



## **PROFESSIONAL JUDGMENT**

### **TOPIC: Income and Assets Not Proportional (Low Income/High Assets)**

#### **IM STANDARD TREATMENT**

IM standard treatment uses reported base year income and current asset data.

#### **FM STANDARD TREATMENT**

FM standard treatment uses Adjusted Gross Income (AGI) as the basis of the calculation.

#### **WHY PROFESSIONAL JUDGMENT MIGHT BE APPROPRIATE**

In many self-employment situations, a family's financial strength can be greater than indicated by their AGI. Examples of such professions are restaurant or store owners, taxi drivers, and property managers. For these families, total income may not be accurately reported (income from tips, etc.), or the business may support otherwise major expenses such as housing. It may be appropriate to expect a higher parent contribution than is calculated by the need analysis methodology.

In identifying these cases, the following indicators may suggest that income is higher than reported:

- Mortgage or rent payment may absorb a disproportionately high percentage of reported income;
- Total reported income may be too low to reasonably support the household size;
- Interest and dividend income may be high in relation to AGI and/or reported cash and investments;
- The family may be paying private school tuition in an amount that would be difficult to manage on reported income;
- Parental offer may be higher than income would seem to support.

Conversely, some families are "house-poor." In other words, their income is insufficient to purchase their own house in today's housing market. This situation is not uncommon in certain areas of the country, where home values have skyrocketed (e.g., San Francisco, Boston, New York, northern Virginia). In such cases the calculated contribution may indicate greater financial strength than is actually the case and downward adjustments may be warranted.

## **HOW IM COULD BE ADJUSTED**

The institution could ask the family to complete a worksheet that is designed to give a more complete understanding of total family income and expenses. (If, in response, the family reports untaxed income that was previously unreported, this income needs to be factored into both FM and IM calculations.) The family offer for these cases should be considered carefully, particularly if PROFILE information indicates that the family is paying tuition at a private school or another college or university. In some instances the aid administrator may use professional judgment to decide on a PC that is unrelated to the computed result, using that number as a basis for entering into discussion with the family.

In cases where the home equity is much higher than the family income would indicate, a downward adjustment to the home equity may be warranted. For example, the aid administrator could cap the home value based on the family income and recompute home equity. (The IM standard option is to cap it at two times total income.)

## **HOW FM COULD BE ADJUSTED**

Since the FM uses AGI as its measure of taxable income, an adjustment to increase taxable income should probably not be made when determining eligibility for federal aid. However, if omitted income sources are identified during follow up, corrections to the FM data elements are required.

## **HOW COLLEGE BOARD SERVICES SUPPORT PJ**

### **CSS/Financial Aid PROFILE**

Data collected on the PROFILE provide indications that the family's financial strength may be greater than indicated by the AGI. Review of the following data elements will be helpful:

- Family offer (SD-115)
- Number in household (PH-100)
- Parents' assets (Sections PA, BA & FA)
- Monthly housing payment (PE-150)
- AGI breakdown (PI-100 – PI-130)
- Untaxed income (PI-165 – PI-230)
- Family member listing (Section FM)

e-FNAR message 76 provides a revised home equity amount, calculated using the two times total income formula.

### **College Board IM Options**

An institution using software that utilizes the College Board's IM may establish a global parameter to use the contribution volunteered by the family, if higher than the calculated contribution.

The aid administrator may also establish a global parameter to cap home value and recalculate home equity.

### **DOCUMENTATION**

All changes should be documented.

The aid administrator may want to collect a statement from the family that clarifies their income and assets.