School's Out?

With families finding it ever-harder to borrow, area colleges look for creative financing alternatives

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by Steve Higgins

The nation's economic crisis is making it harder for students and their parents to pay for college tuition. In response, area institutions of higher learning are mobilizing to confront the problem on a number of fronts.

One out of three parents nationwide have slashed college savings rates due to declining home values and rising joblessness, according to a survey conducted by TD Ameritrade Holding Corp. in August, before the credit crunch really took hold. Morningstar Inc. reported that all 79 of the "529" college savings plans it tracks had lost value this year, the majority seeing drops in excess of ten percent.

At the same time, the credit crunch has prompted dozens of private lenders to pull out of the student loan market altogether, including heavyweights such as Wachovia Bank and Bank of America.

Lenders who continue to offer private student loans have tightened lending requirements and raised interest rates and fees. Interest rates today average between 12 percent and 14 percent, up from ten percent to 11 percent just a year ago.

Government-backed loans remain available at far lower interest rates, but the dollar amount of these loans is limited, forcing many students to turn to private loans to fill the gap. The most common federal loan, the Stafford loan, has a fixed interest rate of 6.8 percent.

Today about 24 percent of student loans are originated by private lenders as opposed to federal loan programs. Nationwide, the average overall debt for an undergraduate student who graduated in 2007 was $20,098, a six-percent increase over 2006, according to the Project on Student Debt.

"Every day more lenders are dropping out of the private alternative loan business," says Kathy Gailor, director of financial aid at the University of Bridgeport. "Things are changing fast. We tell the student or parent to be sure they know the interest rate and fees on their loans."

Gailor says the university recently sent notices to all students asking them to meet with a school loan counselor in person if they are contemplating applying for new loans. Counselors tell students about options they may not be aware of, such as alternative co-signer programs (having relatives other than a parent co-sign for the loan), and various scholarship programs that are available.

"We are hearing from more parents whose homes have gone into foreclosure," Gailor says. However, she points out that UB's outreach program has helped keep the increase in troubled loan reports down to less than three percent so far this year. "I don't think it's going to affect enrollment in the long run. Over the next few months we're going to see things get a little worse, and then get better."

Gailor says students need to become more aggressive about applying for the myriad scholarships and financial aid programs that are available.

At the University of New Haven, school officials expect the credit crunch will cause a drop in enrollment next year, says Dennis Nostrand, vice president of enrollment management. He emphasizes that the school enjoys a large cushion, however, since a 65 percent increase in enrollment this year has swelled student rolls to record levels.

About 34 percent of the students who were accepted into the UNH freshman class this year actually enrolled, "and we're anticipating that could drop to 24 percent" next year, he says. "So we will need to have a larger accepted pool or take fewer students."

In fact, UNH plans to take about 200 fewer freshmen next year, for a total of 900 to 980, Nostrand says.

UNH has also adjusted expectations for its graduate program. Two months ago school officials hoped to increase graduate enrollment, now at about 2,000 students, by three percent over each of the next two years, but in light of the economic crisis they now hope to at least keep enrollment numbers even, Nostrand says.

"The top three or four lenders that we work with are confident they are going to be able to meet the loan needs of the students for the remaining part of this year, and for the students who enter and return next fall," Nostrand explains. "However, to protect ourselves we have submitted the paperwork to go into the direct lending loan program ourselves."

That means UNH would be able to make government-backed loans directly to students rather than have them go through a private lender.

"We are seeing quite a bit of concern from parents who were counting on using home equity loans to pay education costs," Nostrand says. "The value of their homes has dropped, and banks are being extremely cautious in making home equity loans."

In addition, more students are reporting that parents have been laid off, forcing them to change their financing plans, he says.

Area colleges also are being affected by corporate cutbacks. For example, Nostrand says one major corporation recently imposed a $10,000-per-year limit on the value of college credits its employees can earn on the company's dime. Previously there was no limit.

In an effort to help students in need, UNH has increased its scholarship offers to incoming freshmen and is discussing creating new scholarships for returning students, Nostrand says. "A lot will depend on the letters and phone calls that we get," he adds.

Dominic Yoia, senior director of financial aid at Quinnipiac University in Hamden, says most students had their loans in place for the current school year before the credit crunch hit, but he is concerned about the 2009-10 academic year.

"Schools are very conscious of the difficulties in the economy right now," Yoia says. "Private loans are taking a big hit, and school endowments are being affected by market losses. As we calculate tuition and room and board for next year, we're all aware of the fact that the economy is affecting everyone. Some families have their jobs at risk."

As the financial crisis unfolds, Quinnipiac officials are watching closely and making plans for various contingencies, as well as reaching out to students and prospective students, Yoia says.

"We are sending letters to students reminding them of the financial aid process and telling them that we can offer advice," he says, noting there is a growing need for both aid and advice. "The current high school graduating class is among the largest ever, and any time the economy is in recession that causes an increase in applicants."

Indeed, community colleges are seeing a big increase in applications as more students seek out lower-cost college classes as a way to save money.

"We expect applications to surge," says Raymond Zeek, director of financial aid at Gateway Community-Technical College in New Haven. "We had record enrollment this past fall, and it's probably going to increase next year."

More students are opting to keep debt levels under control by attending community college for a year or two and then transferring to the more expensive state schools and private universities, he says.

Tuition at Gateway, for instance, totals just $2,964 a year for full-time students, far below the national average 2008-09 tuition of $6,585 for a public four-year school and $25,143 for a private four-year school, according to the College Board.

Autumn 2008 enrollment at Gateway was a record 6,471 students, an 8.5-percent jump over 2007.

Zeek says Gateway encourages every student seeking a loan to come in for in-person counseling and to apply for loans in person rather than online.

At the University of Connecticut, school officials say they have seen a small increase in the number of students seeking help finding loans, but that private loan volume remains at essentially the same volume as last year.

"We have seen a tightening of credit, but we're not seeing a significantly greater number of students experiencing problems obtaining loans," explains Jean Main, director of financial aid at UConn. "Every year there are a small number of people who have difficulty borrowing."

On November 17, Gov. M. Jodi Rell announced plans to create a partnership between the state and Connecticut's credit unions that will offer a new student loan program designed to help students cope with the credit crunch. Credit union officials promised to support the program and offer up to $17.5 million to fund it.

The new program would offer low interest rates (below six percent) and the Connecticut Health and Education Facilities Authority would provide 20-percent loan guarantees.

"Household budgets are already strained by the effects of our struggling national economy," Rell said at a press conference. "Many families have seen the funds they set aside for college evaporate - and they are now hard-pressed to come up with tuition for their children."

The new loans will be available to students who fail to qualify for traditional loans or who have been unable to garner enough loans and other sources of funding to pay all of their college costs. The credit unions will offer low-interest loans to new and current higher-education students of all ages who live or go to school in Connecticut.

"Helping Connecticut families and their children by making sure they have access to loans for higher education is one of the best ways to support those families and to ensure that our state continues to have one of the most educated labor forces in the nation," Rell said.