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YOUR MONEY

The A-B-C's of Calculating Financial Aid

By DAMON DARLIN

THIS week, members of the Class of 2011 are coming down to the wire in deciding which colleges they will attend and, more often than not, their choice is influenced by which offers the most generous financial aid package.

Most students and their parents have until Tuesday to decide. In the precious few hours that remain, as they try to decipher the fine print, they can be forgiven if the whole process reminds them of buying a car from a slick salesman.

The car salesman would undoubtedly start the negotiations by quoting the sticker price, and he would quickly cloud the whole deal with an intricate verbal fandango about loans. He may eventually lower the price a bit, though that would probably take the form of free car mats.

It is remarkably similar with colleges. They have an advertised price for tuition. The award letter that students received this month lists what the school will do to knock down the price. It can do that with scholarships or grants, but more than likely it will quickly get you to think about loans.

About 80 percent of students do not pay the tuition sticker price. But loans are increasingly the most common way they finance that education. American students last year took on about \$86 billion in loans to pay for education.

The big difference between a car salesman and the college of your child's dreams is that the salesman probably doesn't know how much you are capable of spending, and he doesn't know what other dealers' cars you are considering. The colleges do, thanks to the Free Application for Federal Student Aid that most parents complete.

"They will know an awful lot about the family's financial situation," said *Kathleen Dawley*, president of *Maguire Associates*, an enrollment-management consultant.

Her company is part of an industry that advises colleges on strategies for attracting the kinds of students that they need to achieve particular goals, including how to use financial aid to entice the students.

Parents hardly stand a chance because they will never know as much about the school's admissions plans and policies as the colleges know about a parent's hopes. Return to that car lot for a moment. When you buy a car, it is possible to get an approximate idea of the price the dealer paid for it and how much demand exists for a particular model.

A buyer of education cannot hope to get detailed information about how flexible a college can be in offering financial aid. Still, there is some power in knowledge, so it's important to understand the award letter, the opening salvo of negotiations for student aid.

"Do it very carefully," warns Robert Shireman, president of the Institute for College Access and Success, an advocacy group based in Berkeley, Calif., "because colleges that are trying very hard to get someone to enroll sometimes sound better than they are."

The colleges won't make it easy to compare offers. Although they want all your financial information in a standardized format, they refuse to return that favor. So every offer looks different. They even use different terms for the same thing.

For example, a letter from the University of Pittsburgh offers \$1,200 in a "PHEAA," a term for a state grant that it doesn't bother to explain. The college assumes that most students know what it is. (They certainly might after revelations last month about members of the Pennsylvania Higher Education Assistance Agency spending money on cigars, facials, cooking lessons and falconry lessons.)

The student and parents need to sort through the information by focusing on out-of-pocket costs. They do that by tallying the free money the school is offering. Do not include any form of loans in this category. Loans are money the student or parents must pay back.

"They mention them to seem like they are giving you more than they are," said Mark Kantrowitz, publisher of the FinAid.org and EduPASS.org Web sites and a student financial aid consultant.

Subtract the total "free money" from the cost of attending to determine out-of-pocket expenses. But watch out for obfuscation in how the school calculates the total cost of attendance. It

includes tuition, room and board and fees. Those are pretty hard to fudge. But the cost of books or transportation are also included in that sum, and it sometimes is not accurate.

Mr. Kantrowitz has put a calculator on his Web site (www.finaid.org/calculators/awardletter.phtml) that allows three schools to be compared. It will take a little time to look up and fill in the information. Sallie Mae, which is in the business of selling loans to students, also has one, www.collegeanswer.com/deciding/award-comparison/ac_index.jsp. It requires registration and isn't much easier to use. "The reason they are complicated is because the issue is complicated," Mr. Shireman said.

Mr. Shireman recommended the Web site FinancialAidLetter.com for clues on how to decode the offers. The site was created by Kim Clark, a senior writer for U.S. News and World Report, while serving as a Kiplinger fellow at Ohio State University. (A disclosure: I hired Ms. Clark when I was an editor at the magazine.)

The site has a glossary of all the terms colleges use in the award letters, but the highlight is the section called Letter Decoder. Ms. Clark has posted a number of actual letters and helpfully translates and grades them. She also includes explanations from the college and from other experts of the offers.

"A lot of the schools are doing themselves a disservice," she said. Indeed, she has found instances where colleges would look better if they had been clearer about scholarships versus loans.

Any school's determination of a family's financial contribution will tend to be the same across the board, Mr. Kantrowitz said, because of the formulas based on the financial data submitted to the school. What does differ is the out-of-pocket cost, which is the cost of attendance, minus the gift aid. "That reflects the discounted price of the institution," he said. (That's more akin to a car's invoice price of a car.)

How low the school sets that discount price is determined by how desirable that student is to the school and how wealthy that school is. The enrollment management experts have counseled the colleges on the concept of leveraging, which is the black art of determining the minimum amount of money to dangle in front of a student to get them to enroll.

The colleges are trying to maximize the tuition revenue. Grants and scholarships diminish that revenue. Loans do not. So a college is trying to get the parent to accept as much financing in the financial aid package as possible.

It is important to note what kind of loan is in the package. A Perkins Loan is the best kind because it carries an interest rate of 5 percent, with the interest deferred while the student is in college.

With all the loans, look for one with low fees. It is hard to trust any school's "preferred lender" list after the revelation that some college officials received compensation from lenders. Loans may carry a college's name because lenders have learned that the college's imprimatur makes it sound like a better loan and a good deal.

Ask a lender if it has signed the New York attorney general's College Code of Conduct. That is a promise to not take compensation from lenders and to behave ethically in business dealings with student borrowers.

If you think the colleges really want your child, it may be worth asking them to reconsider. You may have some leverage if another college offered a better deal. "For the most part, the best offer is on the table," said Ms. Dawley, the enrollment-management consultant. But while colleges know who else is offering aid, they don't know what the other specific offers are.

Colleges are also keeping tallies on a daily basis on the number of students who are accepting and what kind of students are accepting. They worry about what percentage of offers are accepted because that can help determine their rankings on "Best Colleges" lists.

Depending on how its class of 2011 is shaping up, you may have an opportunity to eke out a bit more. But there is no way to know whether they need more female flute-playing chemical engineering students or Chinese-American poets from Alabama who also golf.

A college could just as easily say take it or leave it, because many institutions have a sizable waiting list. "They know they can replace that student from the list, and they know who on the list might require less financial commitment from the institution," Ms. Dawley said.

They know parents can't just walk off the lot and wait for prices to go down next year.