Three Big Mistakes Students Make When Accepting Financial Aid

I graduated college with $145,000 in student loans. The worst part about it? I was willfully ignorant about the amount I borrowed. It would all be paid off by Future Me, right? Besides, not once during my economics courses was there a discussion about the adverse effects of high student debt. How bad could it be?

In a word: devastating.

A recent study from the nonprofit group American Student Assistance recently took a look at the effects of student loan debt on young adults. The results are troubling. Among those with student loan debt:

- 56% worry about repaying their loan either all the time (26%) or often (30%);
- 40% report that worrying about their student loans has impacted their health;
- 61% have considered getting a second job to help pay off their student loans; and
- 54% of young workers report that right now, paying off student loans comes first, and they will put off saving for retirement until later.

So, how do high school students make smart choices about college that won't leave them struggling under a large debt burden? Maybe a better way to think about it is in terms of what not to do. I spoke with Kevin Fudge, director of consumer advocacy and ombudsman at ASA's Center for Consumer Advocacy, about three big mistakes that college-bound students make when it comes to accepting financial aid.

Mistake #1: Accepting Too Much Financial Aid

Accepting too much help might seem like an oxymoron at first. Why wouldn't you accept every penny of aid that a school offers?

Because, Fudge says, "Even with a so called 'full ride' scholarship, you can still be eligible for up to $5,700 in aid per year. If you take the max every year, you're going to end up almost $23,000 in debt," despite going to school for free.

It comes down to the huge difference between scholarships and loans. Colleges can be somewhat cagey with this concept, because all the money they offer is lumped under the generic catch-all category of "aid."

As Fudge bluntly puts it, "Aid is a bit of a misnomer. Keep in mind that you're on the hook for every single penny you take out that is not a scholarship or grant."

This may be a new concept for some college hopefuls; I know I had never considered it. I thought if you got a full ride, you were guaranteed to graduate debt-free. It's critical for students to understand the nuances of their aid packages.

Imagine this scenario: You're considering two comparable schools that cost $30,000 per year.

- School A offers you a yearly aid package of $25,000.
- School B offers you a yearly aid package of $15,000.

At first glance, School A seems like the better choice. But, you might dig deeper and discover that School A offers only $5,000 in scholarships and grants, while $20,000 of the aid package is comprised of loans. School B, on the other hand, is offering $12,000 in scholarships and grants, plus $3,000 in loans.

So, while you're not receiving as much "aid" from School B, you are actually being offered substantially more in total scholarship money, which don't have to be paid back. Assuming the schools offer a comparable education, it would make more sense to select the smaller aid package.

These sorts of distinctions are why it's so critical to understand the nuances of your financial aid package.

Furthermore, when extra aid is offered to low-income families, it creates a particularly tricky conundrum. On the one hand, a college degree can open up a lifetime of higher pay. At the same time, low-income students may feel like they need to stretch themselves even further to earn one, and risk ending up deep in debt with no degree to show for it. "The student has zero ability to pay, but has the option of taking out $20,000-plus in loans," Fudge says. "It's a flaw in the system."
So, how do you mitigate the risks of taking out too many loans? It comes down to treating your college choice the same way you would any other large purchase: You have to try to take the emotion out of it.

"Have a budget in mind, the same way you would if you were shopping for a house," Fudge says. "You don't want to get emotionally attached to marble countertops and overpay for them when house shopping. Similarly, you don't want to overpay for a school because it has pretty brick buildings. Stay true to your principles and don't get swayed."

The psychological hurdles are huge, but not insurmountable. As with budgeting for anything else, it's important to set realistic goals and stick to them.

Mistake #2: Underestimating the Total Cost of Accepting Student Loans

“Students always need to consider the overall investment in their higher education, not just the first-year costs,” says Fudge.

A common mistake is to calculate what sort of financial aid package you’ll be receiving your freshman year, and then to extrapolate those numbers going forward. This can lead to misunderstandings in figuring out what your payments will be on a yearly basis.

For one thing, prices can go up while you’re in school. Let’s say you plan on paying for $10,000 a year yourself, and taking out loans to cover the rest. If first-year tuition is $20,000, and you take out $10,000 in loans, don’t assume you’ll be taking out a total of $40,000 in loans over four years. By your third or fourth year, tuition could be up to $25,000 a year or more, leaving you on the hook for thousands more dollars a year.

What’s more, it’s important to consider the cost of interest when accepting student loans. As expensive as the sticker price of college already is, you’ll be paying even more than that if you end up taking years or decades to pay it all off.

Finally, remember that scholarships will often list their total award amount, rather than their yearly amount. That means a $10,000 scholarship might not pay you $10,000 per year, but actually $2,500 per year spread out over four years. “Unless you thoroughly understand your financial aid offering, yearly costs can be easy to miscalculate. Also, remember that scholarships can be both one-time and renewable,” Fudge says.

Calculating total costs is made more difficult by the fact that there is no uniformity when it comes to college aid letters. Often a “President’s Scholarship” will mean different things from different schools, for example, and carry a different award amount.

It can’t be stated too many times: Read and digest the entire student aid package from each and every school you are considering.

Mistake #3: Putting Too Much Faith in a School’s Financial Aid Office

The people working in a university financial aid office are supposed to be your go-to resource for figuring out how to pay for college – and often, they can be helpful to that end. Unfortunately, their advice can sometimes be influenced by their more primary goal: increasing enrollment, even if it means saddling students with a lot of debt.

Rather than blindly take the financial aid office at its word, Fudge advises a more holistic approach to figuring out how much aid you can take on.

“The most important part is having a budget and sticking with it,” he says. “Beyond that, talk to current college students and recent graduates about their experience. Parents who talk to other parents, or students who talk to recent alumni, are the best equipped to make these tough decisions.”

Furthermore, there are tons of free resources available to help students make student loan decisions; a good first step is to start with your state board of higher education. Regardless, Fudge recommends seeking help from a neutral third party. “Sometimes, both your high school and your prospective college won’t be working with your best interests in mind,” Fudge says.
As with any other financial decision, the only person who will always have your best interests in mind is you.

Summing Up: Make Informed Decisions When Accepting Financial Aid

Thoroughly read your financial aid documents, consult with independent experts, and talk to people who have been down the same road. If you take the time to do those three things, you’ll be well prepared to avoid financial aid pitfalls.

Remember: Once you get into debt, it’s ugly. Student loan debt is a giant gorilla that jumps on your back the moment you graduate. It can weigh you down, demand constant attention, and grow bigger the more you ignore it.

Once you know what’s coming, you can fortify yourself by becoming strong enough to bear the burden while simultaneously ensuring you have less weight to carry. You want your hard earned money going toward your retirement, not toward feeding a hungry, angry ape.