MARKETS

Squeeze the Parents: New Student Loan Goes Straight to Mom and Dad

As the cost of college climbs, private student lenders are rolling out loans targeted to parents

By ANNAMARIA ANDRIOTIS
Updated March 29, 2016 6:40 a.m. ET

As rising tuition costs pile ever-higher debts on students, lenders and colleges are pushing for an alternative: Heap more on their parents.

An increasing number of private student lenders are rolling out parent loans, which allow borrowers to get funds to pay for their children's education without putting the students on the hook. The loans mimic a similar federal program but don't charge the hefty upfront fee levied by the government, which could make them cheaper and encourage more use.

SLM Corp., the largest U.S. private student lender by loan originations and better known as Sallie Mae, will introduce its version of the loan next month. Parents will be able to borrow at interest rates ranging from about 3.75% to 13%, with 10 years to pay it off.

"There's an opportunity to expand our reach," said Charles Rocha, chief marketing officer at Sallie Mae.

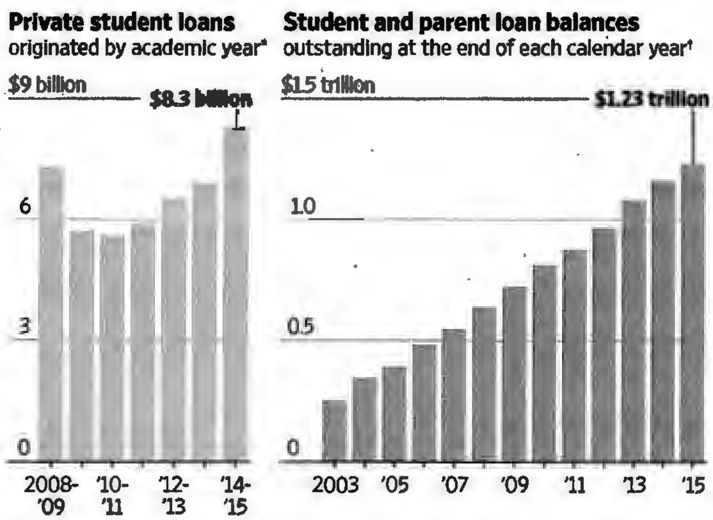
The lender joins banks like Citizens Financial Group Inc., which started offering a similar loan last year. Online lender Social Finance Inc., or SoFi, first rolled one out in 2014 at the request of Stanford University. Stanford spokesman Brad Hayward said the university initiated discussions about the loan to help parents who were looking for more financing options.

Colleges including Stanford, Boston College and Carnegie Mellon University are referring parents to the loans through emails or by putting them on lists of preferred loan options. An official at Boston College also said the school approached lenders to create the loans.

Lenders see the new products as an area of growth in an otherwise sluggish lending environment. Colleges are helping push them in part because of a quirk in federal calculations. Unlike ordinary federal student loans, the parent loans don't count on a scorecard in which the U.S. Education Department discloses universities' median student debt at graduation. That can ease the pressure to keep tuition increases in check at a time when heavy student debt has become a political issue.

Building the Bank of Mom and Dad

Private firms are giving out more student loans. Their latest offering is targeted at parents of college-bound children.



*Based on data from private lenders that represent at least 80% of the overall private student origination market, excluding refinanced loans †Data include all federal student loans given to undergraduates and graduates, private student loans, federal parent Plus loans and private parent loans Sources: MeasureOne (private loans); Federal Reserve Bank of New York

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Bernie Pekala, director of student financial strategies at Boston College, acknowledged that including parent loans in this calculation would make the schools appear more expensive.

"Education loans in general, whether for students or parents, are spreading out the costs over time; they are not cutting college costs," said Mark Kantrowitz, vice president of strategy at Cappex.com, a website that connects students with colleges. The average annual cost of a four-year, private college, including room and board, has climbed 53% in the past 10 years, to $43,921, according to the College Board. At public, four-year schools, it is up 61%, to $19,548 for in-state students.

Lenders and colleges said creditworthy parents stand to get lower interest rates on these loans than the federal government charges and that many parents want to take on the debt themselves without burdening their children.

Parents have long shouldered much of the cost of college and have been taking on

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increasing levels of debt to do so. Some of that debt comes via personal loans or home-equity lines of credit whose ultimate purpose is hard to track. Parents also cosign an increasing amount of private undergraduate student debt, more than 90%, according to recent figures tracked by student-loan data firm MeasureOne.

Total student and parent college debt rose to $1.23 trillion at the end of 2015, more than double the level eight years earlier, according to the Federal Reserve Bank of New York.

Despite parents' contributions, however, large numbers of students are emerging from college with debt loads that critics call unsustainable. The average student debt for graduates with a bachelor's degree is projected to be $37,000 this year, up 78% from a decade ago, according to Mr. Kantrowitz.

The Education Department created a scorecard in 2013 that displays the average annual cost of a school, students' median salaries and the median amount of debt carried by graduates. The government has billed the scorecard as a tool that can help students narrow down their college choices in part by seeing which colleges leave graduates more in debt.

Education Department spokeswoman Dorie Nolt said all private loans, whether given to students or parents, are excluded in the scorecard because the government doesn't have access to private loan originations. She added that federal parent loans also are excluded because the scorecard focuses on undergraduate students.

Jeanne Crowell of Hopewell, N.J., said she wasn't expecting to have to take on much

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MEDIAN DEBT

All students	$16,000
Low-income students	$16,914

Note: Total charges are for the 2014-2015 school

extra debt for her daughter, Kathleen, who entered Franklin & Marshall College last fall because of the relatively low debt number the college touted. The college's scorecard cites median student debt of $25,000.

Ms. Crowell, a school admissions counselor, and her husband, Chris, have since signed up for a total of $34,000 in federal and private parent loans to help cover the costs of their daughter's freshman year, in addition to the $5,500 the daughter is expected to take on personally. "It was very shocking to me," she said.

The college said it is clear with parents about the expenses that they will have to take on. "The financial aid award letter informs families what out-of-pocket costs would be," said Eric Maguire, Franklin & Marshall's vice president and dean of admission and financial aid.

The federal government offers college loans to parents under its Plus loan program. Parents signed up for $10.7 billion in Plus loans during the 2014-15 academic year, according to Mr. Kantrowitz's analysis of federal data, a 20% increase from five years earlier. Federal student loans, meanwhile, fell 7% during the same period, to $84.9 billion.

Private lenders, squeezed out of the business of lending to students by rising loan defaults and a securitization market that dried up during the recession, are now trying to get into the act.

The federal Plus loan charges 6.84% interest to all borrowers who sign up for the loan for the current academic year, in addition to a nearly 4.3% upfront fee, initially designed to cover the government's costs to originate and guarantee the loans.

Beverly Lowry of Dallas said she and her husband, Bill, took out a $40,000 loan from SoFi to help pay for their son's freshman year at Stanford University. Ms. Lowry, a stay-at-home mom, said the couple didn't want their 19-year-old son, Creed, burdened by debt.

"My husband and I got out of school with debt," she said. "It's a hard way to start life."

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