



THE COLLEGE SOLUTION



Will Your Home Equity Hurt Financial Aid Chances?

by **Lynn O'Shaughnessy** on August 7, 2014 in **Financial aid, Money**

Have you given any thought to how home equity might hurt your child's chances for financial aid?

Actually, at most state and private colleges and universities, the equity in your primary home is a non-issue. That's because most schools only require families to complete the

FAFSA (Free Application for Federal Student Aid) when applying for financial aid and the FAFSA doesn't even ask about home equity.

There are, however, roughly 260 schools, nearly all private, that are quite interested in the value of your house and how these schools treat home equity varies dramatically. The schools in this category include the nation's most prestigious institutions. These colleges use an additional financial aid form called the **CSS/Financial Aid PROFILE**.

Depending on how schools treat your home equity, your chances of getting financial aid could blow up while at other institutions your odds wouldn't be jeopardized even if you are living in an exclusive zip code.

How Your House Can Impact Financial Aid



Many schools that assess home equity for financial aid purposes do so by linking it to the family's income. For instance, a school might assess home equity at no more than two times the family's income. Let's look at an example of how this would work:

- Family's income: \$60,000
- Home equity: \$400,000

Normally, the schools that use the PROFILE formula would assess the home equity (as well as other parental assets) at 5% for financial aid purposes.

$$400,000 \times 5\% = \$20,000$$

In this example, the home equity value would have boosted the expected family contribution (EFC) by \$20,000 (a significant hit!) if the school didn't link the home equity to income.

By the way, if you don't know what an EFC is, read this post:

Do You Know What Your EFC IS?

But now let's look at what happens when the school ties the home equity assessment to no more than two times the family's income of \$60,000.

$$\$60,000 \times 2 = \$120,000$$

In this example, the school would only use \$120,000 of home equity this family's aid calculation.

$$120,000 \times 5\% = \$6,000$$

So in this example, the parent's EFC would rise \$6,000 rather than \$20,000.

How Individual Schools Treat Home Equity

If you hope to qualify for financial aid — and the more expensive the school the more likely you will — it's important to know how individual schools treat home equity. To help you with this effort, I am sharing with you the following spreadsheet of the home-equity policies of 110 schools:

Home Equity Spreadsheet

The spreadsheet comes courtesy of **Paula Bishop**, a friend of mine, who is a CPA in Bellevue, WA, and a financial aid expert. She contacted the schools about their home equity policies

this summer, but keep in mind that schools can change how they assess home equity at any time so don't just depend on this list.

Schools that Ignore Home Equity

As you'll see from Paula's list, some PROFILE schools don't consider home equity at all, which is obviously the best scenario. Institutions in this smallest category include:

- Bard College
- Bucknell University
- California Institute of Technology
- DePauw University
- Hamilton College
- Harvard University
- Princeton University
- Santa Clara University
- University of Virginia
- Washington University, St. Louis
- Whitman College

Schools That Hit Home Equity Hard

On the other extreme, some schools use the full weight of parents' home equity to help determine financial need, which can seriously hurt aid changes. Here are some examples:

- American University
- Bentley College
- Boston College
- Elon University
- Emory University
- Holy Cross College
- Ithaca College
- Johns Hopkins University
- MIT
- Northeastern University
- Providence College
- Rensselaer Polytechnic Institute
- Roger Williams University
- Stonehill College
- Union College
- University of Michigan
- Williams College

Some schools that take this draconian approach will consider parent appeals, but how many families even know this is a possibility? In fact, parents typically won't even know why their aid packages seems so paltry.

It's highly unlikely that parents are going to trace a poor award back to their home equity. But now everyone reading this knows this is a possibility and can appeal.

Schools That Limit Home Equity Hit

Other institutions use a home-equity cap that's tied to the family income so it's less likely that someone who is house rich, but cash poor will be penalized. The home-equity caps below range from 1% to 4%, which is a huge span.

Here are a few schools in this category:

- Amherst College (1.2x)
- Brown University (3x)
- Grinnell College (1.5x)
- Haverford College (1.2x)
- Johns Hopkins University (3x)
- Lewis and Clark College (2x)
- Kenyon College (4x)
- Macalester College (2x)
- Middlebury College (1.2x)
- Muhlenberg College (1x)
- Oberlin College (1.2x)
- Reed College (2x)
- Rice University (2.5x)
- Stanford University (1.2x)
- University of Chicago (2x)
- University of Southern California (2x)
- Vanderbilt University (2.5x)
- Vassar College (1.5x)
- Wake Forest University (2x)

More Advice...

Paula Bishop recommends emailing schools to ask how they treat home equity so you have a record of their responses later on if you end up appealing a financial aid award.

Not all schools will be forthcoming with this information. When Paula, for instance, asked New York University (a school with notoriously poor financial aid) about how it treats home equity, it declined to say.

Paula asks that if you contact any schools about their home equity policies to share the info on this site so she can add the information to her list. I'd love love to build on this home equity list to make it an even better resource!

By the way, how schools treat home equity can also depend on how desirable an applicant is.

One more thing....

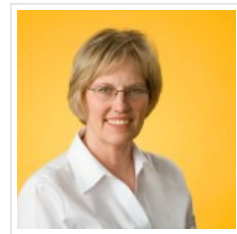
If you use the **EFC calculator** on the College Board's website (and I highly recommend you do!), you should know that the calculator for the institutional aid methodology uses 100% of your home equity against you.

If you want to find out what an EFC calculator is and why you should use one, read this:

How To Determine Your EFC

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