

## Financial Aid In A Nutshell



Financial aid makes up the difference between what college costs and what a family can afford.

There are 3 main types of financial aid:

1. Loans that have to be repaid
2. Grants & scholarships that do not have to be repaid
3. Employment programs such as work-study

The first thing about paying for college that a family needs to determine is what their financial need is. To determine this amount there is a formula and it is the difference between the cost of attendance (COA) and the expected family contribution (EFC).

$$COA - EFC = \text{Student's Financial Need}$$

A college's "cost of attendance" is the average cost to attend for a single year. This will include both direct and indirect costs. This includes tuition and fees, books and supplies, room and board, transportation and personal expenses. You can find this number on each school's website.



## **FAFSA and CSS Profile**

To help calculate EFC you will need to complete either the FAFSA or the CSS Profile or possibly both depending on where the student is applying to college. The financial aid formula used by the Free Application for Federal Student Aid (FAFSA) to calculate the student's expected family contribution (EFC) is known as the Federal Methodology (FM). About 250 mostly-private colleges use the CSS/Financial Aid Profile form, developed by the College Board, to calculate an EFC under the Institutional Methodology. There is a cost to filling out the CSS Profile, though some families may qualify for fee waivers, the FAFSA is free.

Once the college applications are completed and you have submitted the FAFSA or CSS Profile and you have been accepted to the college you will receive a Financial Aid Award Letter. This is now the time when you can calculate the "net price" to attend that college. The net price is the difference between the "sticker" price (full cost) to attend a specific college, minus any grants, scholarships and loans for which the students may be eligible. Sticker price includes direct charges (tuition and fees, room and board) and indirect costs (books and supplies, transportation, and personal expenses).

$$\text{Net Price} = \text{Sticker Price (COA)} - \text{gift aid and loans}$$

The Net Price Calculator is a tool that students and their families can use to estimate their "net price" to attend a particular college or university. This is a good tool that can be used to when applying to colleges to help better compare your out-of-pocket expenses from one college to another. Not all colleges and universities use this tool but many do and more and more are being added every year.

Your Financial Aid Award letter can combine various forms of aid such as gift aid, Federal Work-Study Aid, and federal loans. Below is a brief explanation of each.

# Types of Financial Aid



## I. GIFT AID

Grants and scholarships are often called “gift aid” because they are free money, financial aid that doesn’t have to be repaid. Grants are often need-based, while scholarships are usually merit-based.

Grants and scholarships can come from the federal government, your state government, your college, or a private or nonprofit organization.

### **What Kinds of Federal Grants are Available?**

The U.S. Department of Education offers a variety of federal grants to students attending four-year colleges or universities.

- Federal Pell Grants (\$5,730 per year max)
- Federal Supplemental educational Opportunity Grants
- Teacher Education Assistance for College and Higher Education Grants
- Iraq and Afghanistan Service Grants

### **What Kinds Of Scholarships Are Available?**

There are thousands of scholarships, from all kinds of organizations. There are scholarships for being a good student, good at sports, certain activities you participate in, or because your parent works for a particular company, etc.

## **II. FEDERAL WORK-STUDY**

The Federal Work-Study provides part-time employment while you are enrolled in school. It's administered by schools participating in the Federal Work-Study Program, not all schools participate in this program.

## **III. LOANS**

There are two types of loan programs, Federal Student Loan Programs and private student loan programs. The federal loan programs usually offer lower interest rates and have more flexible repayment terms and options than loans from other private sources. Private student loans are issued through a bank or credit union.



### **Federal Loans**

The U.S. Department of Education has two federal loan programs:

1. The William D. Ford Federal Direct Loan (Direct Loan) Program is the largest federal student loan program. Under this program, The U.S. Department of Education is your lender. There are four types of Direct Loans available.

\*Direct Subsidized Loans are loans made to eligible undergraduate students who demonstrate financial need to help cover the costs of higher education. This loan does not accrue interest while in school.

\*Direct Unsubsidized Loans are loans made to eligible undergraduate, graduate, and professional students, but in this case, does not have to

demonstrate financial need to be eligible for the loan. Interest will accrue while in school with these types of loans.

\* Direct PLUS Loans are loans made to graduate or professional students and parents of dependent undergraduate students to help pay for education expenses not covered by other financial aid.

\*Direct Consolidation Loans allow you to combine all of your eligible federal student loans into a single loan with a single loan servicer.

2. The Federal Perkins Loan Program is a school-based loan program for undergraduates and graduate students with exceptional financial need. Under this program the school is the lender.

Be a responsible borrower. Think about how the amount of your loans will affect your future finances, and how much you can afford to repay. Research starting salaries in your field. You can use the U.S. Department of Labor's Occupational Outlook Handbook to estimate salaries for different careers. You will be required to sign a promissory note agreeing to repay the note according to the terms of the note. You will also be required to complete entrance counseling, a tool to ensure you understand your obligation to repay the loan.

### **State Loans**

State loan programs provide supplemental funding for college students. In many cases, terms and qualifying conditions are similar to Federal Direct Loans. They usually offer lower interest rates, flexible repayment options, fixed rates and no credit check.

### **Private Alternative Loans**

These loans are offered by private banks and credit unions. Students may need private student loans when there is a gap between the cost of college and financial aid awarded (including free money and federal aid). Private student loans may have less paperwork than a federal loan so it's generally faster to apply. Federal student loans are usually a better deal for students, but the federal government has low borrowing limits, which may not cover your total cost of education.

Most full-time college students receive some type of financial aid. Keep in mind that a college that charges a lot for tuition might offer you generous financial aid. Make sure to analyze the net price, not the published price and include the net price calculators early in your college search. The earlier the research process begins, the bigger the payoff.

