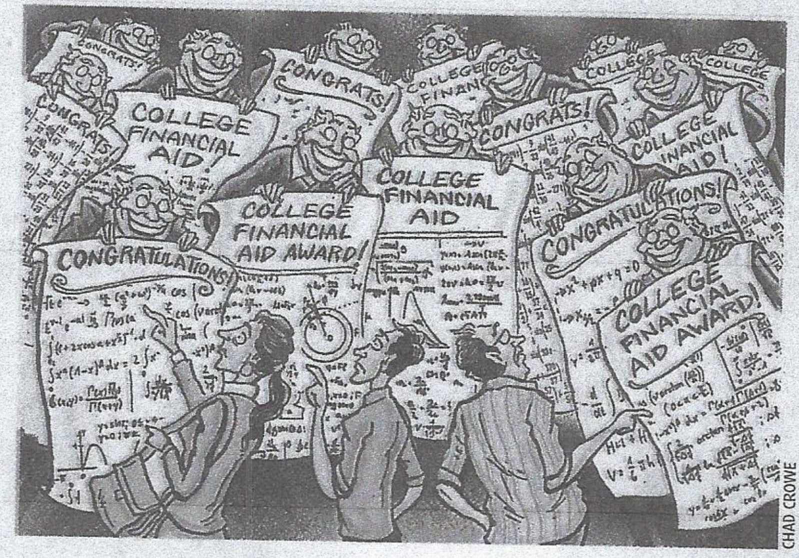
Financial Games Colleges Play

/ Kevin Carey



CHAD CROWE

Every spring, colleges send two sets of letters to millions of prospective students. First the good news: an acceptance letter. Then, a w weeks later, a "financial-aid award :ter," theoretically explaining how uch college will cost.

Parents and students are supposed use this second letter to make one the biggest financial decisions of eir lives. But the task is often nearly npossible, as shown by an analysis om my colleagues at the think tank ew America, working with uAspire, nonprofit that provides financial- d counseling.

The study, published last week, exnined 11,000 award letters sent in 016 by more than 900 colleges. It und most of them use obscure terinology, omit vital information, or esent financial calculations that apar deliberately deceptive. Many letrs are confusing in their own nique ways, making it difficult for udents to compare colleges.

heir aid-award letters ften confuse students ith jargon or deceptive laims of zero 'net cost.'

For wealthy families, award letters e often simple: There's little or no nancial aid. But for lower-income udents, the letters describe a comex mix of federal grants, institutional scholarships, work-study oportunities, and different kinds of ans. This may be particularly conising for first-generation college udents, whose parents have no exerience with these programs.

Each school can create its own forat for award letters, since there is o mandatory standard. In 2012 the ducation Department and the Conmer Financial Protection Bureau eated a recommended version, but ost colleges don't use it. Imagine ying to compare boxes of macaroni at the supermarket if more than half the manufacturers designed their own nutrition labels.

Take the letters in the study that included Pell grants. Of the 515 colleges that awarded them via nonstandard letters, more than a third provided no information about how much attending school would cost. The letters highlighted grants and scholarships as a way of convincing students to enroll, but without listing tuition or explaining how much money students would owe.

Temple University sent one low-income student a letter saying it was pleased to offer a combination of grants and loans totaling $25,909 for freshman year. The letter failed to mention that Temple costs $33,048 a year to attend, including tuition, room, board and living expenses. A student could easily enroll, show up in the fall, and only then figure out the $7,000 shortfall.

The letters that did disclose costs were inconsistent. Some listed only tuition. Others included room and board. Others added books and estimated living expenses. The recommended letter includes all of the above, providing a total "cost of attendance."

Seventy percent of colleges with nonstandard award letters created further confusion by lumping together grants and loans, as if both were freebies. Northern Arizona University sent one low-income student an award letter that said "Total Financial Aid Offer: $30,890." This amount was also the annual cost of attending, so the letter subtracted one from the other and concluded: "Total Unmet Need: $0."

That sounds a like a free ride, but $25,075 of the aid came from loans—mostly federal debt that the student's parents would have to take out, contingent on a credit check, at 6.31% interest plus an origination fee. The University of Arizona did something similar. It told a student the cost of attendance was $48,200 a year, then subtracted $5,815 in grants, $5,500 in work-study opportunities, and $36,885 in loans. "Net Costs After All Aid" were "$0.00."

Talk about deceptive. Say you buy a car with a $25,000 sticker price. The dealer gives you a $2,000 manufacturer's rebate and a loan for the rest. Was the "net cost" $0.00? The recommended award letter solves this problem. It subtracts any grants and scholarships from the cost of attendance to calculate the "net cost." Only then does it add in loans.

In theory, parents and students can perform these calculations manually to find the true bottom line. But many letters deliberately make that difficult. Of the 435 colleges that offered a "Federal Direct Unsubsidized Loan," only 18% described it that way. The others used 136 different terms, including "Direct Unsub," "Fed Direct Unsub L," and "Fed. Direct Unsubsidized Add." One merely wrote "Unsubsidized." These phrases are jargon. They don't even include the word "loan."

There's a solution: Require all colleges to use the recommended award letter. The Department of Veterans Affairs already mandates this for financial-aid letters going to students benefiting from the GI Bill. Congress should expand that protection to every college applicant. Providing consumers with consistent, transparent information is a goal embraced by Republicans and Democrats alike. Cars have window stickers that list fuel-economy ratings and the manufacturer's suggested retail price. Mortgages come with a standard form showing an itemized list of costs and fees.

So far the higher-education industry has resisted such regulation. The National Association of Student Financial Aid Administrators has a code of conduct requiring its members to disclose the cost of college attendance and to label loans accurately. The association does not, however, independently audit colleges for compliance. The group's president, Justin Draeger, tells me his organization would support new federal policies to require consistent labeling, as well as to prohibit colleges from lumping together grants and loans. But his association, perhaps reflecting the opinions of its members, officially opposes requiring all colleges to use the recommended award letter.

Selecting a college is one of the most complicated and important financial decisions many people ever make. Right now, students don't even have enough information to understand what they're choosing. That's a shame, and it goes a long way toward explaining why so many students leave college with debt they can't afford to repay.

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Student loan chief resigns in protest

By Ken Sweet

The government's top official overseeing the $1.5 trillion student loan market resigned in protest on Monday, citing what he says is the White House's open hostility toward protecting the nation's millions of student loan borrowers.

Seth Frotman will be stepping down from his position as student loan ombudsman at the end of the week, according to his resignation letter, which was obtained by the Associated Press. He has held the position since 2016.

Frotman is the latest high-level departure from the Consumer Financial Protection Bureau since Mick Mulvaney, President Trump's budget director who has been also acting director of the bureau, took over in late November. But Frotman's departure is notable, since his office is one of the few parts of the U.S. government that specifically is tasked with handling student loan issues.

"You have used the bureau to serve the wishes of the most powerful financial companies in America," Frotman wrote, addressing his letter directly to Mulvaney.

Congress created the student loan ombudsman office when it created the CFPB, citing a need for there to be a specific go-to person to handle student loan complaints nationwide.

The position is powerful, able to work with the bureau's enforcement staff to target bad behavior in the student loan market as well as act as a voice inside the government on behalf of student loan borrowers. The office has returned $750 million to harmed borrowers since its creation.

Frotman's office was central to processing tens of thousands of complaints from student loan borrowers against their servicers. It also was the office at the center of lawsuits against for-profit colleges like Corinthian Colleges and is currently heading up a lawsuit between the CFPB and Navient.

Under Mulvaney, the bureau has scaled back its enforcement work and has proposed revising or rescinding all of the rules and regulations it put into place under the Obama administration.

Ken Sweet is an Associated Press writer.