

COSTS

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Wednesday, Education Secretary Margaret Spellings planned to propose a new form that shortens the FAFSA from more than 100 questions to 26.

COLLEGE PRICES

A recent survey by the College Savings Foundation found that one in four parents want the federal government to cap college costs. Neither candidate plans anything like that, or even smaller steps such as forcing schools to spend more from their endowments to hold down prices. That's a relief to colleges, which resent interference from Washington.

The reasons why college prices are rising are complicated, and largely beyond the purview of the White House. Washington provides \$86 billion annually in grants, loans and tax benefits to support students, but it's state budgets that mostly determine public colleges' list prices.

Critics say colleges share the blame, for failing to curtail their own spending. Families also bear some responsibility: While they gripe about rising prices, in the end, many still choose more costly schools. That could change in a prolonged economic downturn.

Michael Dannenberg, senior fellow with the New America Foundation and a former adviser to Sen. Edward Kennedy, D-Mass., says Obama's proposals take the problem of college affordability more seriously than McCain's. And he calls the tax credit a significant innovation.

"McCain's message when it comes to increased tuition is, 'You're on your own,'" said Dannenberg, who has not worked for Obama's campaign. "Obama's message to families is, 'We'll give you more financial aid to help you with college costs, but your kids are going to have to help others.'"

But Richard Vedder, an Ohio University professor affiliated with the conservative American Enterprise Institute, believes more spending on federal aid — such as what Obama proposes — will just encourage colleges to charge more. (However, as a member of Education Secretary Margaret Spellings' higher education commission he signed on to recommendations that included more money for Pell Grants).

"I think this is just going to fuel the academics race rather than restrict it," Vedder said. Spending more on aid means "treating the symptoms and not the disease."

Fed, in emergency move, will lend to companies

By JEANNINE AVERSA
AP ECONOMICS WRITER

WASHINGTON (AP) — Frantically trying to stop the bleeding on Wall Street, the Federal Reserve took a first-time step Tuesday to get cash directly to businesses and hinted that interest rates could come down soon. Stocks continued their free fall anyway and hit new five-year lows.

The central bank invoked emergency powers to lend money to companies outside the financial sector and buy up mounds of commercial paper, the short-term debt that firms use to pay for everyday expenses like salaries and supplies.

The Fed, which has only loaned money to banks before, made the move as the gravest financial crisis in decades wore on and concern spread around the world.

In a speech to the National Association for Business Economics, Fed Chairman Ben Bernanke delivered a strong signal interest rates may need to be cut. And he warned the country could be stuck in the economic doldrums for some time.

"The outlook for economic growth has worsened," Bernanke said. "The heightened financial turmoil that we have experienced of late may well lengthen the period of weak economic performance."

The gloomy assessment appeared to open the door wider to an interest rate cut on or before the Fed convenes again Oct. 28. The Fed's key interest rate now stands

at 2 percent.

Wall Street turned its back. The Dow Jones industrials lost 508 points, more than 5 percent, to close at 9,447, the lowest since Sept. 30, 2003. The Standard & Poor's 500, a broader stock index, closed below 1,000 for the first time since that same day.

President Bush again sought to strike a reassuring tone and said the nation would make it through an economy blighted by job losses, record foreclosures and shriveled retirement savings. Congress' top budget analyst estimated Tuesday that Americans' retirement plans have lost as much as \$2 trillion in 15 months.

"Have faith, this economy is going to recover over time," the president said in a speech in Virginia. "I wish I could snap my fingers and make what happened stop. But that's not the way it works."

Bush reached out to European leaders earlier Tuesday to urge coordination on efforts to solve the crisis. The White House said Bush was open to the idea of a summit.

The contagion has spread overseas. Britain's chief financial regulator was readying a statement to make before markets opened Wednesday, and the BBC reported that the British government was poised to announce a rescue package for the banking system there.

Concerns are mounting that a global recession is developing, and pressure is growing on the U.S. government to do something beyond the \$700 billion financial

bailout package that Bush signed into law Friday.

To that end, the Fed announced it would begin buying companies' short-term debt. The powers were bestowed during the Depression as part of the Federal Reserve Act.

The government's bailout package is aimed at thawing lending by buying bad mortgage-related debt off the books of troubled financial institutions. The idea is that the banks would then be in a better position to lend and get the economy moving.

Commercial paper borrowing usually ranges from overnight to less than a week. But in the current climate of mistrust, the market has dried up considerably.

The action makes the Fed a crucial source of credit for nonfinancial businesses in addition to commercial banks and investment firms — and also exposes it to risk because so much of the debt would not be backed by collateral.

Credit markets, clenched up for weeks now, relaxed somewhat after the Fed's move.

The Fed said it was creating a new entity to buy two types of short-term debt, known as three-month unsecured and asset-backed commercial paper, directly from eligible companies. It hopes to have the program up and running

soon, Fed officials said.

Fed officials said they would buy as much of the debt as necessary to get the market functioning again but refused to say how much that might be. They noted that around \$1.3 trillion worth of commercial paper would qualify.

The Treasury Department, which worked with the Fed on the program, said the action was "necessary to prevent substantial disruptions to the financial markets and the economy."

The Treasury will provide money to the Federal Reserve Bank of New York to support the new program, the Fed said. The money would be separate from the \$700 billion financial bailout package.

The Fed said it planned to stop buying the short-term debt on April 30 but may extend the program.

There was \$1.6 trillion in outstanding commercial paper, seasonally adjusted, on the market as of last week, the most recent data from the Fed. The market has shrunk from \$2.2 trillion last summer.

Associated Press writers Madlen Read and Tim Paradis in New York and Ben Feller in Washington contributed to this report.

DEBT: College students struggling with loan and credit cards

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"I use my credit card at the begging of every semester to buy my books and school supplies, which is always well over \$500 per semester," said junior Renee Balliet.

While there is more and more research being conducted to explore why student debt loads are exploding, evidence indicates that the majority of today's debt is the result of the many resources available, students today have a much higher standard of living. With the development of new technology, travel, apartment style dorm living, and eating out have all become "necessities" instead of luxuries.

There is little room for trail and

error when it comes to credit cards and taking out loans. Mistakes made in college can haunt students up to 25 years after graduation. Credit scores can have a major impact in a graduate's life, whether it's getting a job of their choice, getting qualified for a house or apartment, or getting approved for something important.

Student debt is a major problem across the country that cannot be solved as easily as one would like. Most students cannot afford school without taking out a student loan. Reading through small print before signing any papers and coming up with a payment plan that will suit one's lifestyle, can be the answer to managing student loans successfully.

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