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5 Big Financial Aid Lies

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One of the reasons students and parents are so frustrated by their attempts to figure out how to pay for college is that many of the terms that government officials and college administrators use can be misleading.

In eight years of researching and writing about financial aid, I have met and interviewed hundreds, if not thousands, of the college and government officials who create and enforce financial aid rules. And the vast majority of them have seemed to me to be honorable, idealistic people. But too often they end up misleading students or parents because many of the financial aid terms they have to use turn out to have technical or legal definitions that run directly counter to commonly understood meanings. And in some cases, I believe, politicians or college officials have purposely crafted terms that give students more hope for aid than is realistic. I realize that calling something a "lie" is inflammatory. Before you post any blistering comments, consider these financial aid terms and draw your own conclusions:

1. "Expected Family Contribution": The federal government calculates what it calls an "Expected Family Contribution" for students who complete a Free Application for Federal Student Aid. Anyone with access to a dictionary would conclude that means the government has figured out how much the student's family should be "expected" to "contribute" to the student's college expenses.

Many students and parents get unpleasant surprises when the government sends them their EFC because the government's formula for figuring out what families should be able to afford is unrealistic. The federal government expects parents to contribute at least 22 (and, for wealthier families, as much as 47) cents of every dollar above an arbitrarily low family budget. For example, a single working mother would be expected to start contributing for every dollar she earns above about \$30,000 a year. That means a mom who makes about \$50,000 a year could be expected to "contribute" more than \$3,000 a year to her student's college expenses. But if that mother happens to live in an expensive city such as New York, Boston or San Francisco, she's probably spending half her take-home pay on rent alone. Add in necessities such as transportation, health

insurance, and food and the Economic Policy Institute's "Basic Family Budget Calculator," shows that there often isn't \$300 left at the end of the year, let alone \$3,000.

[Read about how the government came up with such [unrealistic budgets](#).]

The EFC is further undermined when students go to college. More than 97 percent of colleges don't have enough financial aid money to guarantee that every student will only have to pay their EFC. The average public four-year college tells families earning about \$56,000 a year that they have to kick in about \$2,000 more than the federal government's "Expected Family Contribution." [See the list of [colleges that claim they provide enough aid to meet a family's need](#).] Many colleges award big scholarships to the students they are trying to lure because of athletic skills or top grades. So yes, the government does calculate a contribution that it thinks families should contribute to college costs. But that expectation is often painfully unrealistic. And the percentage of students whose college bills actually match their EFC is surprisingly small. Many talented students end up paying less than their EFC. And millions of less fortunate students are, unhappily, expected to contribute much more than their often unaffordable EFC. Justin Draeger, the National Association of Student Financial Aid Administrators' vice president for public policy, confirms: "the EFC that tells you nothing. It doesn't tell you how much you're going to have to pay...The whole thing is broken." Of course, the best fix would be to provide enough aid so that students could actually afford college. But in these cash-strapped times, a no-cost improvement would be to call that number something like "Family Financial Strength Indicator," and thus stop giving students the false impression that the EFC is what they will be expected to pay.

2. "Guaranteed" or "conservative" college savings plans: Some state college savings plans have been giving parents too rosy a view of their chances of saving enough for college. OppenheimerFunds, for example, has agreed to pay out millions of dollars to settle charges that it marketed as "conservative," some 529 savings plans that plunged in value because they were actually packed with leveraged toxic securities. And some states marketing college savings plans "guaranteed" to keep up with inflation, are backpedaling on those promises. Texas's now-closed Guaranteed Tuition Plan, for example, last year stopped paying investors who wanted refunds the originally promised value of all the investors' contributions plus all investment gains. Now, those who want a refund get only their actual investments minus administrative fees. Several other state "guaranteed" savings plans are backed by surprisingly flimsy "guarantees." Pennsylvania's legislature created a "Guaranteed" savings plan that is "guaranteed" by nothing more than the fund itself, for example In several other states, the "guarantee" turns out to be nothing more than the promise that if the savings plan gets into financial trouble, the executives

are "guaranteed" to ask the state legislature for a bailout. The legislature, of course, is free to say no. Increasingly, college savings plans are trying to alert investors to their risks and unique definitions. Pennsylvania's website, for example, makes clear that there is no real backup to the guarantee. But wouldn't it be simpler and more accurate to give the funds names that don't have to be explained with lots of footnotes and disclaimers?

[Read more about [misleading college savings plans](#).]

3. "Teach Grant": This federal financial aid program for aspiring teachers offers forgivable loans, not outright grants. The recipients who fail to jump through lots of hoops, including spending several years teaching specified subjects at schools certain schools, end up getting bills for their "Teach Grants" plus interest. Some college financial aid officials feel the program is so misleading that they refuse to process students' applications. "The name is the problem," says Ted Malone, who heads the financial aid office at the University of Alaska, and who refuses to process TEACH Grant applications for freshmen and sophomores. "I really do think that if they just called it what it really is—a forgivable loan—more people might be interested, and people would be going in with their eyes wide open."

4. "7.9% federal PLUS loans": When advertising loans, lenders such as credit card companies and used car dealers must give consumers plenty of warning about the true annual percentage rate (APR). That means that the lender must add all the extra fees to the annual interest rate. The federal government doesn't use APRs in its general information about its graduate or parent PLUS loans, however. The government does make clear that it typically charges a 4 percent upfront fee for PLUS loans. But it doesn't give borrowers much heads up that those fees mean the true APR on a 10-year, \$10,000 PLUS loan turns out to be 8.8 percent.

5. "Renewable" merit scholarships: Most schools and organizations tell scholarship winners the rules they'll need to follow and grades they'll need to achieve to renew their scholarships in future years. But only a few organizations give prospective, and, all too often, overconfident, students any statistics or warning of the odds of their receiving merit scholarships for all four years. Some officials in states such as Georgia and Tennessee warn high-schoolers that as many as half of the B students who earn Hope Scholarships drop below a B average in their freshman year, and thus lose their merit scholarships for sophomore year. But some schools have set much higher and tougher hurdles—GPAs of 3.5, or even 3.8—for other merit scholarships, and don't always warn the winners about previous recipients' records of achieving those kinds of grades over four years.

[See our [financial aid glossary](#) | more information on [Paying for College](#).]

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