

PROFESSIONAL JUDGMENT TIP SHEET

Topic: Natural Disasters

What?

Natural disasters are declared by the Federal Emergency Management Agency (FEMA) as any natural catastrophe¹ or, regardless of cause, any fire, flood, or explosion, in any part of the United States, which causes damage of sufficient severity and magnitude to warrant major disaster assistance. It is also possible for state and local governments to declare a natural disaster. Natural disasters are typically not a point in time but rather have an ongoing impact on the families affected. Individuals may be directly or indirectly impacted by the disaster, so it is important to be aware of both short and long-term issues when reviewing these situations.

Why?

Natural disasters affect families in ways that may not be reflected on the financial aid applications. The financial impact can alter a family's ability to meet educational costs in the short and long-term. Examples of financial hardships include:

- Home and/or car repairs not covered by insurance
- Dislocated/underemployed worker status
- One-time distribution of income
- Loss of income
- Loss of business and/or real estate equity
- Maintenance of two homes with temporary or permanent relocation
- Increase in medical expenses associated with any physical/emotional injury

This is not an exhaustive list; financial aid administrators should refer to their institutional policy to determine which situations may be considered.

How do I...

Collect information?

The type of information collected will vary based on the family's specific situation. A natural disaster may impact a family's financial resources as well as personal well-

¹ Natural disasters include hurricanes, floods, explosions, fires, tornadoes, mudslides, snowstorms or drought as defined by the Robert T. Stafford Disaster Relief and Emergency Assistance Act (42 U.S. Code. 5122(2)).

being. Although the requested information may be unavailable based on the extent of damage from the natural disaster, the financial aid administrator should collect as much documentation as possible. Some examples of information that may be beneficial in the review include:

- Statement from the family
- Federal tax returns, including associated schedules, from base year, recent year, and/or anticipated year documentation
- Insurance policies, which may include home, car, and/or business, to document deductibles or unreimbursed expenses
- Unemployment documentation or termination letter from an employer
- Unreimbursed medical expenses
- FEMA application
- Contractor quotes, invoices, and/or receipts
- Pictures of damages

Financial aid administrators may also check FEMA's website or state and local government websites to confirm any natural disaster areas.

Analyze the information?

The documentation provided will vary based upon the type and extent of the damages. An important consideration during the analysis is to determine which tax year (base, recent, or anticipated) is the best indicator of the family's ability to meet educational expenses. A careful examination of insurance forms and accompanying documentation should be completed to determine deductibles and unreimbursed expenses. Insurance policies vary in coverages; therefore, it will be important to determine what expenses were reimbursed. If a FEMA application was submitted, the family should provide the documentation and any information regarding financial support by the federal government.

In analyzing the damages caused by a natural disaster, there may be additional considerations beyond lost income or expenses incurred. This may include understanding the new present value of the home, business, car, and/or other personal assets that were impacted. The financial aid administrator may need to determine if the family will be able to recover in a long or short-term basis, as all cases vary depending on the damages and losses to the family. In some cases, the professional judgment may need to be reexamined in future years. Families may experience ongoing costs associated with the natural disaster that are not reported during the initial appeal.

Treatment in IM and FM

There is no single approach in Institutional Methodology (IM) to account for the financial implications of a natural disaster. Instead, financial aid administrators can use an approach based upon the unique circumstances to reflect these changes. Aid administrators may consider adjusting income and/or asset components based on the situation. It may be helpful to review other Professional Judgment Tip Sheets for examples of how to address related circumstances, such as exceptional expenses, alternate year parent income, etc.

Federal Methodology (FM) allows an approach similar to IM. There is no single component to adjust in every situation. Financial aid administrators may change income and asset values, but should not change the need analysis data elements within FM.

Additional Considerations

When speaking with families who have experienced a natural disaster, remember to set a realistic expectation for the level of support your institution may provide based on the documentation provided by the family. This may include flexible payment options; additional scholarship, grant, loan, or work assistance; or counseling on financing options and community resources.

While professional judgment is commonly applied to the need analysis components, it may be reasonable to consider an increase to a student's Cost of Attendance (COA). If a student has increased expenses related to indirect costs, such as the necessity to purchase new clothes that were lost in the natural disaster or travel expenses to go home, the financial aid administrator can consider an adjustment to the budget. Any potential increase should be documented and reasonable. Refer to your institutional policy on the types of assistance available for the increase to the COA, or maximum amounts that may be considered for each budget component.

Financial aid administrators may also want to consider the impact of a natural disaster on the different types of students. Students who are independent or who commute to campus may need additional resources compared to dependent or residential students.

Please note that this tip sheet is not a comprehensive guide to all of the needs that a student and family may experience after a natural disaster. The financial aid process is only one way institutions can assist students as they continue with their education while experiencing the effects of a natural disaster. To provide for the additional needs of students and families, there may be a need for other resources and support groups on campus and/or within their community. As a response to natural disasters, some institutions have created campus committees to support impacted students and their families.

PROFESSIONAL JUDGMENT CASE STUDY

Topic: Natural Disasters

Case Study 1

Bryan James' hometown was declared a natural disaster area by FEMA after a hurricane. Following the storm, he submitted a letter of appeal to the Office of Financial Aid explaining the significant damage to his family's home and to his vehicle, as well as changes to his family's financial situation. Bryan is a dependent student who lives with his family and drives his personal vehicle 50 miles round trip to campus, as public transportation is not available. Bryan's car was damaged by the storm and was inoperable. While Bryan's family continues to live in their home, they do have ongoing repairs to their basement, garage, and siding.

The insurance company notified the family that a portion of the repairs to their home will be reimbursed. However, the James family estimates they will pay close to \$40,000 out-of-pocket per the repair contracts. The insurance for Bryan's vehicle only covered liability; thus, none of those damages were reimbursed. Bryan submitted the receipt for his completed car repairs, totaling \$4,000.

Bryan's mother (Danielle) is a self-employed hairstylist who owns a salon. Danielle's salon was completely destroyed in the hurricane, with an estimated repair time of six months. During these six months, she can work from home but will see reduced income. Her business was not insured for flood damage and will not be covered by insurance or FEMA. Bryan's father was a real estate agent and he lost his job due to the current housing market. He has secured a job in retail to supplement their income.

The appeal, with supporting documentation, contained the following financial information for the James family:

	Base Year	Anticipated Year
Mother's income	\$75,000	\$30,000
Father's Income	\$200,000	\$60,000
Student Income	\$2,100	\$2,100
	Reported Assets	Current Assets
Mother's Business Equity	\$250,000	\$0

Non-Retirement Assets	\$200,000	\$200,000
Student Assets	\$6,000	\$2,000

Decision

Upon reviewing the appeal and supporting documentation, the financial aid administrator utilized the anticipated year income instead of the base year income, as this was a more accurate reflection of the family's ability to contribute to educational expenses¹. In addition to the income changes, the financial aid administrator also adjusted the assets reported by the family. The business equity of \$250,000 was eliminated from consideration since this was no longer an available resource. The financial aid administrator considered an additional allowance of \$40,000 against the parents' non-retirement assets for the unreimbursed home repairs but elected not to utilize the allowance since this was determined to be a future expense. Furthermore, \$4,000 of Bryan's non-retirement assets were excluded to account for the repairs to his vehicle.

Treatment in Methodologies

IM Treatment

Standard IM utilizes base year income. To use an alternate year income, the financial aid administrator may use the "Anticipated Year Income" option, which will also recalculate taxes paid. Another option is to change the related base year data elements based upon the documentation provided. If using an income estimate in the base year, the aid administrator will need to recalculate taxes paid.

In addition, standard IM includes business equity as part of a family's assets. Depending upon institutional policy, financial aid administrators may choose to eliminate or adjust the business equity.

FM Treatment

In FM, the financial aid administrator could utilize professional judgment and revise the Adjusted Gross Income, taxes paid, and other related data elements to account for the change in income, according to their institutional policy.

In Standard FM, business value is not included if the family owns and controls more than 50% of the business and the business has 100 or fewer full-time or full-time equivalent employees.

¹ Please review the tip sheet titled "[Alternate Year Parent Income](#)" for more detailed information about this adjustment.

Case Study 2

Jacqueline Jones applied for financial aid. Her mother, Lisa, owns a duplex and lives on the top floor. She rents out the bottom floor of the duplex for \$900 per month and uses this rental income to supplement her earnings as a baker. An earthquake tremor near the apartment caused significant damage and the duplex had to be evacuated. The rental income reported on the base year Schedule E totaled \$10,800. Lisa's employer was not impacted by the earthquake and her earnings from work as a baker remain steady throughout the recovery. The family's portion of the duplex is valued at \$300,000 and the rental property is valued at \$300,000. Lisa does not have a mortgage on either property.

The Jones family moved in with extended family while the duplex was repaired. The original tenant moved out at the time of the tremor. The Jones family went eight total months without a renter in the bottom unit. There was \$145,000 in total expenses due to the tremor in addition to the lost rental income.

The family's insurance covered \$80,000 in repair expenses. The remaining \$65,000 in repair expenses were spent on home repairs (\$30,000) and rental property repairs (\$25,000). The remaining \$10,000 of unreimbursed expenses was used to add a hot tub to the backyard.

Decision

Since Lisa's wages remained steady throughout their displacement, no changes were made to earned income. The financial aid administrator made the following adjustments:

- reduced the rental income by \$7,200
- changed the Adjusted Gross Income (AGI) and recalculated taxes paid
- reduced the rental and home equity

No allowances were made for any funds spent by the insurance company or the \$10,000 spent to add a hot tub.

	Pre-Disaster	Adjustment	Post-Disaster
Mother's Rental Income	\$10,800	\$7,200 (\$900/month x 8 months)	\$3,600
	Reported Assets	Adjustment	Current Assets
Home Equity	\$300,000	\$30,000	\$270,000

Rental Property (Bottom Floor of Duplex)	\$300,000	\$25,000	\$275,000
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Treatment in Methodologies

IM Treatment

Institutional policy will dictate appropriate changes to the AGI, taxes paid and business income.

Standard IM includes home equity and other real estate as part of a family’s assets. The financial aid administrator may choose to adjust the amount of home and/or other real estate equity.

FM Treatment

Similar to IM, institutional policy will dictate appropriate changes to the AGI, taxes paid, and business income.

Standard FM does not require families to report home equity, but the equity of the rental duplex should be reported as an investment. The financial aid administrator may choose to adjust this amount if appropriate.

Case Study 3

Brenda Hanes is a full need, independent undergraduate student who commutes 90 miles round trip to campus. She drives her personal vehicle to campus since her home is not served by public transportation. Brenda lives in an area that suffered severe storm damage and was declared a disaster area by FEMA. Brenda contacted the financial aid office and explained that while her residence was not damaged, her car was flooded. She is unable to pay for the repairs and is thus unable to attend classes on campus.

Brenda’s insurance only covers liability damages; therefore, she is responsible for all repair costs. A repair shop provided an estimate of \$2,500 to fix her car. Brenda submitted a copy of her auto insurance policy and a statement from her insurance agent that confirmed the damages are not covered by her policy.

Decision

Since the institution provided financial aid to cover the full cost of attendance, adjustments to her available income or assets will not result in a change to her financial contribution. The financial aid administrator increased the transportation component of her cost of attendance by \$2,500, which resulted in an increase of financial assistance.