Student loans from Key Bank are the latest casualties in economic crisis

Contributed by Marcy Misner
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College students are beginning to feel the effects of this country’s economic downturn as some seek to get student loans to continue their education, only to find at least one bank no longer lending to students.

As Stephanie Rice, a junior studying sociology at Lake Superior State University, found out recently she’ll no longer be able to get her alternative student loans through Key Bank. As of October 31, Key Bank is pulling out of student lending altogether. Rice said she has her tuition needs covered for this year, but next year will have to find another way to make up for the loan amount she received from Key Bank.

Although Key Bank plans to stop student lending, anyone who gets their application in by the deadline will be considered, said Laura Mimura, a Key Bank spokeswoman in Cleveland.

“We will process all Key alternative loan applications received prior to and including Oct. 31,” Mimura said, adding Key Bank does not want to leave any students unfunded this semester.

Seventy six percent of Lake State’s students receive some sort of federal financial aid, and 20 percent of those have needs beyond federal aid. According to Vice President of Enrollment Services Bill Eilola, there are 2581 students enrolled at LSSU as of September 10. That is a 2.7 percent increase over last year.

“Students attending LSSU do not need to worry about obtaining their federal loans or parent PLUS loans because of our participation in the Direct Loan program. If loans are needed beyond our federal programs, there are several options to consider and a willing financial aid staff to help guide you,” LSSU Director of Financial Aid Deborah Faust said.

Up to 200 LSSU students could be left without loans next year from Key Bank and Sallie Mae, another bank which is tightening lending restrictions in an effort to stay afloat in a tough economic environment. Sallie Mae officials notified LSSU last week they were no longer going to offer loans to students with poor credit, according to Faust. This could leave those students scrambling to find another alternative lender.

Key Bank and Sallie Mae are not the only banks affected, however. Faust explained that last year students had more than 3,600 banks and a state loan to choose from to supplement their education loans. “There are not 3,600 anymore. They’re dropping like flies,” Faust said. With the economy taking a downward spiral, banks are closing their doors or raising the requirements to would-be borrowers, making it more difficult for students with bad credit or no credit to get financing for school. She added most of the banks closing are those which accepted risky loans from students with poor credit. Chase Bank stopped offering Teri loans and was one of the first lending casualties, Faust said.

CitiAssist, a division of Citibank, has dropped LSSU and low volume community colleges from its lending program in an effort to stay profitable. Two lesser-used lenders, Campus Door and My Rich Uncle have gone out of business, Faust said. Campus Door is a subsidiary of Lehman Brothers, the 158-year-old investment bank which declared bankruptcy recently.

“In the alternative loan market our choices are starting to dry up,” Faust explained. Michigan’s non-profit loan program, MI-Loan, is no longer offered by the state Department of Education. Faust explained the state administrators cut the program last year.

“They hope to bring it back one day,” Faust said. The good news is that there weren’t a great number of students affected by that cut.

In the spring, an LSSU committee researched some the lending options available to students who needed another loan in addition to federal aid. Staffers posted their top picks on LSSU’s website, located under Financial Aid, Alternative Loans. As of November 1, two of the university’s top three picks are no longer available, due the economic crisis. CitiAssist and Key Bank are no longer options for students. Wells Fargo, Sallie Mae and other programs offered by Chase are still available, at least for now. Faust said Sallie Mae’s credit restrictions will make it difficult for students who are without strong co-signers to get an alternative loan. “Students need to improve their credit scores and/or find a good or better co-signer,” Faust advised.

Other banks already have a similar level of standards for lending to people. It’s a business decision each bank makes: viewing prospective borrowers in terms of their risk and their likelihood of paying back the loan before deciding whether to loan money and at what interest rate to charge. Borrowers with better credit histories typically get approved for loans with better terms, lower interest rates, etc.

Banks are less willing to take risks loaning money to people who may not be able to repay the loans, Faust said. A credit rating is one of the biggest indicators banks use to assess the risk in loaning to any customer. Credit ratings are three-digit numbers ranging from 300 to 990 depending on what scoring system is used. Higher is better when it comes to credit ratings.

Faust explained that students’ first option for financial aid is to fill out the federal application for student aid. She emphasized these Stafford student loans, backed by the U.S. government, are secure and students should not worry about their federal aid. This federal aid covers between $5,500 and $12,500 of a student’s yearly tuition and fees, depending on their level in school and several other factors.

“In a lot of cases, that’s not enough money…there’s a gap,” Faust explained, once room and board, tuition, books and supplies are added together.

“Then students go to the next resource. They have two options: parents can borrow money on behalf of the student or students borrow money with a parent or other cosigner for the loan,” she said. This option, called an alternative loan, is a private loan designed primarily to help students with educational expenses that exceed other assistance such as scholarships, grants and federal loans. Alternative loans were designed to bridge the gap between college costs and traditional financial aid resources.

Banks offer these loans to students and if they are certified then the banks agree to work with LSSU and not exceed a previously agreed-upon amount for the year. If students borrow more than that capped amount they can lose their federal aid, Faust explained. The cap varies depending on what year a student is in, where they live on or off-campus and other criteria.

There is a third route some students may consider for student loans, but Faust warns these ‘direct to consumer’ loans are a bad idea. Some banks will offer student loans that are not considered ‘certified,’ and may even tell students they don’t have to notify the college of the additional loan money. If the university finds out about these uncertified loans and if that loan puts them over their capped limit, the student could lose funding. The bank’s advantage to offering a risky, predatory loan such as this to students is that even if a student were to declare bankruptcy in the future, that loan must still be repaid. “Educational loans cannot be discharged in bankruptcy proceedings, so that bank will get their money eventually,” Faust said, even if they have to garnish a student’s wages to get it. Those types of loans should never be taken, Faust warned. “Always check with the financial aid office if you have any questions,” Faust said.

For more information visit www.lssu.edu/finaid. For a list of suggested alternative loans, visit www.lssu.edu/finaid/alternativeloans.