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Mistakes were made

We asked experts to name the financial aid blunders families tend to make. Here are the top 10 and how to avoid them

By Megan Barnett

1. FAILING TO FILL OUT THE APPLICATION

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The easiest way to come up short on financial aid is to not apply, a mistake that about 25 percent of undergraduates make. "A lot of people assume they won't qualify if their next-door neighbor said they didn't qualify or if their parents think back to the way it worked 25 years ago," says Mark Kantrowitz, publisher of *Finaid.org*, an online resource for financial aid.

Not only does that prevent you from receiving need-based financial aid; it also takes federal loans off the table. All students, regardless of need, can borrow up to \$23,000 in federal Stafford loans over the course of their college education, starting at \$2,625 their first year. The one catch? You have to fill out the Free Application for Federal Student Aid (FAFSA). The form asks for details about your family's income, savings, and other assets to determine how much you should be able to contribute toward college costs. That resulting number is called your expected family contribution, or EFC. Financial need is then calculated by subtracting the EFC from the school's cost of attendance.

That completed FAFSA can really come in handy if unforeseen circumstances arise midyear. "You may not need the money today, but anything can happen in the middle of the year, like divorce or the death of a parent," says Craig Munier, financial aid director of the University of Nebraska-Lincoln. "When that happens, we can adjust more quickly if you've applied." The FAFSA can be filled out online at www.fafsa.ed.gov.

2. SAVING IN YOUR CHILD'S NAME

When little Sally was born 17 years ago, you wisely started a savings account in her name, right? Now you hope her little stash will go a long way toward covering the astronomical costs of college.

Well, that money will certainly help, but not nearly as much as if you'd kept it in your own accounts. That's because the expected contributions are weighed differently for students and parents. Parents--with their myriad financial responsibilities--are expected to devote only 5.64 percent of their assets to college costs. Students, on the other hand, must fork over 35 percent. Say Sally has \$30,000 saved. She'd be expected to contribute \$10,500 this year, and her aid would be lower to reflect that. With that same amount, her parents would be expected to contribute only \$1,692 toward her family's total EFC.

How can you undo what's been done? The money is legally your child's, and there could be restrictions on moving it into your bank account. "The only way to transfer the money is indirectly," says Kantrowitz. "In the first year, spend those assets to zero before touching the parents' money." Next year you'll qualify for more aid.

A better plan for your next child would be to put money in a 529 plan, which allows families of all incomes to contribute between \$146,000 and \$305,000, depending on the state, to a tax-deferred savings account and then withdraw money for education tax free.

3. MISSING OUT ON SCHOLARSHIPS

There's free money out there if you are willing to work for it. Daunted by the \$10,000 per year her family was expected to pay for her to attend Oklahoma State University, Kristen Stryker applied for about 30 scholarships. In many of the applications, Stryker, who graduated from high school with a 4.3 grade-point average, wrote about her community project--teaching gardening to kids in juvenile detention centers. Her diligence paid off. Stryker, now a freshman, won scholarships adding up to nearly \$92,000 from Coca-Cola, Toyota, and Kohl's, among others--more than enough for four years at Oklahoma State.

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Websites such as those of Fastweb, CollegeNET, and the College Board claim to have billions of dollars' worth of scholarships in their free databases, for everyone from left-handed kids to skateboarders. And many schools earmark some of their own money for merit-based scholarships to entice favored applicants. Most financial aid offices post detailed information about institutional scholarships on their school's website.

Local organizations are also worth checking out, says Barry Simmons, financial aid director of Virginia Tech. Each year, he sees kids who get scholarships from civic groups simply because they asked.

But there's a caveat: Scholarships could be used to offset your aid package, not the amount of money you are paying out of pocket.

4. SENDING IN FORMS A LITTLE TOO LATE

Too often families wait until after acceptance letters have arrived to apply for aid. That may be too late. Aid comes from many sources, and they all operate on different calendars. While the FAFSA isn't due until June 30, other sources of aid that require the FAFSA often have earlier deadlines. For instance, states that use the FAFSA to determine how to disburse their own loans and grants have deadlines beginning March 1. And some schools want financial forms, including the FAFSA, from applicants as early as January. School deadlines are crucial to meet because the well of institutional money can run dry.

5. PAYING SOMEONE TO DO IT FOR YOU

Financial planners can give you good advice on saving for your child's education, but you may be tempted by pitches from companies claiming they can apply for aid for you--and get a better result. "Parents who hire consultants to help them fill out the financial aid form are wasting a huge amount of money," says Kenneth Redd, director of Research and Policy Analysis for the National Association of Student Financial Aid Administrators.

These companies often prey on families who can least afford it. Donna Connolly, a counselor to low-income and immigrant students at South High Community School in Worcester, Mass., was chagrined to discover that the parents of one senior had paid \$1,000 for a company to fill out the financial forms--and that the company made mistakes that Connolly had to fix. As for the promised scholarship money, she

says, "they just gave them websites to visit, the same ones we tell students about." Even worse, the company persuaded the parents to pay upfront for future services for their two younger children. "They were sold a bill of goods," she says.

A sure sign of trouble? Businesses that guarantee at least \$2,625 in aid, the Stafford loan amount for which every freshman is eligible. "If you have to pay money to get money, it's probably a scam," says Kantrowitz. Instead, look to the Department of Education's website for detailed instructions on filling out the forms.

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6. READING THE WRONG BOTTOM LINE

You've got three aid packages in hand. One school has low tuition but offers only loans, a more expensive one dangles a merit scholarship, while the third, whose price tag is laughably high, gives your child nothing but a good shot at graduating in four years. It's no wonder, then, that families mistakenly compare schools using the amount of aid rather than what the actual cost to them will be. But there's a simple way to avoid this common error.

Take each school's "expected cost of attendance," which typically covers tuition, room and board, and books as well as estimates for incidentals like transportation and laundry. Subtract the "free money" of grants and scholarships. The remainder is your actual cost of attendance.

Now look at how each school plans to help you cover that cost. You will probably be offered loans, but some debt may be costlier than others. Needier students will be offered subsidized Stafford loans, which don't accrue interest until six months after graduation. Unsubsidized loans, on the other hand, accrue interest while the student is still in school.

Consider the repayment options as well, for the loan with the bargain rate may not be the cheapest in the long term. Many lenders offer a lower rate if the student meets a designated number of on-time payments after graduation. Miss a few, and you forfeit the discount. Other loan repayment plans, like those offered by the Education

Department's direct loan program, can be tied to income, leaving you more leeway on your monthly payments if your salary is low.

Your package may also include work-study, a federal program that allows students to work for part of their expenses. However, keep in mind that some students find it difficult to find work for the amount of the award, which is usually less than \$3,000.

7. PASSING UP THE CHANCE TO NEGOTIATE

There's a right way and a wrong way to negotiate for more aid. Marching into a financial aid office brandishing competing aid packages is the wrong way--unless the office is at Carnegie Mellon University, which encourages students to fax in offers from other schools.

Explaining how the FAFSA didn't capture your family's special circumstances, on the other hand, might get you some results. In fact, it has a name--professional judgment review--and is even encouraged by financial aid officers. "People expect the financial aid office to intuit their circumstances strictly from the numbers," says Joe Paul Case, financial aid director at Amherst College. "You need to provide a narrative. We translate that narrative into dollars." They'll want to know about unusually high medical expenses, for example, or a family income that varies significantly from year to year. The FAFSA does not provide space for such detail, so aid officers suggest that families contact them with any extra information that may be relevant, including documents whenever possible. Roughly half of these appeals garner families more aid.

8. BUYING WHAT THEY'RE TRYING TO SELL

Just because your school's financial aid office suggests a certain lender doesn't mean you should use it. Many schools strike deals with "preferred lenders," who agree to ease some of the processing hassles for the aid office in exchange for having their loans promoted. Most families just go with what the school recommends.

St. Louis-based advertising executive Susie Weitzer did not. She estimates that her family will have borrowed \$80,000 in federal loans to fund their son's education at the University of Maryland-College Park and their daughter's at Indiana University-Bloomington. But almost all their loans have come from the Missouri Higher Education Loan Authority (MOHELA), a nonprofit agency established by the state to service education loans. Other states have similar agencies whose nonprofit status allows them to offer better rates than traditional

lenders can. While the rates for federal loans are low--currently 2.77 percent for the Stafford while in school and 3.77 percent after graduation (they are expected to rise July 1)--MOHELA borrowers who opt to pay through automatic debit get a 2 percentage point reduction. So a PLUS loan, with a rate of 4.17 percent, can be taken at 2.17 percent.

But outside loans require more work for the financial aid office. Be prepared to fill out extra paperwork and stay on top of the process if necessary.

9. ROBBING THE WRONG PIGGY BANK

Planning on borrowing from your 401(k) to help pay for junior's tuition bills? "Don't do it!" warns Case. Although it is tempting to tap your pot of gold, especially if you have last-minute needs, most financial aid pros advise against it. For one thing, you are dipping into funds you will undoubtedly need more of one day. And full payback, with interest, may be due immediately if you lose or change your job. Even if you stay with your current employer, you'll have to pay the money back over five years. Parents are better off using a home equity line, but only after exhausting all federal loan options, which are likely to have much better rates.

Letting your credit card balance grow with the hopes that higher debt levels will lower your EFC won't help either. "Debt will not factor into your eligibility process," says Paul Lynskey, director of secondary school relations for the Massachusetts Educational Financing Authority. However, it might hinder your ability to get loans that require a credit check.

And getting a second job to help cover the bills is not really in your best interest. Next year's application will be based on this year's income, so you could adversely affect how much aid you receive in the future.

10. LEAVING FUN OFF THE BUDGET

You've added up the price of tuition, room and board, and books, and you've subtracted your free money. But the result isn't all you have to pay. There will be plane tickets home, a loaded laptop, pizza deliveries, and movie dates. Living off campus requires spending for furniture, utilities, and rent. And the new hometown could be really pricey. Small-town schools like Elon University in North Carolina

estimate yearly personal expenses at around \$1,400. Big-city Harvard suggests budgeting as much as \$2,570.

Unfortunately, Allison Sandera didn't notice what New York University's estimate was. The budget bust hit almost immediately when the then 23-year-old moved from Torrance, Calif., to Manhattan last year. "I assumed it would be comparable to L.A., but it's not," she says. "Food, rent, everything was more expensive." Unable to make her financial aid package stretch far enough, she left after one semester. Now, she is working two jobs back in Los Angeles to save enough money to return in the fall.