TFC Credit Corporation
Student Financing Solutions

Credit Crunch: Survive or Thrive?

Floral Park, NY, 2/7/08 -
Times are indeed hard right now in the education industry—especially regarding student financing. Budgets are being slashed, payrolls are getting cut, masses of students are being turned away, and the end is not yet near. Each day student loan requirements become increasingly tighter and each day more students are rejected. Fortunately there are innovative, proven, and highly effective ways to increase enrollments and revenue in these and any market conditions.

As our industry faces these unprecedented challenges, **private lending—for much publicized reasons—can no longer be depended upon to fund the tuition gap left by government-backed grants and loans.** Schools themselves are now pressured and challenged to find alternative financing for students. Stakeholders, stockholders, and students all demand a quick and effective solution. In their recent call to action, the Career College Association (CCA) noted that if left unchecked, *"the situation could foreclose access to higher education for thousands of borrowers."* According the CCA President Harris N. Miller, *"Access to private lending is absolutely critical for many working adults to bridge the gap between federal grant and loan program limits and actual program costs."* It is a business-survival imperative that the industry should seek inventive alternative financing solutions *now*.

Furthermore, in times of economic slowdown, the prospect of displaced workers reinvesting in their education has always been a well-known part of the for-profit education's sustainability. **We are on the cusp of such an occasion now.** But as the big-name players have left sub-prime loans and recourse lending, not only could institutions lose their base student market, but they could also fail to seize upon this new opportunity in their inability to finance the probable influx of adult-learners that come with recessionary economies. It's *definitely* time to get creative.

What's more though, is the moral obligation the industry at-large shares to provide fair rates to prospective students and profitable financing options to schools. It's a matter that consumers, schools, and government must indeed work collectively to resolve (as called for by CCA President Miller) **because economic growth and a healthy society demands the skilled labor provided by for-profit education institutions.** In most cases, the curricula instructed at for-profit institutions are for skilled positions that cannot be outsourced, off-shored, or easily down-sized. The education is market-driven as well – highlighting what works versus theory, which is invaluable to the students competing in a global market. And as we are facing an economic down cycle, now more than ever we have to work to maintain (and preferably exceed) the growth metrics forecasted before the bottom fell out of the student lending sector. *That means taking student financing into our own hands.* **It is a survival and ethical obligation to ourselves and our students.**

So what can we do? One thing all schools, school systems, and education corporations should definitely *not* do is wait for government intervention or help from institutional banking. Government action will be far too slow to affect the short term, and the market is far too shaky for commercial banking to offer loans to sub-prime candidates—now and for the foreseeable future. There will be attempts to recover some of the sub-prime student market, but it will purposefully fall short due to the perceived risk. **Schools large and small are summoned to find ways to fill this void** previously covered by private lending. And even with some assistance from institutional banking - that's no small hole. Industry insiders estimate that private loans cover on average 20% - 50% of student tuition depending on a school's state, course of study, tuition, program length, and demographic.

The good news is there are ways to mitigate these challenges: endowments, school-based scholarships, employee reimbursement plans, direct-to-employer partnerships, extended payment plans (EPPs), fellowships, work-study programs, school-employee scholarship funds, articulation agreements, the use of financial services partners, corporate sponsorships, alumni contributions, and other creative solutions will all come into play. **But it comes down to smart alternative student financial planning.** According to Stanley Sobel, President of TFC Credit Corporation, *"In nearly four decades of service in the education industry, alternative financing solutions have always been a critical part of effective student financial planning and growth. But never has there been such an industry-wide critical need for the use of alternative financing and recourse financing plans. Education corporations and individual schools are encouraged to reach out to alternative financing service companies with a proven expertise in their field, and reexamine their approaches to lending, payment plans, tuition, spending, and recourse loans.*

Options that will most likely play into student financing in the short-term are the use of third-party accounts receivable servicing to cost-effectively keep receivables high; the employment of extended payment plans on a more widespread basis to manage the tuition gap; and the use of recourse loans (for private institutions these are often used as a cash flow tool and to maintain a good cash position; and for public education corporations these are often used to maintain solid quick ratio and current ratio to keep stock prices peaked).

Recourse loans, and the ability to select which students are good candidates for such plans, will be invaluable in times of capital investment and situations where spending is needed for marketing campaigns. **Schools will have more control over which students can be approved and much greater control over their fiscal fortunes by properly implementing such options.** There is risk, but there are also best practices and actions that can minimize this risk and turn recourse loans into a viable part of student planning, growth, and fiscal solvency. Student financing companies can consult and liaise with schools seeking to explore these options.

Extended Payment Plans (EPPs) will have to see greater use as well. This will require a culture shift from disbursement-based planning to a more steady annuity model – as students formerly funded with private loan disbursements will no longer meet the new standards of qualification. Schools don't want to lose the students, therefore the EPPs is the best, easiest option. In this model, schools will see the revenue shift from a cash upfront plan to a student volume based revenue stream approach - but once a critical mass of students are financed via EPPs, the revenue will level out and actually allow schools to focus on more reliable growth than quarter to quarter mania. These EPP paying students should also be serviced by student financing professionals as well, as the credibility and expertise of a national third-party finance company will bring greater returns on receivables extended past graduation.

The important thing to remember is that schools and education corporations large and small can take control of their destiny and turn crisis into opportunity by smartly utilizing the right cocktail of the aforementioned alternative funding resources. Where there's a will there's a way—and if schools are willing to challenge conventional wisdom, think creatively, leverage risk with opportunity, and invest in their students as an investment into themselves, they will find gold at the end of the rainbow for all.

About TFC Credit Corporation
With operations centers in New York and San Francisco, TFC Credit Corporation has served over 2,500 schools and 250,000 students in 38 years. Founded in 1970 by Stanley Sobel, TFC is a recognized industry leader in alternative student financing solutions and renowned for customer service and best practices excellence. TFC's clients range from multinational education corporations to small individual schools. Our expertise is helping schools grow through smart, effective student financing solutions.

TFC Credit Corporation. Student Financing Solutions since 1970.

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