PROFESSIONAL JUDGMENT TIP SHEET

Topic: Parent Educational Debt

What?
For many families, the ability to pay current college costs is diminished by prior educational debt. This is debt in the parent's name and could be accumulated as a result of either the parents' or the student's siblings' educational costs. Professional judgment may not be appropriate if the parents have opted to repay educational loans that siblings have in their names.

Why?
Incurring educational debt and meeting the subsequent repayment obligation may be considered a non-discretionary expense. (Refer to the Parent Educational Expenses Tip Sheet for examples of non-discretionary expenses.) The repayment obligation limits a family's ability to contribute to educational expenses from their current income. While an aid administrator cannot take every expense (e.g., consumer debt, recreational fees, vacation home) into account, many schools will consider payments made toward parent educational debt.

How do I…

Collect information?
The CSS Profile collects information about parents' annual educational loan payments and total outstanding balance, for base and recent years, for their own education, the student's education, and the siblings' education if the loan is in the parent's name.

Based on the information provided on the CSS Profile and located on the Institutional Portal, the aid administrator may want to collect more detailed information:

- the name of the borrower, the type of loan, and the purpose for the debt
- a loan statement reflecting outstanding balance and monthly payment

Analyze the information?
Documentation should be reviewed to calculate the annual expense and the following may be evaluated:

- Is the loan in repayment or deferral?
- Are payments fixed or variable?
- What is the payment frequency (e.g., monthly, quarterly)?
- How long will the payments continue?

Refer to institutional policy for guidance on treatment of educational debt for siblings still enrolled in college.

Treatment in IM and FM

IM and FM standard treatment ignores the annual cost of repaying educational debt in calculating parents' available income and discretionary net worth.

Some or all of the annual payment amount can be used as an allowance against income. Alternatively, all or a portion of the total debt may be added as an allowance against assets. Please consult your institutional policy for handling these expenses.

IM Options

Some financial aid management systems may allow users to enter the educational debt allowance in the "Other Income Allowance" or "Other Asset Allowance" fields

Additional Considerations

There is an expectation that most parents will fund their contribution from three areas - current income, prior income (savings), and future income (borrowing). Since there is an expectation of borrowing for educational expenses, it may be appropriate to consider parent educational debt as a non-discretionary expense for professional judgment.

A financial aid administrator may want to consider whether the family's income has changed dramatically since the base year if the family started paying the educational loan debt in recent or anticipated year. It could be appropriate to utilize a different income year while also taking educational debt payments into account.

PROFESSIONAL JUDGMENT CASE STUDY

TOPIC: Parent Educational Debt

Case Study 1

Patricia Lopez is a returning student. The Lopez family submitted an appeal to the financial aid office because they are repaying educational loan debt for Patricia's mother, Susan. Susan went to law school after spending a number of years as a paralegal, to be a more competitive candidate for advanced employment opportunities. Susan graduated from law school in the recent year. She has been hired at a new job that is currently paying a similar amount to her base year income, but there is an opportunity for higher income in the future.

Susan started making payments of $800 per month in October of the recent year and will continue to make similar payments in the anticipated year. Susan submitted documentation from her loan servicer confirming she is in repayment and she is signed up for autopay for future payments.

Decision

The financial aid administrator used $9,600 ($800 per month for 12 months) as an income allowance. This decreased the family contribution for Patricia and allowed for increased eligibility for need-based aid.

Treatments in Methodologies

IM Treatment

The financial aid administrator added $9,600 as an other income allowance.

FM Treatment

The financial aid administrator added $9,600 to federal taxes paid.

PROFESSIONAL JUDGMENT CASE STUDY

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Case Study 2
Joshua Collins is an admitted student who will begin college in September. His older brother, Sam Collins, graduated from your institution last year and his parents began repayment of the Parent PLUS Loans borrowed for his education. The Collins family has submitted documentation from their federal loan servicer showing payments of $1,200 per month via auto-pay beginning in March of the prior year.

In addition, the parents reported that they paid $200 per month for federal loans that were taken out in Sam's name. These payments also started in March of the prior year.

Decision
The financial aid administrator added $12,000 ($1,200 per month for the 10 months of PLUS loan repayment March through December) as an income allowance. This decreased the family contribution for Joshua and allowed for increased eligibility for need-based aid. The $2,000 ($200 per month for 10 months) was not taken into consideration, since Sam is responsible for repaying that loan.

Treatments in Methodologies

IM Treatment
The financial aid administrator added $12,000 as an other income allowance.

FM Treatment
The financial aid administrator added $12,000 to federal taxes paid.

