faultless, a husky lad with an emotionless face.

To help with the costs, Reece said, she plans to go back to work when her son transfers to IU, and even though he'll continue to live on their 8-acre farm with the horses, goats, pigs and chickens, the tuition still will cost about $10,000 a year.

"I really hate to see him have to get all the loans and everything, but the jobs just aren't there, so it's scary," Reece said. "It's downright scary."

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About this project: This is another in our series of articles on Fallout on Main Street. The joint project with journalists from McClatchy's Washington bureau and from the American News Project, an independent video news group, has gone into America to get the reaction of regular citizens to the unfolding economic troubles.