

College Costs: Coping with the Meltdown

Some schools will work with a parent to find emergency loans and other ways to adjust as credit options and portfolios shrink



Getty Images

By [Lauren Young](#) | October 7, 2008

Some unlucky investors like Dino Macaluso are feeling the double whammy of the market meltdown: They are watching their investment portfolios shrivel while college tuition payments loom.

Macaluso, from Albany, N.Y., is considering a line of credit on his house to pay for his son's college so that he doesn't have to liquidate investments until they bounce back. "I have set aside enough cash to cover the first year's tuition, so I am looking to buy myself more time for the next three years," says Macaluso, who expects to spend more than \$50,000 on college tuition annually.

American University in Washington, D.C., is one college that is anticipating just such anxieties. It e-mailed a letter to undergraduate students and parents on Oct. 3, offering assistance "in these challenging times." "The nation's current financial climate has caused uncertainty for people across our country and around the world. With turmoil in the credit markets and the tightening of available credit and loans, we recognize the impact this could have on students and their families," says a letter from American University Provost Scott Bass.

Aiding Needy Students

American is planning to create a pool of cash for needy students who already have financial aid, according to Maralee Csellar, a university spokeswoman. In addition, "we are looking into ways to help students who do not have aid," Csellar says. Tuition for the 2008-2009 school year is \$41,000 for a full-time student, including room and board.

Even before the market swooned, families with college-bound children started to buckle down. According to preliminary results of a survey of more than 2,000 parents being conducted jointly by ApplyWise.com and *Next Step* magazine, a majority of families with college-bound teens redirected their child's college search in the past six months to more economical options, including four-year public colleges, according to the preliminary survey data. In addition, parents say they are cutting discretionary spending to save more for their child's college education.

What can you do to pay—and even save—for college in a dicey market? Here are savvy moves to make now:

Hit the Financial Aid Office

If you have your college savings in a 529 plan, you should be in decent shape, since the asset allocation models in these programs direct most college savings in cash and bonds as college nears. But if you are winging it and have the bulk of your educational savings tied up in stocks, there's not much you can do now. "Leave the current investments alone," says Jamie Milne, an adviser at Milne Financial Planning in Saint Johnsbury, Vt.

In fact, if you have a 529 account that has lost a lot of money and you have more than one child, consider switching the beneficiary on the 529 plan for a college-bound child to a younger sibling. "It will buy you more time," says William Jordan, president of Sentinel College Funding, which offers financial planning advice in Laguna Hills, Calif.

If you need alternative sources of funding, experts say your best bet is to try your school's financial aid office first, even if you didn't qualify for aid in the past. "What I've learned from my experience working in financial aid offices [at Brown University and Columbia University] is that there's a lot of flexibility involved," says Rod Bugarin, a financial aid adviser at ApplyWise, which offers online college admissions guidance.

Emergency Loans Available

It's a little-known fact that many schools offer emergency loans to needy students. While these loans won't cover the entire tuition bill, they can provide some immediate relief: The biggest emergency loan Bugarin awarded when he was working in a university financial aid office was several thousand dollars.

Other kinds of loans are also available to students, including a Perkins Loan, which is administered by individual educational institutions. Under the Perkins program, undergraduates are eligible for \$4,000 per year and graduate students can receive up to \$6,000 annually, with maximums of \$20,000 and \$40,000, respectively. Other financing options include a Stafford Loan, which can cover up to \$7,500 in costs for borrowers. In addition, parents or guardians of undergraduate students can get a PLUS loan, which is non-need based and has a current interest rate of 8.25%.

Keep in mind that colleges do not reassess financial aid packages for a drop in portfolio assets. However, more often than not, schools will reassess financial aid if there is a change in employment status, Bugarin says.

Escaping the 10% IRA Penalty

Once you've tapped all the resources from your financial aid office, there are some other funding options available. Even with declining home prices, Sentinel's Jordan says a home equity line of credit or cash-out refinancing can be a good source of educational funding, assuming you qualify. In most cases, you'll need a credit score of at least 680 to be considered, Jordan says.

What about tapping your retirement account? Conventional wisdom says that retirement money is sacrosanct, but some advisers say you should do it if all else fails. "This is a controversial and very personal decision to make and should be made only after consulting a professional adviser who can run the numbers," says David Barnett, a financial adviser at Barnett Financial Planning in Tustin, Calif. A last-ditch effort is worth it, especially if it means your child won't have to drop out of college. (Students who drop out tend not to go back, Barnett notes.)

Another compelling reason why parents may consider using retirement nest eggs to pay for college is that qualified educational expenses escape the 10% penalty on early Individual Retirement Account withdrawals. (You still have to pay the income taxes, though.)

Talk Frankly About Finances

If your child is heading to college in the next year or two, it's a good idea to have a frank talk about finances, says June Walbert, a certified financial planner at USAA Financial Services. Set the agenda now, which means encouraging your child to consider an in-state school as well as working before and during school to help cover expenses. "Maybe kids need to look into a part-time job, even if they are only using the proceeds to fund some of their entertainment expenses," Walbert says.

It may be time to rethink educational plans and consider starting off at a community college, says Robert Wasilewski, a financial adviser at Baltimore-Washington Financial Advisers in Baltimore who also teaches economics at Howard Community College in the evening. He says more of his students are attending community college, where tuition is \$3,000. "They plan to transfer to a four-year institution for their last two years. I believe this is a viable option for the serious student," Wasilewski says.

Financial aid experts also say it is a smart idea to encourage high school-aged children to take advantage of Advanced Placement tests and summer classes to graduate from college in less than four years and cut down on tuition payments. Some colleges allow courses taken before college to count toward college graduation credit.

An Opportunity to Adjust

For parents with children who aren't in high school yet, the market's swoon should give them a kick to get college savings on track. An age-based 529 plan is a good choice "for any age you are starting a 529 plan because it is invested more conservatively as the child gets older, when there is a higher probability of needing to withdraw money from the account," says Lisa Dickholtz, a certified financial planner at Dickholtz Wealth Management in Northbrook, Ill.

For example, the investment mix for a child up to 4 years old can be as high as 85% equities with 15% fixed-income while the allocation for a 5- to-7-year-old may be 70% equities and 30% fixed income. Because the money is automatically rebalanced as your child matures, "you can avoid not having enough time to make up market declines by being too heavily invested in equities," Dickholtz says.

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