

Is Your Child Headed To College Next Fall? It's Time for Both of You to Take a Crash Course on Borrowing and Spending

Even if you've planned relatively well for your future college student's expenses, the credit crunch and downturn in investment income for colleges have changed the game for financial aid at many schools. That means both parents and students need to approach the college financial aid scene with unprecedented caution.

Harvard University, the world's richest school, announced in February that it was slashing 25 percent of its investment staff after its \$36.9 billion endowment lost 22 percent of its value in the previous four months and could decline as much as 30 percent by the end of June. In two separate surveys released in January, the Commonfund Institute and TIAA-CREF, in a survey done for the National Association of College and University Business Officers, reported that college endowments fell on average 23 percent in the five months ended Nov. 30, 2008.

Why is this important? It's true that endowments at schools of all sizes mostly pay for faculty and facilities. But they also provide both grants and scholarships for talented students who need them and have been under significantly more pressure to do so. When students have a tougher time finding lower-cost school financing, the demand for scholarship and grant funding goes sky-high. In many cases, students are forced down the borrowing chain to increasingly risky loan options.

The private student loan sector has also been hit by reports of questionable practices in the last two years. In December, New York Attorney General Andrew M. Cuomo reached an agreement with the College Board – the developer and administrator of the SAT and AP – to stop discounting products and services in exchange for a ranking on colleges' preferred lenders list. The College Board will now invest \$675,000 to develop a set of tools to help financial aid administrators to help students and parents compare student loan offers and identify the lowest-cost loan options.

What can you do? One of the best starting points is a meeting with a CERTIFIED FINANCIAL PLANNER™ professional with specific expertise in planning for college and financial aid options. The smartest thing is to work with a planner when kids are young to amass the right amount of savings for college, but it makes good sense for both parents and students to meet with a planner before school starts to underscore the complete list of financial issues the student will face. These include:

Planning alternatives for financial aid shortfalls: Over the past few years, colleges have not been able to offer adequate amounts of funding through Perkins, Stafford and Plus federal education loans, and private student loans through banks have closed up with the credit crunch. For students already admitted at schools for their freshman year in the fall, financial aid letters will start going out this month.

Here's the catch – many college students get in trouble with debt because they are unaware that many for-profit companies advertising access to federal loans pull their financing from private sources that cost the borrower far more than actual federal loans would. The ability to plan for college well in advance and work with an expert to sift through proper loan alternatives can make the difference between an affordable debt load when a student graduates and potential bankruptcy.

Setting a budget as early as possible for basic expenses: Until the student gets to school it will be tough to tell what actual expenses will be, but it won't hurt to set a tentative budget that involves taking full account of the student's savings, the parents' (and possibly the grandparents') contribution to everyday expenses and any planned income from work-study or other sources. For a template of a budget written specifically for college students, go to: <http://www.aie.org/Calculators/budgetworksheetinschool.cfm>

Start managing credit and debit cards before school starts: The time to start managing credit and bank accounts isn't freshman year. While a teenager won't build a credit history as an authorized user on a parent's card, it's good to get a little practice using it under a parent's watchful eye. When a child goes on to college, the challenge will be looking for the best credit card offer amongst many and managing that credit responsibly. This is another good reason for both parent and student to meet with a financial planner ahead of school to discuss proper credit card usage and monitoring of a student's fledgling credit score.

March 2009 — This column is produced by the Financial Planning Association, the membership organization for the financial planning community, and is provided by Paul Lemon, CPA, CFP®, a local member of FPA.