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Princeton to Replace Loans With Student Scholarships

By KAREN W. ARENSON

As American students take on ever-larger mountains of debt to help pay for college, Princeton University said yesterday that it would replace student loans with scholarships so that its undergraduates eligible for financial aid would not have to worry about paying back thousands of dollars for their education.

Next year, Princeton students will be charged $26,160 for tuition, and undergraduates will pay $33,613 a year for tuition, room and board, a 3 percent increase.

Princeton said it would use the bounty from gifts and from its growing endowment — now about $8 billion — to expand scholarships for all students eligible for financial aid beginning this fall. It also plans to increase aid for graduate students.

The university said the no-loan program and other financial aid improvements for undergraduates would cost it more than $5 million next year, while improving graduate support would cost more than $6 million.

Princeton's decision to reduce student indebtedness is likely to put pressure on other elite colleges and universities competing not just in academic programs but also in real-life economics for the best students.

"This is an extraordinary gesture," said Arthur Levine, president of Columbia Teachers College. In the last two decades, he said, "there has been good support for poorer students, and wealthy students could afford to pay. But the only way middle-class students could afford to attend these colleges was by taking out huge loans."

"Every Ivy League university is going to have to try to match this if they want to compete for the best of the middle-class students," he added.
This is the second time in three years that Princeton, one of the wealthiest universities in the United States, has moved to improve financial aid for undergraduates. In 1998, it substituted grants for loans for its lowest-income students, from families earning less than $46,500. It also altered the formula it used to calculate a family's ability to pay for college so that middle-income students would be eligible for more aid.

Harvard and Yale were among the universities that followed with similar programs, although many other colleges and universities decided they could not afford to match Princeton's plan.

Princeton, like other colleges, has traditionally provided students deemed eligible for financial aid (based on family income and assets) with a mix of loans and grants to supplement their own payments.

Across the United States, more and more aid has been provided in the form of loans, especially for middle-income families. Twenty years ago, loans were used to pay for about 40 percent of a college education; today, that figure has jumped to about 60 percent.

Don Betterton, Princeton's director of undergraduate financial aid, said that graduates of four-year colleges would leave campus this year with average debt of $15,000 to $20,000. Such debt affects student decisions about whether to go to graduate school and what careers to pursue, he added.

Randall Smith, a freshman from Anchorage, said, "I am planning to go on to graduate school, so it will be nice not having a large debt from my undergraduate years starting out." He said, "I'll have some from the loans that I took out from this year, but besides that, I will be saving about $12,000."

Princeton said that about 40 percent of its freshmen receive financial aid, and nearly two-thirds of the aid recipients — or about a quarter of the freshmen class — borrow to help cover their Princeton bills.

Princeton freshmen borrowed an average of $2,615 this year. That is significantly lower than the $4,000 average loan taken out by this year's seniors, who were not covered when Princeton said that it would expand its financial aid three years ago, beginning with incoming students.

Mr. Betterton said that Princeton's new policy should make it possible for students to graduate without any debt, although most students would still be expected to contribute something. Princeton sets the amount it expects families and students to pay at a level it believes they can afford, based on the family income and assets and on what a student can earn working part time and during the summers. Families will still have the option of borrowing to pay their share of the bill.
Princeton also said yesterday that it would reduce the amount students would be expected to contribute from their savings, and would increase grants to pay the $370 annual cost of the health care plan for students from families earning less than $66,500.

The university also said it would pay more attention to the rent a family paid in determining its ability to pay for college. Three years ago it said it would not count a family's home equity when it assessed its financial assets.

Graduate students will also receive more generous financial aid. Princeton said it would double the number of doctoral students in the humanities and social science that it supports during the summer, to 650 from 325. Stipends for graduate students and their health care coverage will also be improved.

The university also said it would provide all first-year doctoral students with full tuition and a stipend to help cover living expenses.

The university said it would increase the rate of spending from its endowment to help pay for these programs and others, including providing more money for faculty salaries and a larger budget for teaching foreign languages, and sabbatical leaves for senior lecturers.