

Spot a Freshman Financial Aid Offer That Won't Pay Senior Year Bills

Some schools offer more aid for students' freshman years, then drop it in subsequent years, called bait-and-switch pricing.

By Susannah Snider | Staff Writer

Esther Akutekha began her freshman year at the University of Miami armed with enough financial aid and outside scholarships to make tuition affordable.

But as her first year wound down, she found that several scholarships and institutional grants would not continue into her sophomore year. That reduction in aid, coupled with a tuition increase, transformed Miami from bargain to budget-buster.

Deciding that the elevated cost wasn't worth it, Akutekha transferred to Rutgers University, graduating with her bachelor's in fall of 2008.

"When I was signing up, I didn't realize, 'Oh, this aid is only for this year,'" says Akutekha.

Families weighing colleges' financial aid packages or entering their information into net price calculators typically only see their first-year awards. Meanwhile, aid for sophomore, junior and senior years is left to the imagination – and could be insufficient.

Colleges can use this to their advantage, offering more aid to first-year students as a way to encourage them to enroll, then dropping it in subsequent years, once they're captive consumers. In other cases, eager freshmen scoop up aid without realizing that it comes with caveats, and could disappear when they don't, say, maintain a high grade-point average.

Ben Miller, research director for higher education at the New America Foundation, a domestic policy think tank, recently crunched data reported to the U.S. Department of Education by public and private four-year nonprofit institutions.

He found that, of full-time freshmen in 2012-2013, 75 percent received some kind of grant aid. In contrast, just 63 percent of all other undergraduates received grants. The award amounts for sophomores and upperclassmen tended to be smaller, too.

"Schools have no obligation to keep giving students the same amount of aid each and every year," says Miller.

Here's how students can identify and avoid bait-and-switch pricing – or know when they are putting future aid at risk.

- Get the scoop: "With traditional bait and switch, [a college] gives a large grant, like the "School X Grant," says Tom Delahunt, vice president for admission and student financial planning at Iowa's Drake University. "But it's not guaranteed for all four years."

Colleges front-load their financial aid packages, piling on more aid during a student's first year than in later years, for myriad reasons. Sometimes, it's an enrollment tactic to encourage freshmen waffling between several schools to select their institution, says Miller.

The aid may also disappear because it required a student to maintain certain grades, or other academic criteria, and the student failed to do so. Students should ask the financial office what they need to do to hang onto any aid, say experts. Whatever the reason, dwindling aid can force students to over-borrow, transfer institutions or even drop out. "I've heard horror stories of students losing large sums of money," says Delahunt.

Families should keep in mind that some year-to-year change in students' financial aid packages is normal, say experts. For example, students can borrow more in federal loans as they progress through college, which may affect their award packages. A family's financial situation may change, causing the student to qualify for more or less need-based aid during the course of a college career.

- Avoid risky business: Not all awards – and not all schools – carry the same bait-and-switch potential. Students "want to eye any sort of grant aid, whether it's need-based aid or merit aid," says Miller. Institutional awards are more easily manipulated by colleges than state or federal aid, such as direct student loans and Pell Grants, which are tethered to governmental formulas. Some universities are more likely to engage in this strategy than others, say experts.

Those schools tend to be "small, private, no brand – or limited brand – and struggling with enrollment," says Marguerite Dennis, a higher education consultant and author of "The New College Guide: How to Get In, Get Out, and Get a Job."

Schools that meet 100 percent of need, those with large financial endowments and public universities are less likely to front-load financial aid packages, say experts.

- Take preventative action: It's ultimately the family's responsibility to ask the right questions, say experts. They should go over the parameters of their award packages line-by-line with the university, asking which grants are re-upped in future years, why they received certain funds and what they need to do to remain eligible for their awards.

"All institutions are different in terms of financial aid policies," says Joe Bagnoli, vice president for enrollment and dean of admission and financial aid at Grinnell College. "Just because you call and get answers from one institution doesn't mean it will be a reliable answer for other institutions you're considering."

Families should look at whether they have room in their budgets for a reduction in aid. "If you feel like you're on the margins of being able to afford school for the first year, don't assume pricing will get more favorable," says Miller.

"The bait and switch does go on," says Dennis, the college guide author. "And if you don't ask and don't get it in writing, you could be in for a big shock your second year."