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Part II - Financial Aid Overview

Financial aid is money that is given, earned, or lent to help students pay for their education. Financial aid makes it possible for many students to continue their education after high school.

The four types of financial aid

Financial aid comes in four forms: grants, scholarships, work-study, and loans.

Grants and scholarships are considered “gift help” because they represent money that is given to students. Work-study and loans are considered “self help” because they provide money that must either be earned or repaid.

- ▶ **Grant** - money given, usually because of financial need
- ▶ **Scholarship** - money awarded for exceptional academic achievement, an outstanding talent, and/or financial need
- ▶ **Work-Study** - money earned by working at a part-time job
- ▶ **Loan** - borrowed money that must be repaid

Need-based and merit-based financial aid

Most of the financial aid that's awarded is “need-based.”

Need-based financial aid - This type of financial aid is awarded to students whose families do not have sufficient financial resources to pay for college. In other words, need-based financial aid goes to students who need help paying for college.

When determining eligibility for need-based aid, the family's financial situation is the only thing that's considered; *the student's academic record is not a factor*. Loans, grants, and work-study are all examples of need-based financial aid.

Merit-based financial aid - Merit-based financial aid is given to students who have outstanding abilities, talents, and/or achievements. When awarding merit-based aid (scholarships), the family's financial situation is not taken into consideration. The award is based entirely on the student's merit.

Colleges give merit-based awards in order to encourage outstanding students to attend their school. Organizations and corporations award merit-based aid as a way to recognize and reward outstanding achievements.

Need and merit-based financial aid - Some financial aid awards take both need and merit into consideration. For example, a scholarship may require that an applicant have financial need *and* a certain grade point average. The organization or college making the award determines to what extent an award is need-based or merit-based.

The FAFSA (Free Application for Federal Student Aid)

Students and parents must complete a FAFSA in order to be eligible to receive any financial aid provided by the federal government. States and colleges also use information from the FAFSA to determine eligibility for state and institutional aid.

Because need-based financial aid is awarded to students whose families cannot afford to pay for college, having a fair and objective way to determine how much a family *can* afford is very important. *The FAFSA is the federal form that's used to determine the amount a family should be able to pay for one year of college.*

Parents should complete the FAFSA even if they think they're not eligible for need-based aid. They may find that they are indeed eligible, and some programs want documentation showing that a student isn't eligible for need-based aid, before they award their merit-based aid.

It doesn't matter how many schools a student is applying to, parents and students only need to complete one FAFSA.

College Goal Sunday is a one-day event held in January or February to help students and families complete the FAFSA. For information, go to www.collegegoalsundayusa.org.

The FAFSA asks parents and students for information on their income, assets, etc. Students and parents should therefore have their tax information ready before completing the FAFSA.

The FAFSA can be completed free online at www.fafsa.ed.gov. This site provides step by step instructions and detailed information on how to complete the FAFSA. Using a Personal Identification Number (PIN) to complete the FAFSA online is the fastest way to get your FAFSA processed. Students and parents can apply for a PIN at www.pin.ed.gov. To request a paper FAFSA, call 800-433-3243.

Within 1-3 weeks after the FAFSA is submitted, the student will receive a **Student Aid Report (SAR)**. This report will also be sent to the colleges the student listed on the FAFSA. The SAR tells how much the student's family will be expected to pay for college the following year. This amount is called the **Expected Family Contribution (EFC)**. Colleges, lending institutions, federal, and state aid programs all use this EFC figure when determining financial aid eligibility.

John and his parents got their tax information ready, completed a FAFSA online, and submitted it on February 15. John had applied to Xavier University and to Miami University, so he indicated on his FAFSA that he wanted a copy of his SAR sent to these two colleges also.



On February 24, John received his Student Aid Report (SAR). This report told him that his Expected Family Contribution (EFC) was 06125. John and his parents knew that this figure represented the amount they would be expected to pay for John's college education the following year - \$6,125.

When you complete a FAFSA online, you immediately get an estimated EFC. This figure will tell you the approximate amount your family will be expected to pay for college the next year.

To complete a FAFSA online, go to www.fafsa.ed.gov.

Because financial aid is often awarded on a “first come, first serve” basis, the FAFSA should be submitted as soon after January 1 as possible.

Determining financial need

Financial need is the difference between the amount a student's family can afford to pay and the cost of attending a college.

To determine if a family has need, their Expected Family Contribution (EFC) is compared to the Cost of Attendance (COA). If their Expected Family Contribution is more than the Cost of Attendance, the family has no financial need. If their Expected Family Contribution is less than the Cost of Attendance, the family has a financial need.

Mike is a senior who's considering three very different colleges: Private University (Private U), State University (State U), and City Community College (City CC).

Mike's Student Aid Report (SAR) shows that his Expected Family Contribution (EFC) is \$14,000. To figure out how much financial need he will have at each college, his family put the following table together.

	Private U	State U	City CC
Cost of Attendance	\$39,000	\$19,000	\$13,000
Minus EFC	- \$14,000	- \$14,000	- \$14,000
Financial Need	\$25,000	\$5,000	- 0 -

In this example, Mike and his family are expected to contribute \$14,000. Whether Mike goes to a college that costs \$39,000 or \$13,000, the amount his family is expected to contribute doesn't change. The only thing that changes is Mike's financial need. In this case, Mike will obviously have a greater financial need if he goes to Private U.

College financial aid applications

Some colleges have their own financial aid forms that students and parents must complete.

College financial aid and scholarship applications can usually be found on the college's website. Colleges use the information provided on these forms to help them determine a student's eligibility for financial aid. Families with special circumstances (e.g., the family has large medical expenses, parents got divorced, father lost his job) should contact the college's financial aid office.

The PROFILE

The PROFILE is a one-page need analysis form that provides colleges and scholarship programs with additional information on a family's financial situation.

Some colleges and scholarships require that students and parents complete the College Scholarship Service (CSS) PROFILE, in addition to the FAFSA. These colleges list the PROFILE as a requirement in their admissions and financial aid information.

The PROFILE should be submitted in the fall of a student's senior year. For information, and to complete the PROFILE online, go to <https://profileonline.collegeboard.com>.

Independent student criteria

For financial aid purposes, a student is either a dependent or an independent student.



Most college students are dependent students. This means that their parents are expected to assume the primary role in paying for their college education.

If a student is an independent student, his/her parent's finances are not considered in determining eligibility for aid. To be an independent student, a student must be able to answer yes to one of the following questions:

- ▶ Are you 24 or older?
- ▶ Have both parents been deceased since you were 13?
- ▶ Have you been a ward of the court or in foster care since age 13?
- ▶ Are you homeless, or an emancipated minor?
- ▶ Are you on active duty or a veteran of the US Armed Services?
- ▶ Are you married?
- ▶ Do you have dependents other than a spouse?
- ▶ Are you working on a Master's or Doctorate degree?

The packaging of financial aid

Almost all financial aid is awarded in the form of a package.

To determine a student's eligibility for financial aid, college financial aid administrators evaluate information from the following: 1) the student's financial aid and/or scholarship application; 2) the Student Aid Report (SAR); and 3) the PROFILE (if it's required). If it is determined that a student is eligible for aid, the financial aid office will put together a financial aid package for that student.

Packages can be any combination of grants, scholarships, work-study, and/or loans. While everyone would like to receive a financial aid package in which all college costs are covered by grants and scholarships, most packages include loans. In some cases, the entire package may be made up of loans. *It is important to not only look at the total amount of aid being awarded, but to also look at how the aid is distributed.*



Kate has applied for financial aid at two colleges. Both colleges cost \$18,000 and both have offered Kate a financial aid package worth \$9,000.

College X's package includes \$3,000 in grants, \$3,000 in scholarships, and \$3,000 in loans. College Y's package includes \$2,000 in grants, \$1,000 in scholarships, and \$6,000 in loans.

College X is obviously offering Kate a better package.

Colleges would like to be able to meet the financial need of every student who applies for aid; however, they aren't always able to do so. Many students, therefore, receive packages that don't provide financial aid equal to their financial need. For example, if a student's need is \$8,000 and his award letter shows a total aid award of \$5,000, then the student has an *unmet need* (or gap) of \$3,000.

Because family financial situations change from year to year, a financial aid package is only good for one year. Parents and students must reapply for need-based aid and complete a new FAFSA each year.

Working with financial aid administrators

Financial aid administrators help families obtain the financial assistance they need.



College financial aid administrators put together financial aid packages for the students who qualify. As a rule, public colleges must follow strict government guidelines when awarding financial aid. Private colleges have much more latitude in how they use their funds and in how they award aid.

Financial aid administrators take a number of factors into consideration when putting together a financial aid package. The cost of the college, the availability of funds, and the desirability of the student are three of the most important factors.

- ▶ **Cost of the college** - One college may cost \$10,000; another may cost \$20,000. The more expensive the school, the more aid the student is likely to receive.
- ▶ **Availability of funds** - Some colleges are very well endowed and have a great deal of money available for financial aid. Other colleges have only limited funds for financial aid.
- ▶ **Desirability of the student** - At one college, a student may be in the top 10% of the applicants. At a more selective college, the same student may be considered an average applicant.

Colleges send award letters to the students who have applied for financial aid. These letters show what the colleges are able to offer, and they explain each part of the student's package (grants, scholarships, work-study, and/or loans).

It is then up to the parent(s) and the student to decide if they want to accept the offer, reject it, or accept parts of it. They could, for example, accept the scholarship and grant, but not the loan.

Cost, availability of funds, and financial aid policies vary from college to college. Financial aid packages, therefore, are often very different in the kinds and amounts of financial aid they include. Because public colleges must put together financial aid packages according to federal and state guidelines, packages from public colleges are likely to be fairly similar. There are often significant differences, however,

between public and private college packages. There can also be significant differences between two private college packages. *Students and parents need to carefully compare the financial aid packages they receive.*

If a financial aid package does not meet a student's financial needs, the family can ask for a *professional judgment review*. The family is much more likely to get their package revised if they can provide documentation showing that their financial situation has changed. Packages may also be revised if a family can show that certain facts weren't taken into consideration when the package was put together (e.g., they are paying a grandparent's medical bills or a parent can no longer work because of an injury). A family can also ask if a specific portion of their package could be revised. They could, for example, ask to exchange some loan money for work-study.

A few colleges may be willing to consider improving a student's financial aid package if the family can show that the student has gotten a better package from a similar school. However, most colleges will never consider improving a student's package for this reason.

Families who ask for a better financial aid package need to remember that financial aid administrators are working with limited funds, and that these funds must be distributed in ways that are fair to all students and consistent with the college's policies and guidelines.



College graduates, on the average, earn over \$1,000,000 more in a lifetime than high school graduates.

College is an investment in the future!