

Loans flowing to IU students despite economic woes

Direct Loan Program working well despite tighter credit, but recession's effect on applications to IU unclear

By Nicole Brooks
331-4232 | nbrooks@heraldt.com
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A college degree isn't cheap, and the solution for many students covering tuition costs has been to borrow the money. But what if there is no money to borrow?

With the federal government handing out billions in bailouts, and banks raising their lending standards, many are wondering how the country's economic climate will affect students' ability to go to college.

So far, students are still getting the loans they need — provided they are borrowing directly from the federal government, said Roger Thompson, Indiana University vice provost for enrollment management. "The private loan market is difficult, but we don't have a lot of students in that market — yet," he said.

The availability of funds from the U.S. government's Direct Loan Program, distributed primarily through Stafford and Perkins loans, has not been a problem, Thompson said. But these loans have a maximum amount students can borrow. An unsubsidized federal Stafford loan, for example, has a lifetime limit of \$31,000 for a dependent undergraduate, and a \$57,500 limit for an independent undergraduate, according to IU data. Considering full-time tuition and fees at IU for the 2008-09 school year are \$8,232 for an in-state student and \$24,768 for a nonresident, federal loan money might not cover four years of school.

"We're encouraging the federal government to increase their loan limits," Thompson said.

Even with federal loan limits in place, IU encourages students to borrow from the Direct Loan Program, and not a private lender. The interest rates attached to the two types of loans are not so different, but the fees charged to the borrower for each loan are, Thompson said. Direct lending charges a fee of half of one percent of the student's loan amount. A bank will charge 3 or 4 percent of the loan value, he said. So if IU's undergraduate student body loan portfolio is say, \$200 million, that's \$1 million paid in fees to the feds versus about \$6 million paid in fees to Sallie Mae, Thompson said.

IU saw economic troubles coming and moved to direct lending last fall, he added.

More than 400 colleges have in the past two years joined the government's direct-lending program, according to a Friday Chronicle of Higher Education article.

"We moved to direct lending basically ahead of what has turned into a dire situation," Thompson said.

But that dire situation — banks not lending to those with blemishes on their credit reports and home owners not able to borrow against their homes due its decreased value — has not kept students away from higher education, Thompson said.

The fall 2008 freshman class was IU's largest in history, and applications for fall 2009 are up 17 percent over this time last year, Thompson said Thursday.

"We are seeing no slowing of demand." And this has Thompson worried, because he can not predict how the economy will affect which students, and how many will ultimately choose to attend IU. School administrators have admitted they accepted too many freshman this fall, putting a strain on dorm and classroom space, and that this class will likely hold the record for most students for a long time.

Thompson is trying to assess who is most likely to make their decision to come to IU based on economics — international students, in-state or out-of-state.

"It is very difficult to predict the behavior of students," he said. "I'm worried about it. I'm just going to be honest."

He believes the idea that when the economy is bad, more people go to school could be at work here — and that it's possible more students are applying to more colleges.

A Chronicle Research Services report on financial uncertainty and admissions found that in fall 2008, economic woes resulted in more students being reluctant to travel far from home for school and students applying to more schools, "hoping to leverage them against one another to get larger offers of financial aid."

And financial aid is key. Indiana was one of 49 states to receive an "F" for affordability in a report card on higher education issued by the National Center for Public Policy and Higher Education. Only California passed, with a "C." The report found that in Indiana, poor and working-class families must use 43 percent of their income, even after aid, to pay for public four-year colleges. And the average loan amount undergrads must borrow each year has risen from \$2,860 in 2000 to \$4,625 this year.

Thompson takes issue with the "F" grade. "You can give the state an 'F,' but don't give us an 'F.'"

The university is putting more money into scholarships and aid, he said. For fiscal year 2007-08, 63.5 percent of IU students received aid, according to university data.

Roger Thompson, Indiana University vice provost for enrollment management. Courtesy photo

