

New Princeton Financial Aid Policies Increase Affordability for Lower and Middle Income Students



February 1998

The enclosed materials describe several recent steps that Princeton University has taken to increase its affordability for lower and middle income students.

These steps include:

- (1) eliminating any loan requirement for students with family incomes below \$40,000 and replacing those loans with scholarship grants;
- (2) reducing the loan requirement for students with family incomes between \$40,000 and \$57,500 and, similarly, replacing those loans with grants;
- (3) reducing the effect of home equity in calculating expected parental contributions for all families—and entirely removing home equity from the calculation for almost all families with incomes below \$90,000—which will increase the level of scholarship support for most students on financial aid; and
- (4) ensuring that Princeton students and their families retain the full benefit of new federal tuition tax credits that begin to take effect this year.

In taking these steps, we are strengthening a program in which admission decisions are already “need-blind” and we meet the full financial need of every admitted student. We already provide financial aid to some 43% of our undergraduates; the median family income of students receiving aid is \$70,000 and the average scholarship we provide is almost \$15,000. Now we will be reducing the amount that we expect families to pay even beyond current levels, and we will be eliminating or reducing loans for many students on financial aid. **We believe that for most lower and middle income families, these changes will bring the amount they actually pay at Princeton in line with—or below—what it costs to attend the major state universities.**

I hope you will bring these changes to the attention of your students who might be interested in and qualified for the kind of educational program Princeton offers, so that no student will decide not to apply to Princeton solely for financial reasons.

Finally, let me draw your particular attention to the financial aid estimator program that we hope to make available later this spring through Princeton's home page on the World Wide Web. I hope you and your students will find this program useful as they consider their college options and try to make a realistic assessment of what Princeton—and other colleges and universities like Princeton—might actually cost.



Harold T. Shapiro
President



Princeton Changes Its Financial Aid Policies To Increase Affordability For Lower and Middle Income Students

PRINCETON, N.J., January 26—Princeton University’s trustees have made two changes in financial aid policy that will significantly increase Princeton’s affordability for lower and middle income students. They also have reaffirmed a policy that is designed to ensure that Princeton students and their families retain the full benefit of new federal tuition tax credits that begin to take effect this year.

Together, these measures represent “the most important changes in Princeton’s financial aid policies in several decades,” the trustees said. “They will result in a substantial increase in scholarship awards for most students on financial aid, and we hope they will send a very clear message that one of Princeton’s highest priorities is to be affordable to all students and their families.”

Under its new policies:

- **Princeton will not require any student loan when a family’s income falls below \$40,000** (roughly the national median). For these students Princeton will entirely replace the current loan requirement with additional scholarship aid. In addition, Princeton will reduce its loan requirement for students with family incomes between \$40,000 and \$57,500.
- **Princeton will reduce the amount it expects a family to pay for students on financial aid by removing or reducing the contribution expected from home equity in its financial aid calculations.** When calculating what a family is able to pay, Princeton will no longer include the value of the family home for most families with incomes below \$90,000. It will reduce the contribution expected from home equity by one-half or one-quarter for all other families eligible for financial aid, and it will increase its “asset protection allowance” for families that do not own their homes. Families with more than one child in college or other special circumstances may qualify for aid at Princeton with incomes as high as \$150,000.
- Princeton has reaffirmed its decision last fall not to make any upward adjustment in its assessment of a family’s financial capabilities as a result of the new federal tuition tax credits that were enacted last summer. This will allow eligible Princeton students and their families to obtain the full relief that these credits were intended to provide—up to \$1,500 a year for the first two years of college and up to \$1,000 a year for all other years.

These measures were recommended by President Harold T. Shapiro and approved by Princeton's trustees on Saturday (January 24). The trustees also approved a 3.7% increase in tuition, room and board for 1998-99, the lowest percentage increase at Princeton in more than 30 years. (Last year's increase was 3.9%.) As a result of recent success in raising funds specifically for financial aid for international students, the trustees increased Princeton's scholarship budget for these students by roughly a third. While Princeton is fully need-blind and meets the full financial need of all American and Canadian students, financial aid for international students has been limited to a specified scholarship budget.

"Princeton already has a very strong financial aid program, and these changes will make it even stronger" Shapiro said. "We already provide financial aid to some 43% of our undergraduates, and some 85% of all the scholarship aid our students receive comes from the University's own resources. The median family income of students receiving aid is \$70,000, and the average scholarship we provide is almost \$15,000.

"Our principal aims," Shapiro added, "are to do as much as we can to be sure that no student decides not to apply to Princeton solely for financial reasons, and to make Princeton as affordable as possible for those who attend. We believe that for most lower and middle income families, these changes will bring the amount they actually pay at Princeton in line with—or below—what it costs to attend the major state universities."

According to Provost Jeremiah Ostriker, who chairs the Priorities Committee, the faculty-staff-student committee that each year makes recommendations to the president on the next year's operating budget, "Princeton has always tried to keep the maximum loan component of its financial aid package at a relatively modest level (it is currently \$4,080 a year), but we believe that even this loan amount—and in some cases any loan amount—can be a real financial deterrent for families of modest means. We also have come to believe that our expectations for what families should be asked to contribute from home equity have been too high. Depending on a family's income and the value of its home, our elimination or reduction of the contribution expected from home equity could reduce what a family is expected to pay by as much as \$3,000-4,000 a year.

"These are expensive changes in policy," Ostriker added. "The fact that we are able to take these steps and also limit our increase in charges to 3.7% is a great tribute to our alumni, who have been exceedingly generous in recent years both through our Annual Giving campaigns (which provide unrestricted funds that we can apply to these purposes) and in capital giving directed toward financial aid."

The changes will take effect beginning with the class that enters Princeton next fall (the Class of 2002). Students with financial aid awards who have recently been admitted through Princeton's early decision program will receive new award letters reflecting these new policies.

Princeton, which established its first scholarship in 1792, is fully need-blind for all American and Canadian applicants, which means that admission decisions are made without regard for a family's financial circumstances, and it awards financial aid solely on the basis of need. Princeton meets the full need of each admitted student, with need defined as the difference between a student's annual budget (including tuition and fees, room and board, and an allowance for books and other expenses) and what in Princeton's judgment the student and his or her family can be expected to contribute. (The family contribution is based on income, assets, savings, family size, number of children in college, and other factors.) Students on financial aid typically receive a term-time job (generally about nine hours a week) and are asked to take out a federally subsidized loan of up to \$4,080, and then any remaining need is awarded in the form of scholarship. Scholarship amounts can vary from as little as \$500 to more than \$28,000. Under its new policy, Princeton will not include any loan requirement in the financial aid packages it offers students from families with incomes below \$40,000, and it will reduce the level of loan on a proportionate basis for students from families with incomes between \$40,000 and \$57,500. These loans will be replaced by additional scholarship amounts. Princeton also assists all families in making their parental contributions by offering its own loans to parents at very favorable rates and by allowing a variety of payment options.

The attached case studies illustrate how Princeton's new policies will affect families at several income levels. (Each case assumes a family with two children, including one in college.)

- A student from a family with an annual income of \$30,000, savings of \$10,000, and home equity of \$40,000 would receive **a scholarship increase of \$4,380**, to a total scholarship of \$28,200. This family benefits both from the elimination of any contribution based on home equity and the absence of any loan requirement. The total annual cost to this student and family would be \$2,780, plus the \$2,060 the student would earn at a campus job.
- A student from a family with an annual income of \$50,000, savings of \$15,000, and home equity of \$60,000 would receive **a scholarship increase of \$3,080**, to a total scholarship of \$22,500. This family benefits from the elimination of home equity and a \$1,580 reduction in the loan requirement. The total annual cost to this student and family would be \$5,980, plus the campus job and a loan of \$2,500.
- A student from a family with an annual income of \$65,000, savings of \$20,000, and home equity of \$90,000 would receive **a scholarship increase of \$3,500**, to a total scholarship of \$16,240. This family benefits from the elimination of home equity. The total annual cost to this student and family would be \$10,660, plus the campus job and \$4,080 loan.
- A student from a family with an annual income of \$85,000, savings of \$40,000, and home equity of \$110,000 would receive **a scholarship increase of \$2,700**, to a total scholarship of \$7,090. This family benefits from a 50% reduction in its contribution from home equity.

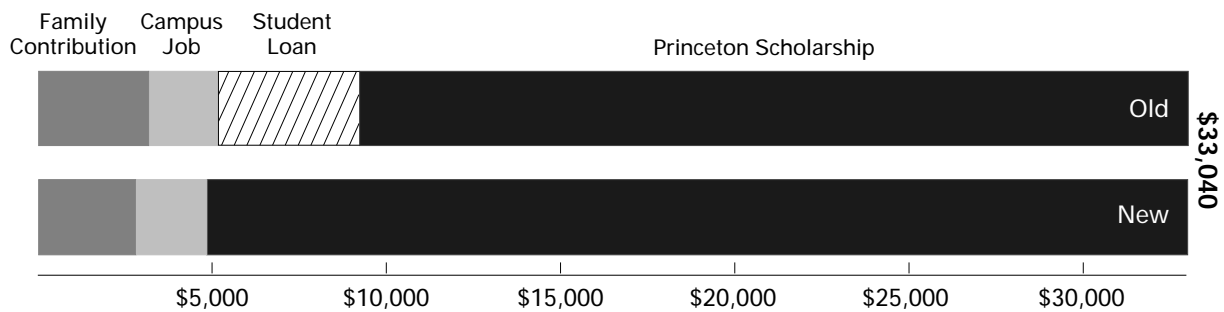
To help families and college counselors estimate how much a family actually would have to pay, Princeton is developing an early financial aid estimator program on its Web page. When the system becomes operational later this spring, families that visit the site through Princeton's home page [www.princeton.edu] will be able to learn about Princeton's financial aid policies and practices. After the family answers about a dozen questions regarding its financial status, the system will calculate an expected family contribution, compare it to Princeton's charges to arrive at an estimated award, and "package" the award into scholarship, loan (if applicable), and campus job. Although the information will be preliminary, if the family's income and asset information remains relatively stable, the family should get a good idea of the probable amount of scholarship, loan, and campus work. Most families that qualify for financial aid will find that the contribution expected of them will amount to significantly less than half of the University's full price.

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Case Study 1

Cost of Attendance 1998-99			
Tuition	\$ 23,820		
Room and Board	6,711		
Books and Personal	2,509		
Total Cost of Attendance	\$ 33,040		
Family Resources			
Income	\$ 30,000		
Savings	10,000		
Home Equity	40,000		
Student Savings	200		
		Old Policy	New Policy
			Difference + / -
Expected Contribution			
Parental Contribution		\$ 1,200	\$ 900
Student Savings		70	70
Student Summer Job		1,810	1,810
Total Family Contribution		\$ 3,080	\$ 2,780
Total Need		\$ 29,960	\$ 30,260
Financial Aid Award			
Campus Job		2,060	2,060
Student Loan		4,080	0
Princeton Scholarship		23,820	28,200
Total Financial Aid		\$ 29,960	\$ 30,260

Comparison of Old and New Financial Aid Award Numbers

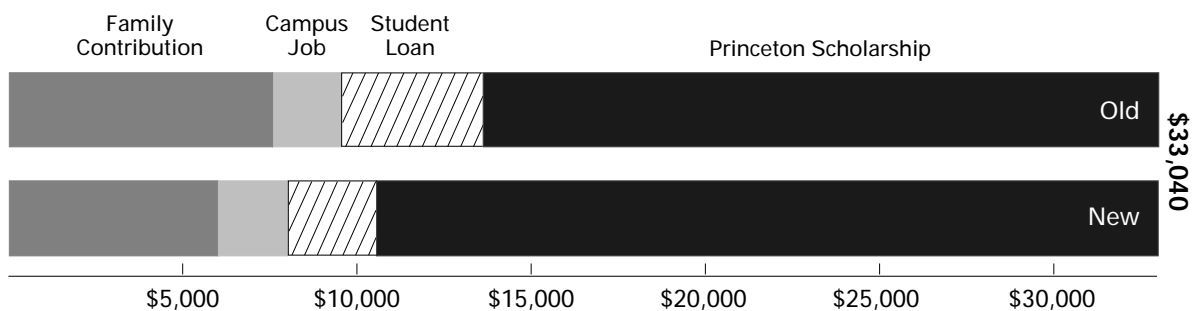


Case Study 1. A student from a family with an annual income of \$30,000, savings of \$10,000, and home equity of \$40,000 would receive a scholarship increase of \$4,380, to a total scholarship of \$28,200. This family benefits both from the elimination of any contribution based on home equity and the absence of any loan requirement. The total annual cost to this student and family would be \$2,780, plus the \$2,060 the student would earn at a campus job.

Case Study 2

Cost of Attendance 1998 – 99			
Tuition	\$ 23,820		
Room and Board	6,711		
Books and Personal	2,509		
Total Cost of Attendance	\$ 33,040		
Family Resources			
Income	\$ 50,000		
Savings	15,000		
Home Equity	60,000		
Student Savings	500		
		Old Figures	New Figures
			Difference + / -
Expected Contribution			
Parental Contribution	\$ 5,500	\$ 4,000	- 1,500
Student Savings	170	170	0
Student Summer Job	1,810	1,810	0
Total Family Contribution	\$ 7,480	\$ 5,980	- 1,500
Total Need	\$ 25,560	\$ 27,060	+ 1,500
Financial Aid Award			
Campus Job	2,060	2,060	0
Student Loan	4,080	2,500	- 1,580
Princeton Scholarship	19,420	22,500	+ 3,080
Total Financial Aid	\$ 25,560	\$ 27,060	+ 1,500

Comparison of Old and New Financial Aid Award Numbers

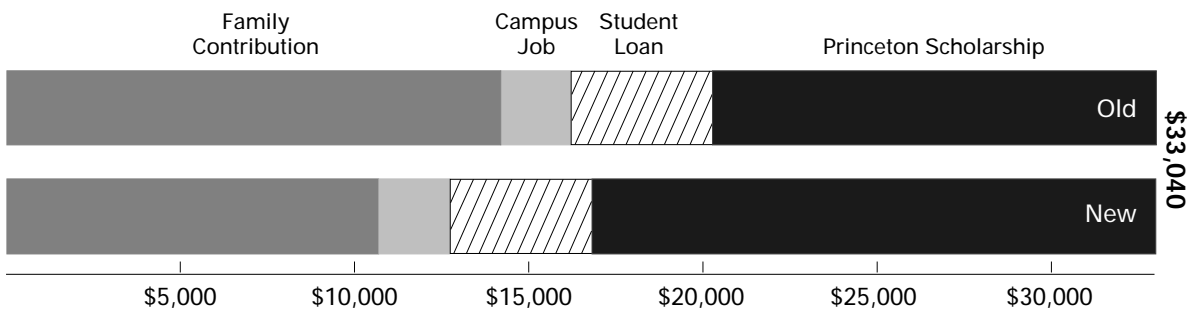


Case Study 2. A student from a family with an annual income of \$50,000, savings of \$15,000, and home equity of \$60,000 would receive a scholarship increase of \$3,080, to a total scholarship of \$22,500. This family benefits from the elimination of home equity and a \$1,580 reduction in the loan requirement. The total annual cost to this student and family would be \$5,980, plus the campus job and a loan of \$2,500.

Case Study 3

Cost of Attendance 1998 – 99			
Tuition	\$ 23,820		
Room and Board	6,711		
Books and Personal	2,509		
Total Cost of Attendance	\$ 33,040		
Family Resources			
Income	\$ 65,000		
Savings	20,000		
Home Equity	90,000		
Student Savings	1,000		
		Old Figures	New Figures
			Difference + / -
Expected Contribution			
Parental Contribution	\$ 12,000	\$ 8,500	- 3,500
Student Savings	350	350	0
Student Summer Job	1,810	1,810	0
Total Family Contribution	\$ 14,160	\$ 10,660	- 3,500
Total Need	\$ 18,880	\$ 22,380	+ 3,500
Financial Aid Award			
Campus Job	2,060	2,060	0
Student Loan	4,080	4,080	0
Princeton Scholarship	12,740	16,240	+ 3,500
Total Financial Aid	\$ 18,880	\$ 22,380	+ 3,500

Comparison of Old and New Financial Aid Award Numbers

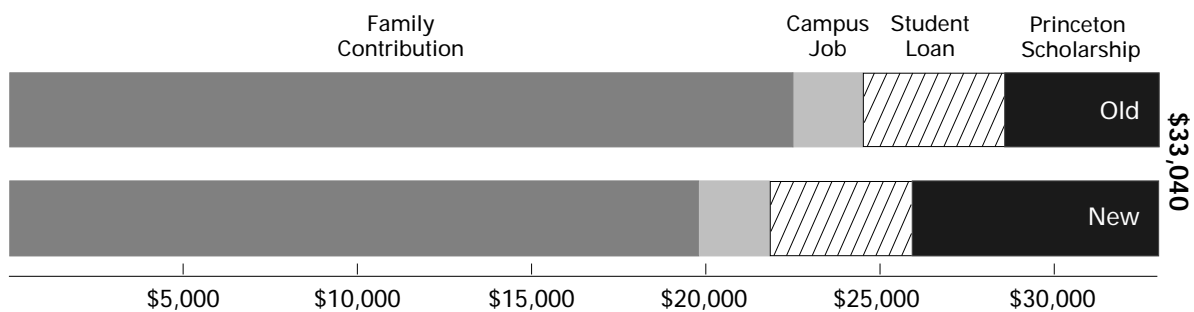


Case Study 3. A student from a family with an annual income of \$65,000, savings of \$20,000, and home equity of \$90,000 would receive a scholarship increase of \$3,500, to a total scholarship of \$16,240. This family benefits from the elimination of home equity. The total annual cost to this student and family would be \$10,660, plus the campus job and \$4,080 loan.

Case Study 4

Cost of Attendance 1998 – 99			
Tuition	\$ 23,820		
Room and Board	6,711		
Books and Personal	2,509		
Total Cost of Attendance	\$ 33,040		
Family Resources			
Income	\$ 85,000		
Savings	40,000		
Home Equity	110,000		
Student Savings	2,000		
		Old Figures	New Figures
			Difference + / -
Expected Contribution			
Parental Contribution	\$ 20,000	\$ 17,300	- 2,700
Student Savings	700	700	0
Student Summer Job	1,810	1,810	0
Total Family Contribution	\$ 22,510	\$ 19,810	- 2,700
Total Need	\$ 10,530	\$ 13,230	+ 2,700
Financial Aid Award			
Campus Job	2,060	2,060	0
Student Loan	4,080	4,080	0
Princeton Scholarship	4,390	7,090	+ 2,700
Total Financial Aid	\$ 10,530	\$ 13,230	+ 2,700

Comparison of Old and New Financial Aid Award Numbers



Case Study 4. A student from a family with an annual income of \$85,000, savings of \$40,000, and home equity of \$110,000 would receive a scholarship increase of \$2,700, to a total scholarship of \$7,090. This family benefits from a 50% reduction in its contribution from home equity.

New Princeton Financial Aid Policies Increase Affordability for Lower and Middle Income Students

Questions and Answers

Why are you making these changes now?

Changes in the University's loan requirement for lower and middle income students, and in the extent to which the value of the family home is taken into account in determining what a family can afford to pay, have been discussed for several years. These discussions have taken place among the trustees, in the faculty and student committees on undergraduate admission and financial aid, and in the faculty-student-staff Priorities Committee that makes recommendations each year to the president on the following year's operating budget.

They arose in part from a concern that some excellent students were not considering Princeton solely on financial grounds. Students from lower income families seemed especially concerned about the loans they would be required to take out as part of their financial aid awards. Both lower and middle income families expressed concern that the contribution expected of them was somewhat larger than they believed they could afford.

The changes that have now been adopted were presented to the Priorities Committee this past fall after the percentage of students on financial aid, which over recent years has averaged roughly 43% of each class, had declined to 41% in the Class of 2000 and 39% in the Class of 2001. The strong initial success of Princeton's \$750 million 250th Anniversary fundraising campaign, both in unrestricted Annual Giving and in gifts specifically earmarked for financial aid, has provided the resources necessary to make these changes at this time.

Why did you choose to eliminate and phase out the loan requirement at these particular income levels, and why will you continue to require loans at all?

Princeton has long believed that students on financial aid should be expected to contribute to the costs of their own educations. This "self-help" typically includes some amount of work and a federally subsidized loan. Even students who are not on financial aid frequently take campus jobs and borrow to help their families meet the costs of sending them to college. All students receiving financial aid will still be assigned campus jobs (generally nine hours a week) and will be expected to make contributions from their summer earnings.

But we have learned that required loans are a much greater deterrent for students from lower income families than for students from other families. Frequently these students' families have less experience with borrowing or with making purchases on credit; in many cases these students may be contributing financially to their families even while in school; and in some cases students from these families are less confident than others that their Princeton educations will lead to careers that will permit them to repay their loans.

While we know of no way to be certain about which income levels to select, we want to be sure that potential applicants whose parents earn less than the national median family income (roughly \$40,000) will not have a loan assigned as part of their financial aid package. To avoid a situation where earning one more dollar could result in a substantial increase in a family's loan requirement and to reinforce Princeton's affordability to families that are likely to feel especially pressed, we decided to reduce the level of loan on a sliding scale for students from families with incomes between \$40,000–57,500.

In all cases where loans are eliminated or reduced, students will instead receive additional scholarship aid. Students from families that earn more than \$57,500 will have a \$4,080 loan as part of their aid package. To the extent that students who qualify for loan elimination or reduction have higher expenses or are unable to meet their summer earnings requirement, they will still be eligible to take out loans for these purposes.

Why didn't you entirely eliminate home equity for all students?

One of the greatest challenges to a financial aid office is trying to determine a fair contribution from a family toward a child's education. Since a quality education is one of the best investments a family can make—with both financial and other dividends that accrue over a lifetime—it has seemed appropriate to expect that families will pay for college as they pay for other major investments, not solely out of current income, but also out of some combination of savings and borrowing. Thus, in determining a family's capacity to pay, Princeton's financial aid office looks not only at income, but at savings and other assets, as well as at family size, number of children in college, and any unusual expenses.

For many families, the value they have accumulated in their home is one of their principal assets, and a portion of that value has been included in determining a family's ability to pay. In our judgment, it continues to be appropriate to consider home equity as an important family asset. But it is different from other assets in also serving as the family residence; in being non-liquid and not easily converted into college payments; and in being excluded from the need measurement system that the government uses to determine eligibility for federal programs. In recognition of these differences and in response to concerns from families that current expectations are greater than they can reasonably afford, Princeton has decided to eliminate or reduce the consideration of home equity in its calculations of financial capability.

As can be seen on the attached graph, under Princeton's revised policy the value of the home will be excluded entirely for families with incomes up to \$60,000 a year whose home equity is \$150,000 or less, and for families with incomes up to \$90,000 whose home equity is \$100,000 or less. The home equity will be included at half its actual value for families with incomes between \$90,000–120,000 whose equity is \$100,000 or less; for families with incomes between \$60,000–90,000 whose equity is between \$100,000–150,000; and for families with incomes below \$60,000 with equity between \$150,000–200,000. For other families with higher incomes or higher home equity who qualify for financial aid, home equity will be included at three-quarters of its actual value. Since these changes only benefit homeowners, Princeton also has increased its "asset protection allowance" for renters.

Why didn't you change these policies for students currently at Princeton?

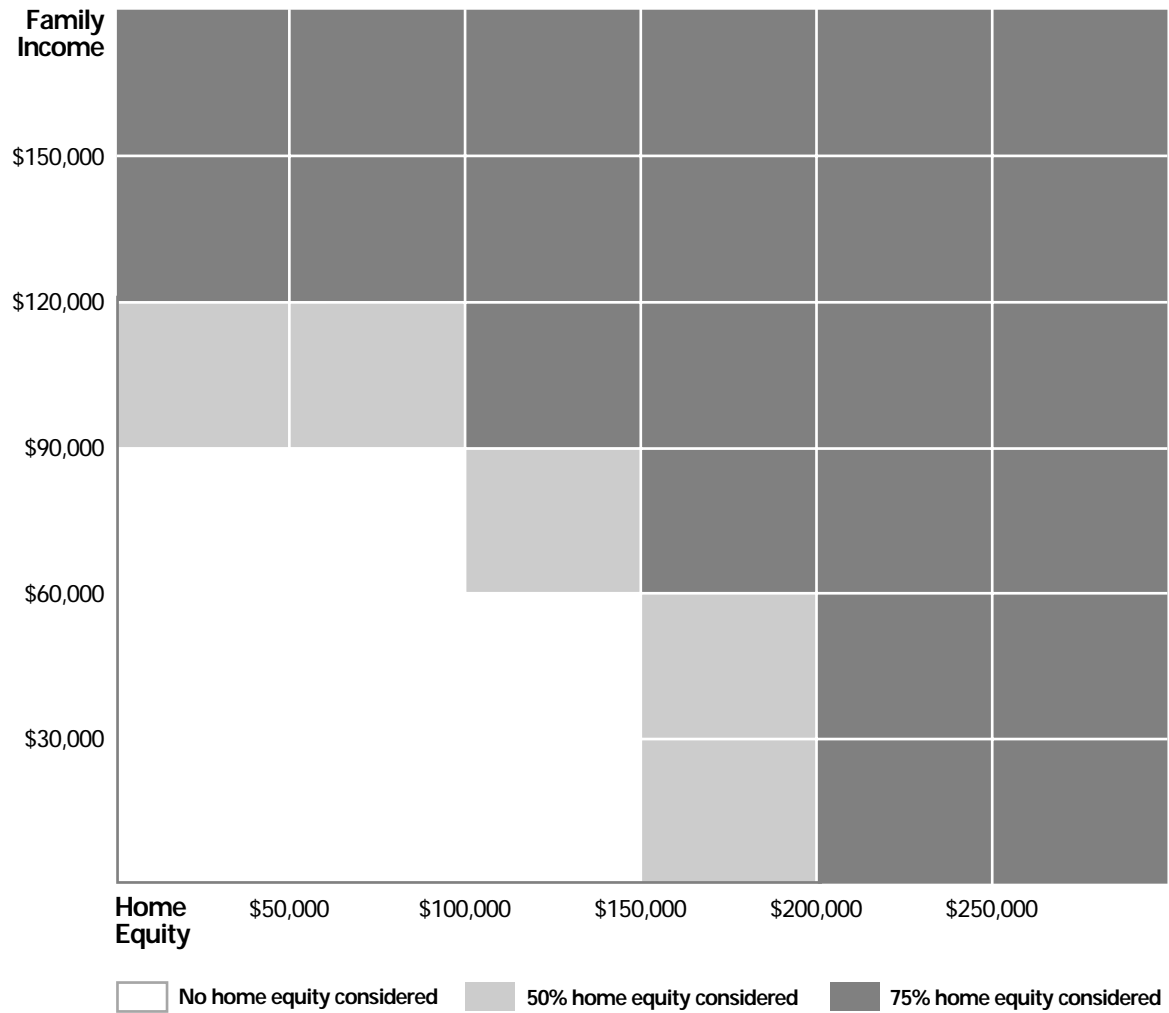
We would like to have been able to do this, but these changes are sufficiently expensive that we decided we could make this significant a change only if we phased it in over four years.

How do you think these changes will affect the composition of Princeton's student body?

We hope that some excellent students and their families who now believe that a Princeton education is beyond their reach financially will recognize that, because of its financial aid programs, Princeton is much more affordable than they realized, and in many cases is no more expensive to them than the major state universities. We hope that other students who now are admitted to Princeton but decide not to attend largely for financial reasons will find Princeton affordable, and will feel able to base their choices primarily on educational rather than financial grounds.

Princeton believes it is very important to the country that, through a combination of federal, state and institutional financial aid programs, students at all income levels have access to the resources they need to be able to afford whichever college or university can best meet their educational needs and allow them to achieve their fullest potential. Princeton also believes that it is critically important that the nation's most competitive colleges and universities continue to enroll students from diverse backgrounds and all income levels.

Class of 2002: Amount of Home Equity Considered in Award Calculations



Under Princeton's revised policy the value of the home will be excluded entirely for families with incomes up to \$60,000 a year whose home equity is \$150,000 or less, and for families with incomes up to \$90,000 whose home equity is \$100,000 or less. The home equity will be included at half its actual value for families with incomes between \$90,000–120,000 whose equity is \$100,000 or less; for families with incomes between \$60,000–90,000 whose equity is between \$100,000–150,000; and for families with incomes below \$60,000 with equity between \$150,000–200,000. For other families with higher incomes or higher home equity who qualify for financial aid, home equity will be included at three-quarters of its actual value. Since these changes only benefit homeowners, Princeton also has increased its "asset protection allowance" for renters.

Class of 2002: Student Loan Table

Total Family Income	Loan Amount (in dollars)
\$57,500 and up	\$4,080
55,000 – 57,499	3,500
52,500 – 54,999	3,000
50,000 – 52,499	2,500
47,500 – 49,999	2,000
45,000 – 47,499	1,500
42,500 – 44,999	1,000
40,000 – 42,499	500
0 – 39,999	0

Student's annual loan requirement under Princeton's new financial aid program, by income level, in dollars. "Total Family Income" includes family's taxable and non-taxable income, as derived from the College Scholarship Service PROFILE form.

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