

PROFESSIONAL JUDGMENT TIP SHEET

Topic: Consumer Debt

What?

Consumer debt is defined as debt incurred from the purchase of goods that are consumable and/or do not appreciate. Examples of consumer debt include ongoing credit card debt, payday loans, professional legal fee debt, and auto loans. Consumer debt does not include mortgages or other expenses related to personal investment.

Why?

Consumer debt may limit the family's ability to contribute towards educational expenses. In some these situations, it may be appropriate to acknowledge this financial hardship. However, if consumer debt results from elective lifestyle choices, adjustments to a student's financial aid to recognize such debts may be inappropriate.

How do I...

Collect information?

The CSS Profile includes a "Special Circumstances" section where consumer debt may be reported. In addition, the financial aid administrator may also want to collect the following supporting documentation:

- A statement from the family about their specific circumstances.
- Financial statements, which may include itemized receipts, required minimum payments, frequency of payments, and the total outstanding balance.
- Payment plans, agreements, or pending negotiations with the creditors (e.g., possibility of debt cancellation or bankruptcy protections).
- A household income and expense statement.

Analyze the information?

Consumer debt may be the result of various circumstances, such as job loss, extraordinary medical expenses, natural disaster, or living beyond one's means due to lifestyle choices. Careful analysis of the documentation can provide insight into the level of non-discretionary debt.

The financial aid administrator should review the total outstanding balance, the minimum required payment, and the amount actually paid by the family. If a family pays more than the minimum required payment, then it might be appropriate to expect the

family to redirect those excess payments toward educational expenses. In addition, the financial aid administrator may consider the impact of any agreements or pending negotiations with creditors that might lead to debt cancellation or bankruptcy.

The financial aid administrator may want to evaluate how the current consumer debt payments relate to the base year, recent year, and anticipated year income. For example if the family's anticipated year income is significantly different than the base year income, it may be more appropriate to consider consumer debt against the anticipated year income.

Treatment in IM and FM

IM Standard Treatment

Standard Institutional Methodology (IM) does not consider excessive consumer debt.

If a financial aid administrator determines an adjustment is warranted, an income allowance could be made for some or all of the annual debt payments. Alternatively, all or a portion of the total debt may be added as an allowance against assets.

FM Standard Treatment

Standard Federal Methodology (FM) does not consider consumer debt. FM may be adjusted by increasing federal taxes paid or reducing assets.

Additional Considerations

As an alternative to utilizing a credit card or personal loan, families may choose to borrow a home equity loan to pay for personal expenses. The financial aid administrator may need to confirm the consumer debt has not already been included in the family's reported home debt.

PROFESSIONAL JUDGMENT CASE STUDY

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Case Study 1

The Sommers family has appealed the financial aid decision for their daughter, Sally, due to extensive credit card debt. After Sally's grandmother fell ill with dementia, Sally's parents both decided to quit their jobs in California and move back to Maine, where Sally's grandmother lives. It took Sally's father, John, approximately three months to secure a new position in Maine. Sally's mother, Cindy, chose not to work and instead care for her ailing mother. During the three months of John's unemployment, the family used all of their savings and started accumulating credit card debt for daily expenses. Currently, the Sommers family has over \$20,000 in consumer debt from that period. While Sally's father works, they can only make the minimum monthly payment (\$445) and interest continues to accrue.

After receiving the appeal, the financial aid administrator requested credit card statements from the period of unemployment.

January-March Statement Totals		
Prior Balance	\$0	
Supermarket (12 charges)	\$3,000	Non-discretionary
CostCo (4 charges)	\$3,000	Non-discretionary
Shell Gas (24 charges)	\$1,200	Non-discretionary
Walt Disney World Cruises	\$10,000	Discretionary
Dr. Phillip's Tummy Tuck Emporium	\$5,000	Discretionary
Dr. Johnson's Flu Clinic	\$50	Non-discretionary
3 MONTH TOTAL	\$22,250	
MINIMUM PAYMENT DUE (2% of total amount)	\$445	

Decision

After reviewing the charges, it was determined that some expenses were discretionary and would not be considered in determining the student's eligibility for need-based financial aid. The financial aid administrator calculated the total amount of non-discretionary charges to be \$7,250. This amount is 33% of the total charges for the three-month period, which adjusts the non-discretionary payment amounts to \$145. The amount of \$145 was used for the 12-month calendar year and totaled \$1,740 in payments.

Treatments in Methodologies**IM Treatment**

The financial aid administrator could accommodate the \$1,740 by entering the expense as a parent other income allowance.

FM Treatment

No changes were made in FM since it would not affect federal aid eligibility.

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Case Study 2

Sophomore Annabelle Jackson and her family requested reconsideration of her financial aid due to significant legal fees. Because the family's \$200,000 in reported assets are tied up in rental real estate, Annabelle's parents have financed their \$50,000 in attorney fees. They are beginning to make \$2,083 payments on a 24-month payment plan. In addition, they anticipate \$20,000 more in fees. These additional fees will be rolled into the payment plan once incurred and increase the monthly payment.

Decision

The financial aid administrator recognized the impact the legal fees have on the Jackson family's ability to contribute to educational expenses and decided to provide an asset allowance of \$50,000. The aid administrator chose not to allow the \$20,000 anticipated debt but will reconsider if those charges are actually incurred by the family.

Treatments in Methodologies

IM Treatment

The financial aid administrator reduced the family's assets by \$50,000 using IM's other asset allowance.

FM Treatment

The financial aid administrator reduced the family's investment net worth by \$50,000.