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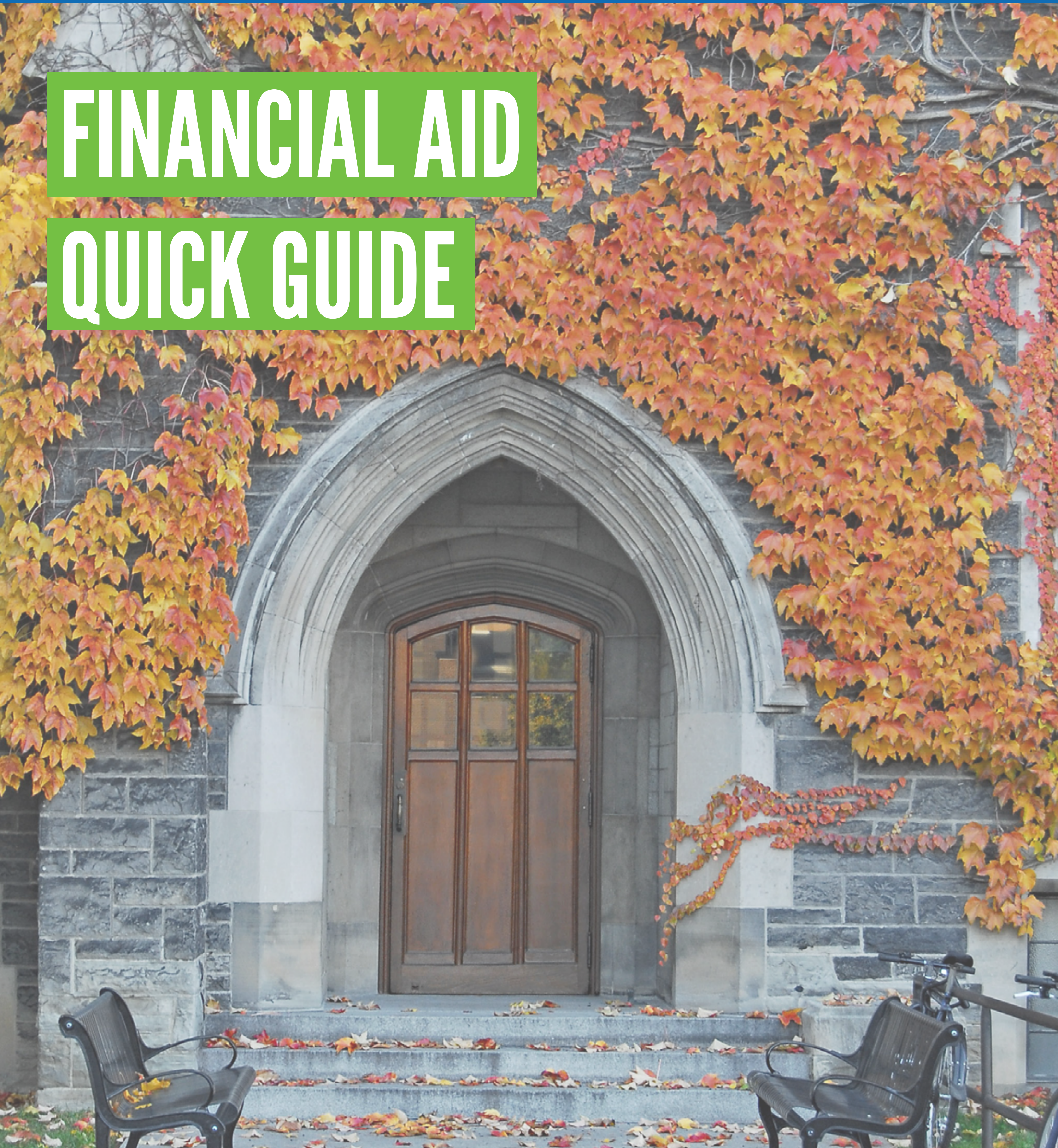
COLLEGE MONEY SMART

FINANCIAL AID QUICK GUIDE



Welcome

College is one of life's biggest expenses, so it makes sense that the financial aid to pay for it would be complicated.

But who thought it would be this complicated?

Even higher education veterans can feel their heads start to spin when they try to keep track of the endless string of acronyms, ever-shifting rates, and obscure jargon.

Where does financial aid come from? Who will give it to you? Why will they give it to you, and how will they know that you want it in the first place? What (if anything) will they expect in return? This quick guide will address those questions and get you up to speed on financial aid, which we will also refer to as "student aid dollars."

Student Aid Dollars

To get started, what are student aid dollars? Put simply, student aid is money to help families pay college expenses, including those for tuition, room, board, books, coursework supplies, and transportation.

Here is a breakdown of the different sources of aid:

Your Money	Free Money	Borrowed Money
Family Resources	No Repayment Required	Repayment Required
• Current income and cash flow • Savings accounts **Educational savings accounts** • 529 plan • Prepaid tuition plan **Tax credits (if applicable)**	**Need based Financial Aid** • Grants • Work-study **Non-Need Based Financial Aid** • Merit awards • Tuition waivers/discounts • Institutional scholarships • Private scholarships **Sources** • Educational institutions • Federal/state government • Corporations/businesses • Charitable organizations	**Federal Loans** • Direct subsidized • Direct unsubsidized • Parent PLUS • Graduate PLUS **Private loans** **Sources** • Federal Government • Corporations

The idea of "your money" is probably pretty clear; it's usually the other two that give people a little trouble. Here is more detail:

How You Qualify for Aid

Need Based
- Considers family income relative to school cost

Non-Need Based (Merit)
- Considers factors other than family income

How Aid Is Offered to You

Gift Aid
- Does not require repayment
- Reduces your college costs

Loans
- Requires repayment
- Does not reduce college costs
- Leads to higher out-of-pocket costs

Who Offers Aid

- Federal Government
- State Government
- Educational Institutions
- Corporations/ Businesses
- Civic/non-profit Organizations

Federal Financial Aid Categories:

1. Grants

FSEOG, Pell, Service (Peace Corps, ROTC, AmeriCorps), foster youth, etc.

2. Loans

Subsidized, unsubsidized, parent, graduate

3. Work-study

Part-time work funded by the federal government

One way to think about federal aid is that the government provides all three of the sources of aid mentioned in the first graphic above: money you do not need to pay back (grants/scholarships), money you need to pay back (loans), and a third category that can be considered almost like "your money" because you work for it (work-study).

Let's start with the forms of federal aid you do not need to pay back:

The federal government provides grants and scholarships, which are student aid dollars that you do not need to pay back.

These grants vary in their requirements and terms. For example, there are special grants available for people who've served in the military, people who've volunteered abroad with the PeaceCorps, people who will teach in the public school system, and so on.

It would be impossible to list all of the grants, and most aren't relevant for the majority of students. We'll focus on the four popular grants that the federal government highlights.

Types of Federal grants:

1. **Federal Supplemental Educational Opportunity Grant (FSEOG)**
   - For undergrads
   - Limited number of grants
   - Often distributed to those who have completed the FAFSA early

2. **Pell**
   - For undergrads
   - Based on financial hardship
   - Maximum size is $7,395

3. **Teacher Education Assistance for College and Higher Education (TEACH) Grants**
   - Becomes an unsubsidized loan if you don't teach for four years in a public school after graduation
   - Provides grants of up to $4,000 per year

4. **Iraq and Afghanistan Service Grants**
   - Given to students not eligible for a PELL grant
   - Have parents who died in Iraq, Afghanistan, or 9/11
   - No new grants effective as of 2024-2025 award year

Types of Federal Loans:

1. **Direct Subsidized loan:**
   - Need-based loans
   - Interest paid by the government when in school
   - Fixed interest rates

2. **Direct Unsubsidized loan:**
   - Not need-based
   - Accrues interest immediately (even when in school)
   - Fixed interest rates

3. **Direct Parent PLUS:**
   - Loans for parents
   - Accrues interest immediately (not subsidized)

4. **Graduate PLUS loan:**
   - Used for graduate school
   - Not subsidized
   - Fixed interest rate

Federal work-study program:

Finally, the federal government provides the opportunity for students to make money by working. In this case, students are offered a part-time job through the university that is at least partially funded by the federal government.

Work-study

- Employment program that encourages students to find part-time work
- Based on need (relatively low Student Aid Index)
- Students encouraged to get jobs related to their major or in the community

Merit Aid

Merit Aid is a type of gift (non-need) aid that is awarded for a talent, skill, or achievement.

At first, the idea of a merit scholarship might seem like something that is only for straight-A students with perfect SAT scores. However, that couldn't be further from the truth.

Merit aid student dollars are given based on the arts, sports, leadership, volunteerism, and, yes, academics. Even your home state or alumni affiliation could affect the amount of merit aid you receive.

You can get merit aid from community organizations, local governments, and the schools themselves. In fact, merit aid from schools is now the biggest source of student aid dollars. One reason for this is that schools use merit aid to attract and retain students.

Merit aid awards are diverse: some might cover all of tuition, and others might be just a few hundred dollars.

Schools are similarly diverse in the amount of aid they provide. Some offer a lot, and others might not offer any at all. Keep that in mind when coming up with your college list.

Also, merit aid varies by program or college. For example, honors colleges sometimes provide more merit aid than do other colleges that are part of the same university.

Try making a list of your work and volunteer experiences, as well as your hobbies, interests, and talents. They might turn out to be the key to closing the gap between what a school costs and what you have (or haven't) received as need-based aid.

Glossary

529 plan: state-sponsored savings plans that provide tax benefits, investment opportunities, or the chance to lock in future tuition rates at in-state public colleges. The money in a 529 can only be used to pay for education

Capitalized interest: unpaid interest that is added to the original amount of the loan

College Scholarship Service Profile (CSS): a supplemental financial aid form that is primarily used by private schools and takes into account more information than the FAFSA (see below)

Cosigner: a person who applies for a loan with another person and legally agrees to pay the debt if the primary person does not pay the loan (this is different from a parent loan, in which case a guardian takes out a loan for which they alone will be responsible on behalf of their children)

Cost of attendance (COA): average cost of one year of college, including tuition, fees, room/board, supplies, transportation, and personal expenses

Default: failure to pay back a loan according to the original terms of the contract. In general, a borrower is thought to have defaulted on a student loan after failing to make a payment for 270 consecutive days

Deferment: a policy that allows a borrower to stop making payments or to reduce the size of their student loan payments for up to three years. Interest does not accrue on subsidized loans during the deferment period (though it does on unsubsidized loans)

Expected Family Contribution (EFC): the amount of money that the federal government has determined that a family can pay for college per year. **This has been replaced with the Student Aid Index (SAI).**

Extended repayment plan: a program that allows a borrower to repay loans over an extended period of up to 25 years

Federal aid: money from the federal government to pay for college. The amount and type of aid are determined based on FAFSA results. The student does not have to accept the full amount of the award offered

Federal grants: money given by the government to a student to pay for college. The money does not need to be repaid (e.g., the Pell grant). Eligibility is determined based on FAFSA results

Federal student loans: money borrowed from the government to pay for college. The money must be repaid

Federal Supplemental Educational Opportunity Grant (FSEOG): a federal grant awarded to students demonstrating exceptional financial need

Financial need (or "demonstrated need"): the difference between a family's cost of attendance (COA) and estimated family contribution (EFC). In other words, the amount of aid a student will need to cover the costs of attending a particular school

Fixed-interest rate loan: a loan with an interest rate that does not change during the life of the loan (contrast with "variable-interest" rate)

Forbearance: a policy that allows a borrower to stop making payments or to reduce the amount of their student loan payments for up to three years. Unlike a deferment, interest continues to accrue on the loans

Free Application for Federal Student Aid (FAFSA): Form submitted to the federal government to determine eligibility for federal financial aid. The FAFSA information is also submitted to and used by schools to determine financial aid eligibility

Gift aid: also called “merit aid.” Money to pay for college that does not need to be paid back

Grace period: period automatically granted to a borrower during which time payments do not need to be made on the loan and no penalties will be incurred for not making payments on the loan (subsidized loans do not accrue interest during this time)

Graduated Repayment Program: a student loan repayment program that starts with a lower monthly payment amount that then gradually increases

Grant: money given to pay for higher education. The amount is often determined based on financial need and does not need to be repaid unless certain conditions are not met

Income-driven repayment plan: student loan repayment program that links the size of a borrower’s monthly payments to the size of his/her income

Loans: borrowed money to pay for school. This money must be paid back. Loans can come from both private and public lenders

Merit award: free money to pay for school that is usually awarded because of a student’s talent or achievement

Parent loan: a loan taken out by a parent to pay for college expenses (note that this is different from cosigning for a loan)

Pell grant: a federal grant to support the education expenses of students from households demonstrating financial hardship

Principal loan balance: the initial size of or remaining balance owed on a loan

Private loans: money borrowed from a private lender (a business) to finance higher education. These loans are often not subsidized or eligible for a forbearance or deferment

Prepayment penalties: a fee imposed on a borrower who pays off a loan early. These fees are typically only imposed on loans from private lenders; federal loans generally do not have prepayment penalties

Student Aid Index: A formula-based index number that determines how much financial support a student may need

Student Aid Report (SAR): a document that summarizes the results of the FAFSA

Subsidized loan: a loan that is based on financial need and will not incur interest while the student is in school or when a student has received a deferment

Unsubsidized loan: a loan that is not based on financial need and accrues interest even when a student is in school or has received a deferment. Unsubsidized loans typically do not offer a grace period

Variable-interest rate loan: a loan with an interest rate that can change over the course of the life of the loan (contrast with fixed-interest rate)

Work-study: a federal program that provides part-time work for undergraduate and graduate students with demonstrated financial need. Some colleges host additional work-study programs

Conclusion

Paying for college is complicated. This quick guide has hopefully unlocked some of the mysteries of student aid so you can make more informed decisions for your wallet.

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Let's Get Started

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