

# THE COLLEGE MONEY GRAB

How did one of the world's largest banks get tripped up by a college financial aid business to the tune of \$175 million? Just ask any parent who has jumped through insane hoops to get their kid into good schools and then had to run the most daunting gauntlet of all: paying for it.

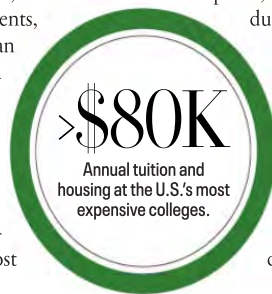
BY NICOLE LAPORTE

In January, when it was revealed that a college financial planning startup called Frank, which JP Morgan had acquired for \$175 million, had allegedly scammed the bank by wildly goosing its user numbers, shockwaves reverberated through higher education circles. The news was all the more titillating because Frank, which claimed to have helped millions of students, was founded in 2017 by a 24-year-old woman named Charlie Javice, a budding entrepreneur from Westchester County with shampoo commercial hair and a smooth MBA patois honed at Penn's Wharton School. Javice seemed every bit the business wunderkind, earning slots on *Forbes's* 30 Under 30 and *Fast Company's* Most Creative People lists.

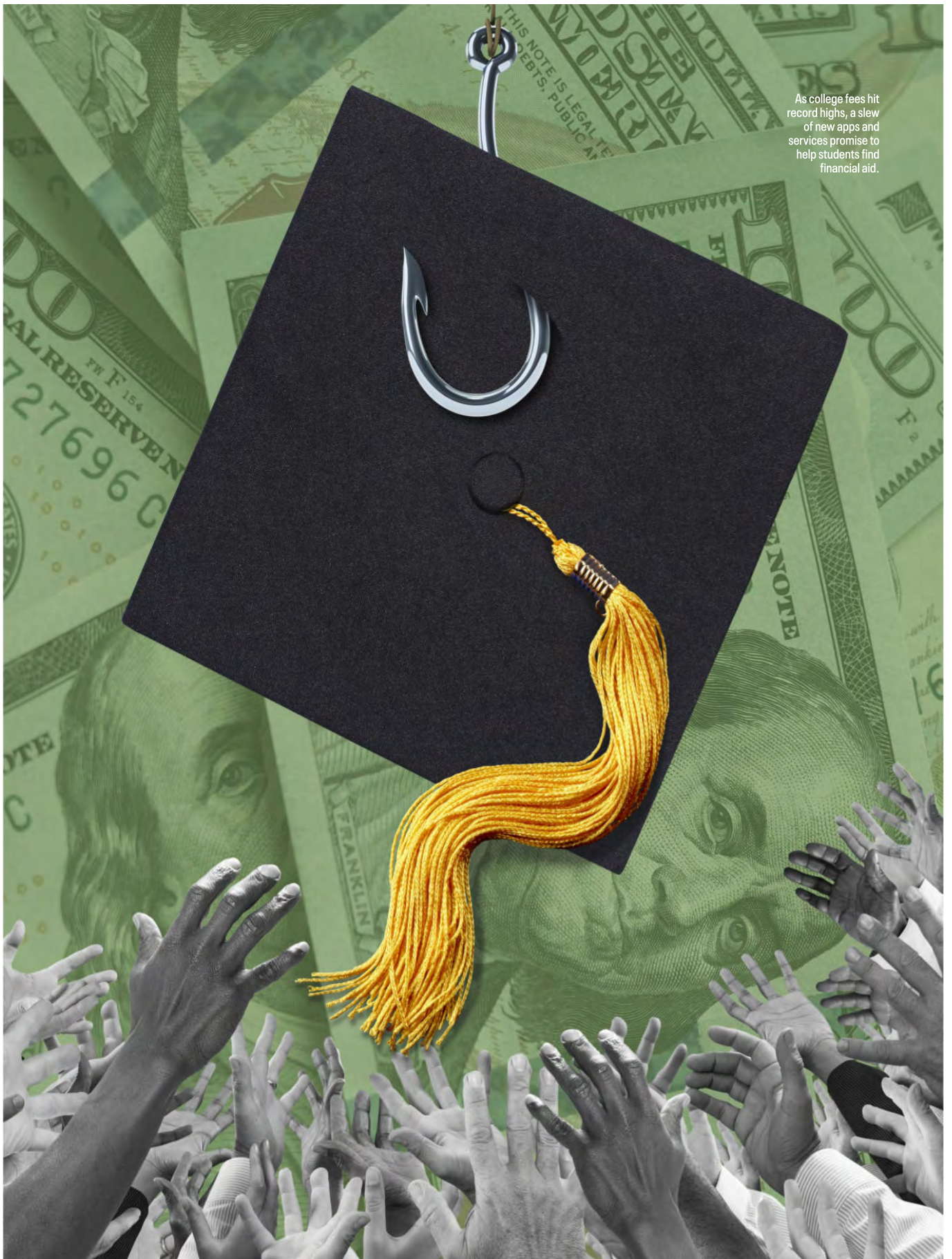
The questions on everyone's mind were: If the allegations are true, how could one of the world's most

venerable financial institutions have been duped by a millennial Wharton grad? Was it another Elizabeth Holmes tale, only set in the decidedly unsexy world of college financial aid? (Javice has said through her lawyer that the claims, which are included in a lawsuit filed by JP Morgan, are untrue.) According to JP Morgan's complaint, in pitch materials, spreadsheets, and verbal presentations during the bank's negotiations with Javice, she claimed that 4.25 million students had registered to use Frank. This number was enticing to JP Morgan, which was trying to grow its market of college-age students. When JP Morgan asked for proof of the accounts, Javice allegedly hired a data science professor to generate a fake customer list. The bank claims it had no idea Javice was nearly 4 million real customers short.

Beyond raising serious questions about JPMorgan's due diligence process—higher ed experts say that ➡➡



GETTY IMAGES



As college fees hit record highs, a slew of new apps and services promise to help students find financial aid.

the 4.25 million number alone should have been a red flag, considering that about 3.5 million kids graduate from high school in the U.S. every year, 2 million of whom go to college—the scandal was a reminder of how byzantine and obtuse the world of financial aid is, even for finance professionals. For parents it's even more of a quagmire, and not just for families who might not have access to counselors and consultants to guide them. "I work with brilliant people who cannot figure this stuff out," says Stuart Siegel, founder of Financial Aid Now, a consulting company. "My clients run businesses. They're professionals."

Many are also busy dealing with the more publicized aspects of the college admissions rat race: signing up for SAT prep classes, hiring essay coaches, and scheduling college visits and checking out dorms, all as they nudge their kids to submit upward of a dozen applications.

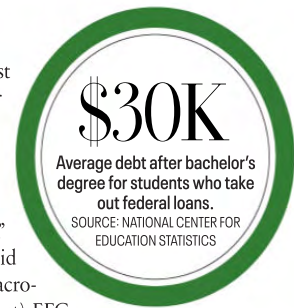
The headaches and anxiety of applying for financial aid have long been bemoaned, the subject of many an op-ed and best-selling book. There's the agony of filling out the Free Application for Federal Student Aid (FAFSA) form, which is akin to filing your taxes and which can lead to federal aid in the form of Pell grants. There's the CSS profile, which can unlock institutional aid in the form of grants, scholarships, and loans directly from the colleges and which demands even more granular financial details. And there's the fact that financial aid award letters arrive in the spring of an applicant's senior year in high school, so the highly emotional decision about whether a school is actually affordable has to be made at the 11th hour.

There have been intermittent attempts by the Department of Education to streamline the process, but none has come close to solving the problem. And so the high-stakes obstacle course

lives on, college admissions cycle after college admissions cycle. The government is just part of the problem. Colleges have their own individual sets of requirements and forms for families to submit. Stanford, for example, recently decided that equity in a family's primary home is no longer used as a factor in determining how much a family is able to contribute; schools like Tulane and Sarah Lawrence, however, weigh home equity

heavily. Throw in the skyrocketing cost of colleges, some of which have sticker prices north of \$80,000 a year, and it's a perfect storm of parental anxiety and despair.

"Financial aid is intimidating because it involves its own language," says Mark Kantrowitz, a financial aid expert. "It's an alphabet soup of acronyms. FAFSA, SAR (Student Aid Report), EFC (Expected Family Contribution—which is soon going to be changed



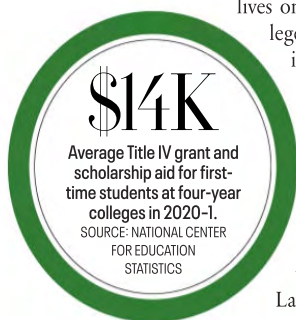
to SAI, Student Aid Index). Families worry about missing something important. And they get confused, because it's a different way of thinking about things. The FAFSA currently is a long form. They worry that if they answer a question incorrectly, it's going to ruin their child's future."

"The public is totally panicked about this space they're walking into that's like a maze in a fog," says Mark Salisbury, who runs TuitionFit, which allows students to look up what aid schools have offered other students with similar data points (such as GPA, test scores, and EFC). There's a whole cottage industry set up to "sell you test prep. They sell you college counselors. They sell you FAFSA completion. They sell all this stuff, and it's literally taking advantage of this maze-in-a-fog thing."

This morass of confusion makes the problem of financial aid the perfect white space for innovators like Javice to storm into with a gleaming solution—and a place for banks like JP Morgan to see untapped profit streams. Sara Goldrick-Rab, author of *Paying the Price: College Costs, Financial Aid, and the Betrayal of the American Dream*,

says, "Look, is there money to be made? Sure. You have a slew of confused people, some of whom have some money to spend. You can offer to support them and take whatever percentage" as a fee. But of course there are potential pitfalls. "Every year the government puts out more money, and people show up telling us, 'We'll help you get this or that.'"

In the case of Frank, which had a gateway pitch to the effect that the online tool could help a student or parent fill out the FAFSA in as little as four minutes (for most it takes at least a few hours), the solution may have been a little too gleaming. But many have entered the fray hoping to capitalize on a real problem coated in thick parental angst.



Edmit Solutions likens itself to Zillow but for college shopping. The company's software allows students to estimate financial and merit aid, research postgraduate earnings by major, and build a financial plan that may include loans. In 2021 Edmit raised \$3 million in funding and reported that it has been used by 1.5 million families.

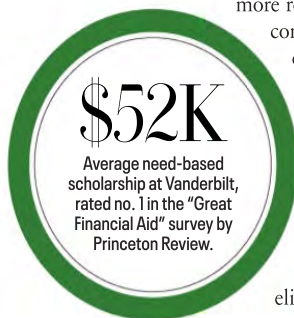
Another high profile company, Mos, claims to have "the biggest scholarship pool in America" and recently raised \$40 million in series B funding from investors like Sequoia Capital. The company has a free tier, or you can pay \$14.99 per school year for more services. Since Mos expanded its platform to include a student banking service, its valuation has shot up to \$400 million. The company claims to have helped more than 400,000 students get access to a total of \$160 billion in financial aid since it was founded in 2017.

Another layer of financial aid services is run by "higher ed nerds," as Salisbury describes himself. TuitionFit is free for students who upload a financial aid award letter to compare data from other schools. If they don't have an award letter and still want to see what aid schools have offered other students, there's a one-time cost of \$49. **Stuart Siegel's Financial Aid Now charges families \$149 for financial aid consulting services, which include one-on-one meetings with Siegel and access to the company's proprietary financial aid software, as well as a subscription to TuitionFit, with which it partners.**

In the wake of the Frank scandal, the user numbers and aid amounts that are bandied about on websites and in press releases by financial aid companies are eliciting more scrutiny from experts, who point out that it's hard to substantiate facts. "You can't verify subscriber numbers," Kantrowitz says. As for claims that companies have unlocked billions in scholarship funds, "Does that mean they matched the students with scholarships or does it mean that the students won that much in scholarships?"

"From an ethical standpoint it's a tough business to be in, because basically you're looking to make a lot of money off people who don't have any," says Phillip Levine, the author of *The Problem of Fit: How the Complexity of College Pricing Hurts Students—and Universities*. "So charging low income households enough money that you become so valuable that someone large is going to want to take you over and offer you a lot of money—that's a complicated problem."

While the services and apps are focused on helping less advantaged students, the path is less clear for better-off parents who are already paying for a bevy of college prep services. Families often turn to the colleges themselves for assistance; private colleges tend to have more staff to facilitate the process and answer questions. And the more robust independent college counseling companies have financial aid experts who can provide more concierge-like service.



**F**or those families who turn to independent college counselors for help, Levine says, "If you're hiring a counselor for \$5,000 or \$10,000 a year, your kid's going to college no matter what. Which doesn't mean you're not potentially eligible for a little bit of aid, but it's not

the make-or-break issue."

Those students are more likely to find money through merit aid from schools, which is based on academic performance and extracurriculars as opposed to financial need. There are also scholarships, though that's a whole other morass. **Most scholarship websites are clearinghouses that every kid in the country is sifting through.** "They're nothing more than fishing expeditions," Siegel says. "They ask you about 20 minutes of questions before they even give you a scholarship search, which doesn't really yield much."

It's these families in the economic middle who often feel most overlooked by the system. One mother in Los Angeles who did not wish to be identified says that her and her husband's combined income is about \$320,000 a year, and that when she finally got through the painstaking process of filling out the FAFSA, her family's expected contribution was \$70,000 for her daughter's first year of college. She has two other children who will apply in a few years, and her husband is starting to think about retirement.

"Even though our income sounds like a lot, if you live in California and are paying \$5 and up for gas... There are just a lot of factors. We're totally in a gray area. We're not low income, so we're not considered for that. We're not high income, so we're not considered for that."

And yet the full ride for a private college education can add up to \$400,000 of post-tax earnings. "So \$70,000 is a lot for us," the mother goes on. "We drive minivans and cars that are 10 years old. We try to be very responsible, because we have to see how our money is going to stretch." As for the process of filling out the forms, she says, "I kept thinking, If this is overwhelming for us, for the people who really need it it's even more so. I can't even imagine."

Laurelle Johnson, a startup consultant in L.A. who applied for financial aid when her two daughters were applying to college, says the FAFSA alone "took me about 25 hours" to complete. As for the CSS profile, "They ask you for everything short of your DNA."

"We had excellent college counselors [at her daughter's private school], but no one really guided you. You could look for tutorials online, but you'd have to spend 40 hours just learning how to fill it all out, and then you'd have to go back and actually fill it out. It was a nightmare.

"I did it little by little. I'd start a month and a half before the deadline and slowly fill it out. You can save it online, so you can continue without submitting it. There was one year when I didn't save. I was about three-quarters of the way through. I just sat there crying and thinking, I can't stand this."

Javice clearly knew her target audience. Speaking in 2017 on the *Marketing Whisperer* podcast, she said, "We started Frank really thinking about how we are the ally for the student and the family... There aren't many good actors in the [financial aid] space. We just wanted to stand for something that was honest, that was transparent, and where people can really feel as if they have someone who's got their back." **T&C**

### Rule No. 28

#### REMEMBER JOY

"I try to keep my ambition in balance with what brings me joy in dance. Without inspiration, being a creator is an empty vessel."

—Sidra Bell, artistic director,  
Sidra Bell Dance  
New York