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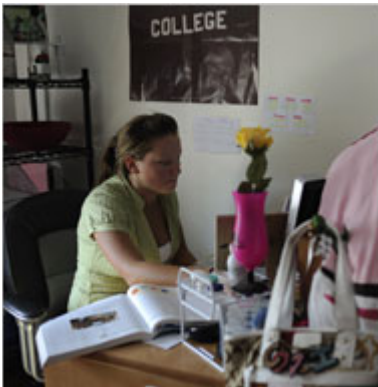
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In Downturn, Families Strain to Pay Tuition

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



C. J. Gunther for The New York Times

Michaela Rice, a student at Plymouth State University, asked her mother to sign for a \$17,000 loan.

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 be 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.”



Ms. Jacobs has two sons in college and the family is struggling to pay.

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.