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A College Financial Aid Guide for Families Who Have Saved Nothing

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Your Money

By RON LIEBER

A mother of five children in Bath, Me., admitted on the New York Times's Motherlode blog earlier this year that she and her husband had no college savings. Their son, a high school junior, was about to leave for a college tour with some leftover Easter eggs for food, a tent and his one good pair of pants.

The essay, by Meadow Rue Merrill, struck a nerve. Many commenters blamed her and her husband for spending money on after-school enrichment instead of saving for college. With an income in the mid-five figures, however, there was never going to be much excess.

I wondered what the Merrills would say to their children about the lack of funds, and I wrote my own post with some suggestions. But there is a different tactical question that faces this family and many others like it now: What should they actually do once senior year arrives and there are no college savings?

Their numbers are almost certainly growing. In just a generation or two, we've gone from students working their way through college without too much trouble, to many parents still being able to write checks to cover tuition out of current income, to sticker prices being so high that two decades of savings may not be enough to cover two children from relatively affluent families.

The uncomfortable reality of paying for college is often compounded by a noxious combination of parental confusion, compressed time periods and teenage uncertainty. After all, it's hard to predict what sort of discounts you might get come springtime based on your financial need or your child's academic or athletic merit, plus it's nearly impossible to know how your child's needs might change between the ages of 17 and 22. Nevertheless, families stagger into senior year and try to make one of the biggest financial decisions of their lives.

THE DATA For families with little or nothing saved, the process has to begin with a crash course in how colleges make decisions about financial aid. First, you'll want to use the calculator on the College Board's website that estimates your expected family contribution, the number that the federal government will use in figuring out how much federal aid you are eligible for once you fill out the Fafsa (Free

Application for Federal Student Aid) form later in a child's senior year in high school. Colleges will also use this number, with additional tweaks in some cases, as a baseline for what you can pay each year, though it's no guarantee that they'll make up the difference with grants or work-study jobs and not a link to a bunch of loan applications.

After that, you can use the federal government's College Navigator site to figure out a school's average cost of attendance, which breaks out room and board and other expenses. That site also has the crucial "net price" information, broken down by family income, which shows what an average student actually pays after the subtraction of scholarships from the original number. Colleges maintain their own net price calculators as well, where you can input your financial data to get a rough sense of the amount of aid they might award you. The quality of these calculators can vary.

Want to get a sense of how much a school might give away in merit aid — the money that is based on an applicant's record and not financial need? Lynn O'Shaughnessy, who writes and teaches courses through a site called The College Solution, suggests using a site called collegedata.com. She has a video on YouTube that explains exactly how to milk the merit data out of the site. Then follow up with each school for more on minimum qualifications.

You are probably not going to get rewarded for having saved nothing. Everyone seems to know a family in their area with a big house, fancy passport stamps and no savings with a child who nevertheless got an amazing financial aid package from a top school. Don't believe the stories. The details of financial aid are so complex that many families don't understand their own packages, or the rumormongers transmit the details incorrectly. Income tends to matter in financial aid more than assets and savings, especially at public universities.

THE COLLEGES Most families with no savings will be hoping that at least some colleges they apply to will offer large grants and ask them to borrow less money than others. But popular, highly ranked schools tend to have a lot of applicants. Even if you do get in, many of them may not offer outsize rewards or be flexible if you appeal for more money once you get in. Apply and cross your fingers, but don't count on generosity here unless the school is particularly well endowed.

Parents with no savings and higher incomes need to be more strategic, encouraging their children to apply to at least some colleges where they would be among the very best students. Those institutions may offer more grants in an effort to enhance the quality of their student body. "I can't say it's an impossible scenario," said David Gelinas, the director of financial aid at Davidson College. "But we would always want people to apply to schools where they know they would be comfortable and not in the hope that they will throw more cash at them."

Now that Ms. Merrill's son is looking at his list of private Christian colleges, public universities near home and a few name-brand liberal arts colleges that have sent him solicitations, she's blanching at the possibility of pressing the send button over and over again and hoping that one of the financial aid forms turns into a lottery ticket. "It may be better for him, but it seems like a system falling apart if that's what you have to do to get where you want to go," she said. "I'm just not sure I'm willing to play that game."

For those who are and aim to declare the highest-bidding college the winner come April, Kevin McKinley, a financial adviser in Eau Claire, Wis., offers a word of warning: Ask if the scholarships are guaranteed for all of the years of attendance. "Good luck trying to pull a kid out of private school just because it became more expensive," he said.

THE DEBT The sad fact is, most families with no savings will be borrowing a fair bit of money to send their children to college. The best loans are the federal student loans, and most traditional-age students can take out $31,000 in loans during their time as undergraduates. If you get in trouble later, you can enroll in an income-based repayment plan to lower your payments.

These plans tend not to be available from private lenders who peddle what are known as private student loans. This week, the Consumer Financial Protection Bureau issued a scathing report, calling the lenders out for making little progress on helping distressed borrowers. You should read every single word of it if you're considering these loans, since parents almost always have to co-sign for them and then suffer the consequences if young adults don't or can't make the payments. The nearly inevitable conclusion of reading the report is that you should do everything possible to avoid taking out loans like this.

That leaves parent borrowing, often in the form of federal Plus loans. It will be tempting to rack these up, come what may, to give a child a shot at attending a dream school. The cost, however, may be payments that last well into what are supposed to be your retirement years. Perhaps your children will help make the payments one day, but you won't be able to refinance the loans into their names. "I talk to a lot of parents who call and want to refinance, and it's clear that they never read the terms and conditions," said Andy Josuweit, founder of Student Loan Hero, which helps people sort and consolidate student loan debt.

The steps above should help you avoid at least some of the confusion. As for the sadness and despair that can result from too much debt or picking the wrong college, that often happens when giddy families, acceptance letters in hand and nothing in the bank, make hasty decisions over just a few weeks in April. It is never easy to determine the prudent amount to spend and borrow, but you'll have a much better chance of making the right decision if you start considering the options now.

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