



## Getting a Loan Might Be a Struggle

Lenders are getting pickier about whom they'll give cash to

By **Kim Clark**

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Wall Street turmoil will most likely make it more expensive and more difficult to borrow the costs of expensive colleges this fall.

Students needn't panic, however. Freshmen are still guaranteed access to up to \$3,500 in the basic federal loan, the Stafford. Any parent with at least average credit can still borrow the full cost of even the priciest colleges through the federal plus program. Congress last week prepared an emergency bill to ease the borrowing ceiling and repayment schedules for education loans. But best of all, a few schools and companies are rushing to fill the credit vacuum with scholarships, low-cost loans, and, in one case, a potentially revolutionary new loan arrangement.

Hardest hit by the nation's economic woes is the single cheapest education loan, the 5 percent Perkins loan. Colleges surveyed by *U.S. News* said they are cutting the number and size of Perkins loans they offer students by anywhere from 10 to 50 percent.

And dozens of lenders who offered comparatively good deals on the 6.8 percent student Stafford loans and 8.5 percent parent plus loans last year have stopped making loans entirely. Surprisingly, at least a dozen lenders have also stopped making private loans, too, even though they can charge market rates that cover their costs. "I cannot get anybody to finance any alternative loans," says Rene Drouin of the New Hampshire Higher Education Assistance Foundation.

**Two-point plan.** Those who are still making private loans are rejecting many more applicants. Sallie Mae, the nation's largest educational lender, has announced it will no longer make private loans to students at trade schools with low graduation rates.

Many federal loans for all but the neediest students will cost more. The Missouri Higher Education Loan Authority, for example, announced April 1 it would limit its nationally popular 2 percentage-point discount to Missourians only.

The bottom line: While there is enough guaranteed funding to enable most students to live at home while attending a local community college, the credit crunch, decline in home equity, and recession worries mean that "not everyone who could have gone [to a pricey college] a few years ago is going to be able to go now," says **Stuart Siegel**, a private financial aid counselor in Erie, Pa.

There are some glimmers of hope, however. The federal government and more than 2,000 private lenders are still making education loans. A growing number of universities, such as Penn State, are funneling all their federal loans directly from the Department of Education, which guarantees funding.

And the colleges that want to allow students and parents to shop for their Stafford and plus loans—and have a shot at the few discounts still being offered—are preparing to take care of anybody who can't find a lender. Current federal law allows students or parents who bring two federal loan rejections to their school's financial aid office to take advantage of a "lender of last resort" program in which the school helps find the loan for them. Another happy development: In the fall, students who qualify as needy will be charged only 6 percent interest on their subsidized Stafford loans.

But an upstart company may open up an even cheaper source of funding. Students who can persuade parents, relatives, friends, or even strangers to lend them money privately can execute a \$199 "Student Payback" contract through Richard Branson's Virgin Money. The borrower and the funder agree on any interest rate and repayment terms they like. Virgin Money will then handle the billing when the loan comes due (for \$9 a bill). If the student fails to repay, Virgin can report the problem to a credit bureau just like any other delinquency.

Best of all is a growing trend by colleges to award enough grants so that students don't have to borrow. Chicagoan Cletis Allen turned down five other schools last spring when Emory offered her a package that wouldn't require her to borrow a penny. Now, the freshman nursing major says she's telling her younger brother to apply to the schools he likes but, if he can, choose a school that won't require him to borrow, either. "It all comes down to the money," she says.

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**[Stuart Siegel, College Tuition Solutions, Inc.](#)**