

Giving Away Money and Families Still Don't Pay ... or Stay?

By John Shelhamer, President DTS and CFA

Q: Is it possible to waste tuition assistance funds by granting them to families who are not going to pay anyway?

A: Without a doubt there are families using tuition assistance to enroll in a Christian school who simply do not have the means to pay the balance of the tuition bill.

Q: Is there a way to tell who these families are – before we give them aid?

A: Yes.

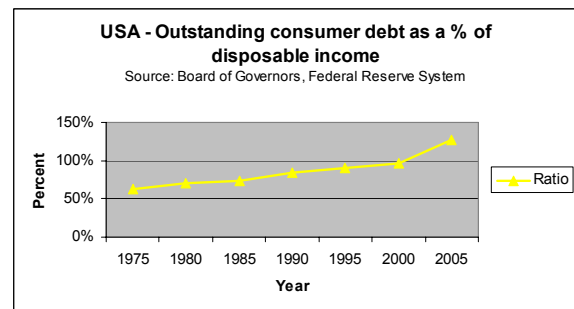
Q: Is there a way to salvage them so that they don't have to leave and go to school somewhere else?

A: Yes.

DTS's Confidential Financial Analysis (CFA) has provided invaluable information for understanding the answers to these and other questions.

Some trends we see today

In the US, prior to 2000, consumer debt remained less than the total Annual Family Income. Since 2000 the balance has ballooned to an amount significantly higher than Annual Family Income. In fact, our generation has taken on twice as much debt-to-income as our parents. Consumer debt has doubled in the past 30 years from 62% of disposable (after-tax) income to 127%!



Between 2001 and 2004, 45% of homeowners refinanced their homes. The median amount added to their mortgages? \$20,000.

How is the average consumer able to load up on debt, and still be able to service that debt? There are at least 5 things that make this possible:

- 1 Interest rates have been at their lowest in a generation
- 2 1/3 of new mortgages in 2004 and 2005 were ARMS (ARM – Adjustable Rate Mortgage = a way to get into a house you cannot afford, hoping that interest rates won't rise)
- 3 The rising popularity of interest-only and negatively amortizing home loans (loans where you pay no principal at all, or maybe where you're paying less than the interest, and the unpaid interest is added to your mortgage balance)
- 4 Debt service on credit cards is only 1.5% – 2% of the card balance (@ 18% this will take more than 47 years to pay them off!)
- 5 The trend of 0% new car financing

Is there anyone who can tell us what's reasonable?

Recommendations from “experts” vary quite a bit. This is because nobody is normal. (Isn't “normal” what everybody else is, but you're not?) But there seems to be a general consensus that:

Debt in General

36-38% of a family's net monthly income is a safe maximum for total monthly debt service. This should include home, auto, credit cards, school loans ... everything.

Cars

10% of a family's net income. The average payments for families with auto loans? 14%.

What does this mean? In 2005 the US median household gross income was \$46,000. This also happens to be just about what CFA's average tuition assistance applicant makes. 10% of the monthly net for \$46,000 is approximately \$306/month.

If this was you, and if your credit score was high enough to land a 0% new auto loan, you could afford one \$18,000 new car. This is like a Honda Civic or Toyota Camry, not an Accord, or a RAV4, or an SUV (that everybody seems to be driving). If you don't qualify for 0% financing, you'll pay around 7%. Whether you pay interest or not, it's still debt.

Houses

Recommendations hover around 31% of your net. This means that a typical tuition assistance applicant can afford a payment (including PITI – principal, interest, taxes, and insurance) that would put them in a house valued at about \$160,000 (if they put 10% down), with a mortgage balance of \$145,000. CFA's average 2006 tuition assistance applicant has a mortgage balance of \$154,000 and lives in a house valued at \$227,000.

Credit Cards

5% is a typical recommendation. Amounts of credit card debt that tuition assistance applicants carry vary quite a bit. A brief review of their information tells us two things: 1) the average applicant carries more than 5%, and 2) typically, the lower a family's income, the higher their credit card debt (as a percentage of income).

Where do these recommendations take us?

Well, if you just add these typical recommendations together, you can see that they add up to 46%. Most responsible lenders will hesitate to give you a loan for much more than 38%.

What does it take to balance a budget with tuition payments included?

The understanding of three concepts is critical before going any further:

- 1 Your goal with the school's Tuition Assistance Fund must be to enroll future graduates, not just this year's students. To accomplish this there must be a commitment that extends beyond a financial analysis and disbursement of funds.
- 2 "Financial Health," as defined by 2 Corinthians 9:8, is a) having sufficiency in everything, and b) having an abundance for every good deed.

3 “Affording” a Christian education has more to do with financial health than the actual cost of tuition. An unhealthy family cannot pay even if you give them financial assistance.

When you go to the doctor for a check-up he assesses your health. That assessment is based on benchmarks that indicate whether there is a problem in an area or not. These benchmarks are based on numbers – numbers like blood pressure, pulse, homocysteine level, or cholesterol level.

To understand a family’s financial health requires more than a simple calculation that determines how much they are able to pay towards tuition. It requires looking at a number of indicators, all based on numbers.

At CFA we have determined to work with Crown Financial Ministries’ guidelines and recommendations in the analysis of a family’s finances. They are clear and Christian-based.

We have chose this particular estimated budget because it reflects percentages designed for incomes \$35,000 - \$45,000, just about what the average financial aid applicant makes.

You will notice that Crown’s percentages are of a “net budget.” This “net” is after taxes and after giving.

To guide a family who does not give to their church, the percentages would need to be inflated by another 10%.

For instance, Housing is recommended at 36%. To understand this in a budget that does not include giving, you would need to divide 36% by .90, which would be 40% (including payments, PITI, maintenance and utilities).

Crown recommends 6% for private school / child care. Notice that this budget adds up to 106%. To make 6% for schooling fit into a budget, a family must decrease other categories by 6%.

MONTHLY INCOME		MONTHLY LIVING EXPENSES	
GROSS MONTHLY INCOME	<input type="text"/>	3. Housing	
Salary	<input type="text"/>	Mortgage/Rent	29%
Interest	<input type="text"/>	Insurance	3%
Dividends	<input type="text"/>	Property Taxes	3%
Other Income	<input type="text"/>	Electricity	
LESS		Gas	
1. Tithe/Giving	10%	Water	
2. Taxes (Fed., State, FICA)	<input type="text"/>	Sanitation	4%
NET SPENDABLE INCOME	<input type="text"/>	Telephone	
		Maintenance	
		Cable TV	
		Other	
		4. Food	12%
		Payments	8%
		Gas and Oil	12%
		Insurance	
		License/Taxes	4%
		Maint./Repair/Replace	
		Other	
		6. Insurance	5%
		Life	
		Health	
		Other	
		7. Debts	5%
		(Excerpt auto and house payment; see page 25.)	
		8. Entertainment/Recreation	6%
		Eating Out	
		Baby-sitters	
		Activities/Trips	
		Vacation	
		Pets	
		Other	
		9. Clothing	5%
		10. Savings	5%
		11. Medical Expenses	4%
		Doctor	
		Dentist	
		Prescriptions	
		Other	
		12. Miscellaneous	5%
		Toiletries /Cosmetics	
		Beauty/Barber	
		Laundry/Cleaning	
		Allowances	
		Subscriptions	
		Gifts (incl.Christmas)	
		Cash	
		Other	
		13. Investments	5%
		14. School/Child Care	6%
		Tuition	
		Materials	
		Transportation	
		Day Care	
		TOTAL LIVING EXPENSES	106
		INCOME VERSUS LIVING EXPENSES	
		NET SPENDABLE INCOME	<input type="text"/>
		LESS TOTAL LIVING EXPENSES	<input type="text"/>
		SURPLUS OR DEFICIT	<input type="text"/>

ESTIMATED BUDGET

It is CFA's recommendation that when tuition exceeds 7-10% of a family's net monthly income, it becomes difficult for them to pay. They should apply for tuition assistance. They may qualify, they may not, but 7-10% is a good rule of thumb.

So, instead of crown's recommendation of 6%, we will work with 7%. To fit tuition into a family's budget, where will the adjustments be made?

Monthly	Recommended		Adjusted for tuition	
Gross inc		\$3,000		\$3,000
tithe	10%	\$300	10%	\$300
taxes	15%	\$450	15%	\$450
balance	NET	\$2,250	NET	\$2,250
housing*	36%	\$810	36%	\$810
food **	12%	\$270	12%	\$270
auto ***	12%	\$270	12%	\$270
insurance	5%	\$113	5%	\$113
debt	5%	\$113	5%	\$113
entertainment	6%	\$135	4%	\$90
clothing	5%	\$113	5%	\$113
saving	5%	\$113	3%	\$68
medical	4%	\$90	4%	\$90
misc	5%	\$113	5%	\$113
school ****	0%	\$0	7%	\$158
investment	5%	\$113	2%	\$45
Total	100%	\$2,250	100%	\$2,250

Now, these budgets are workable. The family on the right, who is squeezing in tuition at 7%, has reduced their entertainment, savings and investment by that same 7%, so their budget balances.

It is important to notice just how much this family can afford for tuition: \$158/month – less than half of the average Christian school's tuition. According to the 2005 ACSI Annual School Survey, the average Christian elementary school tuition is around \$365/month (10 months – only one child).

How much does a family have to make for \$365/month to fit within the 7% limit? About \$85,000 per year. For it to fit within a 10% limit? About \$60,000. However, to increase tuition to 10% means that other budgetary items must decrease by another 3%. Most families cut savings and investment.

What's the point?

1. Most families in the U.S. do not have mortgages, auto payments, and credit cards at or under the recommended percentages. Many have already reduced their budgeted savings and investments to zero – long before they consider where tuition will fit.
2. If a family cuts into life-critical areas to make tuition payments they will have to stop paying tuition when an emergency arises, or when necessary expenses (like dental or auto or clothing) are delayed too long, and just simply must be addressed.

The profile of a typical tuition assistance applicant

To help you understand a “typical” tuition assistance applicant, we’ve researched CFA’s 2006 applicants.

Income

% of families where ...

- Father is employed 58%
- Mother is employed 60%
- Both are employed 29%
- Neither are employed 12%
- Receiving child support 20%
- Receiving food stamps 7%

Averaged Income Amounts

- Family income \$3,480 / mo (net)
- Father \$ 1,747
- Mother \$ 1,058

Expenses

% of families with ...

- Housing payments 94% (63% are homeowners)
- Auto payments 56%
- Other debt payments 61%
- Giving to church 78%

Averaged Expense Amounts

- Housing/mortgage payment \$1,000
- Auto loan/lease payment \$227
- Other debt payment \$474
- Giving to church \$177 (averages 5% of net)
- Utilities \$315 (9% of net)

Putting some of these stats together

Families with:	% of families	% of income
Housing payment	94%	33%
Auto payment	56%	13%
Credit Card payment	61%	12%
ALL 3	35%	74%

What does this have to do with “Financial Health?”

Remember when we mentioned the doctor’s physical and numeric benchmarks? Financially, when certain budgetary categories are under control, you can conclude that a family is financially healthy. When they exceed certain ceilings, it becomes impossible for them to balance their budget, and they are financially unhealthy.

In CFA’s family reports to client schools we determine which of the following categories describe each family’s financial condition. The four categories, and their descriptions are:

Healthy: The family’s finances are in balance and under control. Tuition assistance will enable them to enroll, and they will probably continue to find ways to make ends meet.

Manageable: The family’s finances are being stretched, but they can continue to manage if their income and spending habits don’t change much. Although tuition assistance may enable them to enroll, if they encounter a major financial emergency they may have difficulty affording tuition payments – particularly if tuition payments are high enough to push them into the “struggling” category. Additional income may help them prepare for unanticipated emergencies.

Struggling: The family’s finances are causing considerable stress. They are probably having serious difficulty making ends meet. Although tuition assistance will enable them to enroll, they may eventually reach a point where regular necessary expenses cannot be deferred any longer and they may have to disenroll – particularly if adding tuition payments to their budget pushes them into the “unmanageable” category. Additional income would help them make ends meet. If their predicament is due to lifestyle the help it will provide may only be temporary.

Unmanageable: The family’s finances are such that they probably cannot balance their budget without borrowing or invading their savings or retirement funds. Unless there is a restructuring of their finances, they won’t be able to manage tuition payments for very long. If their difficulties are due to lifestyle more than to a lack of income then additional income may only help them in the short-term.

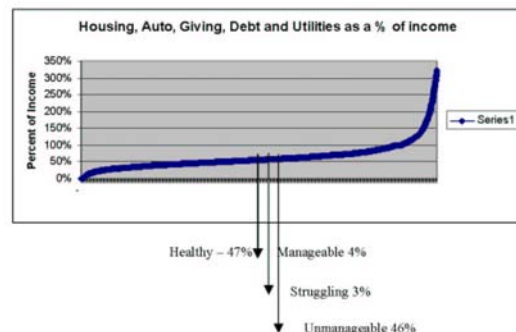
Knowing which category a family is in will help you understand why a family can receive tuition assistance and they still not pay the balance of their tuition.

It will also enable you to understand why you can give tuition assistance to a family, and two or three years later they leave, citing finances as the reason.

How many applicants are healthy, manageable, struggling, or unmanageable?

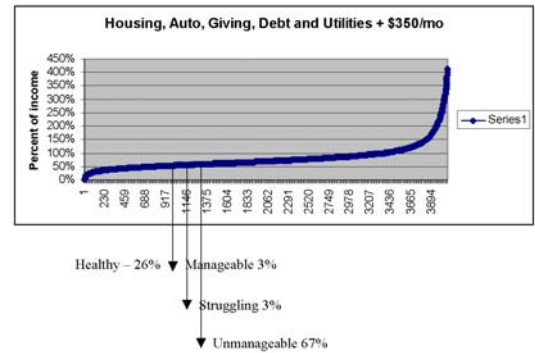
The following plot the financial condition of CFA’s 2006 applicants:

As you can see, about ½ of the applicants are healthy financially. However, most of the other half are in an unmanageable condition.



But, see what happens to their financial condition when a single \$350/ month tuition payment is added.

The group of those in an unmanageable condition swells to 2/3rds.



So, what do families do to make ends meet?

Many make the necessary adjustments in their spending. Some cut out savings or entertainment. Others begin shopping at thrift stores. Some apply for Food Stamps.

Some find help from relatives or friends or churches. They find additional sources of income – many in the form of an added job. These are the families who remain financially successful.

Others who don't make adjustments in their spending may get a second mortgage, or just put more things on their credit cards.

Frankly, a large percentage of families do not understand their finances well enough to even know how to adjust for tuition. Many honestly don't know how much they can afford to add to their budget.

The point is:

Families often make room for tuition by delaying necessary expenses, like dental, or medical, or transportation, or by going further into debt. These would be the families whose condition is struggling or unmanageable. When they do this, they can only do it for so long, and then these expenditures must be made. When that happens, they will stop making tuition payments, or they will disenroll.

Some families may not have to delay necessary expenses, but they are so close to the wire financially that when a car breaks, or someone gets sick, they are pushed over the edge financially. When that happens, they will stop making tuition payments, or they will disenroll.

Others just get tired of having to squeeze every penny twice before they spend it. What that happens, they stop making tuition payments, or just disenroll.

If 1/3rd or even 1/4th of your tuition assistance recipients are struggling or unmanageable, and if you have been unable to help them transition to a healthy or manageable condition, has your tuition assistance money been well spent?

If tuition assistance recipients enroll for 2, or even 3 years, but then find tuition just not manageable, and they disenroll, has your money enabled their children to receive a Christian education?

The answer to both these questions is: no.

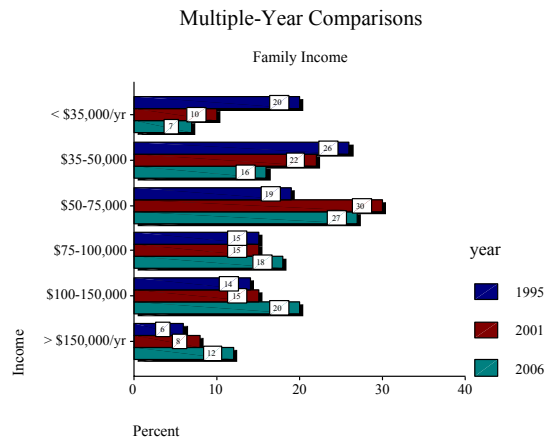
What can schools do?

We would challenge you to four essential commitments.

1. Do not starve families out.

Just because you've given a family enough aid to convince them to enroll doesn't mean you have given them enough to survive. It's essential to budget enough for tuition assistance to enable families to pay without sabotaging their own financial health.

The graph on the right is an actual school that has been surveyed three times using DTS's PinPoint™ Parent Opinion Survey. What you can't miss is that ten years ago 20% of their families made under \$35,000. Today most of these families probably have their children in public schools – they're certainly not enrolled in this school any longer. To have kept these families enrolled in the school they would have had to increase their tuition assistance to 13% of their budget since 1995, instead of the 3% they currently budget. DTS has worked with hundreds of schools, helping them understand how much they should budget for tuition assistance.



2 Require counseling

If you go to the doctor and he says your numbers are not good, he will tell you: “You can't carry on the way you are and expect to last for very long.” We may need to tell families the same thing.

If a family can only afford 1/4th of the required tuition (or less), and you make an exception to your standard tuition assistance policy that enables them to actually enroll, require that they see a financial counselor. Better yet, provide training for an employee in your school, or a family or even a board member, so that they can become certified as a Crown Financial Coach.

To find a free coach in your area, the family must request a contact name from Crown. They can do this at: www.crown.org/financialwisdom/church/budgetcoach.asp (or call 800-722-1976).

You can find a free non-profit financial counselor in your area by going to: www.dexonline.com / search for: “credit & debt counseling”

3 Help families find additional income

Within the school

Either reserve part time employment opportunities for applicant families, or at least give them hiring priority. There are numerous jobs that could be reserved for these families, such as: Housekeeping, teacher's aid, maintenance, kitchen, bus driver, special school projects, or special maintenance projects.

Within the community

Designate a staff member or a volunteer as a point person who can locate and post part-time employment opportunities near the school. If you get good enough at this employers will start calling you for workers.

4 Require all tuition assistance recipients to go through Crown's Bible Study.

Add the \$55/couple cost to their award. If you award \$2,000, make the award \$2,055. If the study helps families become financially successful you will more than make your \$55 back in future reduced tuition assistance awards!

You may find that the best approach is to host the study for all families, but then (with a certain degree of subtlety) require all aid recipients to complete the study at least once. At the very least – require every aid recipient family (both husband and wife) to read “Your Money Counts” by Howard Dayton.

Crown also has other excellent online resources to help you help your families. One is their “Path to Financial Health” which is a destination guide where they can set and track specific financial goals. Another is their “Online Budget Calculator” which can help you guide them in knowing how much they should be budgeting/spending in each budget category, based on their actual income.

The sum of our challenge to you is this:

Have a holistic approach to financial aid that seeks to help families succeed financially. Remember that success can be defined by 2 Corinthians 9: having sufficiency in everything, and an abundance for good deeds.

If the goal of your financial aid program is singular (giving families just enough money to convince them to enroll), you have missed multiple opportunities to enroll future graduates, instead of just this year's students, and to minister financial health and longevity to your families.

We challenge you to implement all four of these recommendations.

To request more useful articles or help, you can find us through ACSI's marketplace:

<http://www.acsi.org/web2003/default.aspx?ID=7805>

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