

College Finance 101

.....
Helping You Meet the Costs of
Your College Educations



Are You Eligible For Financial Aid?

To be eligible for federal financial aid, you must:

- have financial need, except for some loan programs.
- have a high school diploma or a GED certificate, or pass a test approved by the U.S. Department of Education (USDE), or meet other standards your state establishes that are approved by USDE.
- be enrolled or accepted for enrollment as a regular student working toward a degree or certificate in an eligible program.
- be a U.S. citizen or eligible non-citizen.
- have a valid Social Security number.
- make satisfactory academic progress as defined by your school.
- sign a statement on the Free Application for Federal Student Aid (FAFSA) certifying that you will use federal student aid only for educational purposes.
- sign a statement on the FAFSA certifying that you are not in default on a federal student loan and that you do not owe a refund on a federal student grant.
- register with the Selective Service if you are a male 18 to 25 years-of-age.
- not recently have been convicted of sale or possession of drugs. Under certain circumstances, drug offenders may not be eligible to receive financial aid for a period of time.

Understanding Financial Aid

The cost of college has risen to the point that the majority of students today must rely on some type of financial aid in order to pursue higher education. Most aid comes from federal government programs. Understanding that rationale of the main federal programs will help you cope with most other sources of financial aid. Other sources include:

- state grants, loans and other help for students who qualify as residents.
- institutional financial aid from colleges and universities and from foundations and donors associated with them.
- private scholarships from businesses, civic and religious groups, fraternal and cultural associations, and corporate and professional organizations.

College Finance 101 will assist you in understanding the basic types of financial aid and how to apply for them.

How The Financial Aid Process Works

You will use information from your tax returns to complete the Free Application for Federal Student Aid (FAFSA). You also will be asked to provide information on untaxed income and assets. Other important considerations include the size of your family and the number of family members (not parents) going to college in the same year. There are several ways to submit a FAFSA:

- mail a paper application obtained from your high school counselor or college financial aid office.
- complete a paper application. Then ask your school to electronically transmit it for you to the U.S. Department of Education (USDE).
- complete FAFSA on the Web at www.fafsa.ed.gov and submit it electronically to the USDE.

If you have questions, or need help completing the FAFSA, contact the Federal Student Aid Information Center at 1-800-433-3243. Mail or transmit your completed FAFSA to the federal processing center. The processing center performs a need analysis to calculate your Expected Family Contribution, which determines your eligibility for federal student aid. The processor will send a Student Aid Report (SAR) to you and to the schools you authorized to receive this information. Mail applications can take from three to six weeks. Electronic applications can take from one to two weeks. Your school will evaluate your SAR, and, if you qualify, prepare your financial aid package. Then it sends you an **Award Letter** which tells you how much and what kinds of financial aid you may receive.

Cost of Attendance

Each institution determines its own cost of attendance budget. This includes both direct educational costs (such as tuition, fees, books and supplies) as well as living costs (room and board, transportation and personal expenses). Financial aid can be applied toward direct educational costs as well as living costs.

Typical College Per Academic Year

(Information published by the College Board in their 2004-2005 Trends in College Pricing)

(9 Months)	4 Year Private		4 Year Public	2 Year
	High	Medium	in State	JUCO
Tuition & Fees	\$25,600	\$15,800	\$5,200	\$2,100
Room & Board	8,800	5,800	6,200	5,700
Books & Supplies	980	850	850	770
Incidentals	2,800	2,000	3,000	2,800
	\$38,180	\$24,450	\$15,250	\$11,370

These figures are for the 2004 - 2005 academic year. Costs at most schools rise 4-to-7 percent per year.

Be Prepared

About one out of every three FAFSA applications is selected for a process known as verification. If you are selected, you may be asked to provide copies of documents such as your (and your parent's) tax returns to validate FAFSA information.

Keep On Top of Deadlines When Applying for Financial Aid and Scholarships

Type of Aid Application	Date Due	Date Filed
Federal Aid (FAFSA) Application		
State Aid Application		
College Aid Application		
College Aid Application		
College Aid Application		
Private Scholarship		
Private Scholarship		
Private Scholarship		

Your Expected Family Contribution

The Student Aid Report will indicate your Expected Family Contribution (EFC) and your eligibility for a Federal Pell Grant. The Pell Grant is the fundamental federal student aid award. But your EFC is the key factor in determining your financial need.

The EFC is the total amount that you and your parents should be able to pay if you are a dependent student. If you are an independent student, your EFC does not include any expected help from your parents. You may be considered an independent student if:

- you are 24 years of age or older;
- you are married;
- you are enrolled in a graduate or professional educational program (beyond a bachelor's degree);
- you have children who receive more than half of their support from you;
- you have dependants (other than your children or spouse) who live with you and who receive more than half of their support for you;
- your parents are deceased, or you are or were (until age 18) a ward/dependent of the court
- you are a veteran of the U. S. Armed Services.

(Check with your college financial aid officer if you have questions regarding your dependency status.)

Your EFC normally remains the same, regardless of what college you attend. The EFC is subtracted from the college's cost of attendance. The difference is your Financial Need - which is the amount of need-based financial aid you may receive. Your financial need is likely to be more at an expensive college, or less at an inexpensive college.

The Formula for Need-Base Financial Aid

$$\text{Cost of Attendance} - \text{Expected Family Contribution} = \text{Financial Need}$$

The Financial Aid Package and Award Letter

The college financial aid officer puts together your financial aid package which is described in an Award Letter. This package is based on your Expected Family Contribution (EFC). But the results are not always “by the numbers.”

The financial aid officer is allowed to use professional judgment which takes into account exceptional circumstances. A death, divorce, change in employment or other significant event may skew your financial need, so the financial aid officer may adjust your need analysis to reflect any exceptional circumstances.

Some Financial Aid is not based on need.

Many scholarships and grants offered are based on merit. Some low-interest federal student loans are available to students and parents who do not have need, although these loans, too, must be certified by the college financial aid office.

If you have need, federal work-study programs provide a paycheck that you may apply to your cost of attendance or that you can use for personal expenses.

Student loans are likely to be part of your financial aid package. Loans, of course, must be repaid with interest, and some loans have more attractive terms than others. For example, with the Federal Subsidized Stafford Loan, the government pays the interest while you are in school. With the Federal Unsubsidized Stafford Loan, you must pay the interest or allow it to accrue (accumulate) and be capitalized (added) to the principal.

If your financial aid package doesn’t seem appropriate to you, it is your right to refuse all or part of it. Before taking that step, you should discuss your concerns with the financial aid officer – and look at the possibility of a different aid package.

When appraising your financial aid package, there are some things to consider. First, examine the particulars in the school’s cost of attendance. Second, check the amount beyond your EFC that the package pays for and the amount it does not cover. Third, look at the amount paid for by scholarships, by work-study, and by student loans. Fourth, examine the terms of the loans that are offered. Finally, analyze how tough the conditions are for renewing your aid in the years to follow.

Making The Right Choice - Compare Your Top Three Schools

	School #1	School #2	School #3	
Cost of Attendance Expenses:				Academic Year (9 Months)
Tuition & Fees	_____	_____	_____	
Room & Board	_____	_____	_____	
Books & Supplies	_____	_____	_____	
Transportation	_____	_____	_____	
Personal Expenses	_____	_____	_____	
Subtotal	_____	_____	_____	
Less Financial Aid Resources:				
Scholarships	_____	_____	_____	
Grants	_____	_____	_____	
Federal Work-Study	_____	_____	_____	
Student loans	_____	_____	_____	
Difference:	_____	_____	_____	

Federal Financial Aid Programs

Federal Pell Grant

This gift-assistance is for students who show exceptional financial need. Award amounts depend on program funding. The maximum award amount for the 2006-2007 school year was \$4,050.

Federal Academic Competitiveness Grant (ACG)

For qualified Pell Grant-eligible students starting July 1, 2006. The Academic Competitiveness grant will provide college students who completed a rigorous course of study in high school with additional funds of up to \$750 during their 1st year and up to \$1,300 during their 2nd year. This is in addition to Pell Grant funds students already receive. Students must meet State Academic Requirements and attend college full-time. 2nd year students must also maintain a 3.0 college GPA. Award recipients must also have graduated from high school after January 1st, 2005. The following website contains a complete list of each states requirements:

<http://www.ed.gov/admins/finaid/about/ac-smart/state-programs06.html>

Federal National SMART Grant

For qualified Pell Grant-eligible students starting July 1, 2006. The National SMART Grant will provide college 3rd and 4th year students majoring in high demand majors in the global economy, such as science, math, technology, engineering and critical foreign languages with additional funds up to \$4,000 a year. This is in addition to Pell Grant funds students already receive. Students must attend college full-time at a 4 year institution and have a 3.0 college GPA. The following website has a complete list of eligible majors:

<http://ifap.ed.gov/dpceletters/attachments/GENO615Attach1.pdf>

Federal Supplemental Educational Opportunity Grant (FSEOG)

Funds from this program generally are given to students who receive Pell Grants and have the lowest EFC. Award amounts can range from \$100 to \$4,000 per year. They depend on when students apply, their level of need, and the funding at their school.

Federal Work-Study (FWS)

This program provides jobs for students with financial need to help them pay for educational expenses. Their pay will be at least the current minimum wage, but it may be higher depending on the type of work and the skills required. FWS awards depend on when students apply, their level of need, and the funding at their school.

Federal Perkins Loan

These loans have the lowest fixed interest rate (5 percent) of any federally backed student loans. During in-school grace and deferment periods, no interest accumulates. Repayment begins nine months after students graduate, withdraw, or are no longer enrolled at least half-time. Eligibility is based on need. The colleges administer these loans, so students will receive applications and promissory notes directly from their schools. The maximum students can borrow in a year is \$4,000.

Federal Stafford Loan

This is the most common of the federal student loans. The interest rate is fixed at 6.8 percent. Repayment begins six months after students graduate, withdraw, or are no longer enrolled at least half-time. There are two types of Stafford loans.

If you show financial need you may qualify for a Subsidized Stafford Loan. During in-school grace and deferment periods, interest will accumulate but the government will pay the interest for you.

If you do not show financial need for the subsidized loan, you will have eligibility for an Unsubsidized Stafford Loan. Eligibility is not based on need, so a financial aid package may not include this loan. However, students can apply for this loan to help pay for any cost of attendance, including indirect costs, that must be covered by their EFC. During in-school grace and deferment periods, interest will accumulate and be added to the principal, unless the student pays for the interest while they are in school.

Notes:

Federal Family Educational Loan Programs

Federal Subsidized Stafford Loan

- Interest rate fixed at 6.8%
- Up to \$3,500 as a freshman
- Up to \$4,500 as a sophomore
- Up to \$5,500 for remaining undergraduate years
- Up to \$8,500 for each year of graduate school

Federal Unsubsidized Stafford Loan

- Interest rate fixed at 6.8%
- Up to \$3,500 as a freshman
- Up to \$4,500 as a sophomore
- Up to \$5,500 for remaining undergraduate years
- Up to \$8,500 for each year of graduate school

(All limits for this loan are minus any amount borrowed in the same year with a Federal Subsidized Stafford Loan)

Note: Independent students, and dependent students whose parents cannot obtain Federal PLUS loans, may use the Federal Unsubsidized Stafford Loan. They may borrow the following amounts with the Federal Unsubsidized Stafford Loan:

- Up to \$4,000 per year for freshman and sophomore years
- Up to \$5,000 per year for the remaining undergraduate years
- Up to \$10,000 for each year of graduate school

Federal Parent Loans For Undergraduate Students (PLUS)

- Interest rate fixed at 8.5%
- For parents of Dependant Students or graduate and professional students
- Good credit history required

A Smart Borrower...

Minimizes debt from student loans.

That means borrowing only the smallest amount that is needed each year. The time and effort you put into searching for other ways to pay for college will pay off in the debt you won't be obligated to repay when you finish school.

Controls borrowing by planning.

With good planning, there will be enough borrowing power to last throughout the years of college. Once you have decided what your educational program will be, you can plan how to pay for it; first, with a minimum of borrowing, and second, so that your eligibility to borrow doesn't run out before you finish school.

Is well informed.

Find out which loans have the best terms and repayment options. Take advantage of grace periods and deferments. See if lenders offer incentives such as reduced interest rates and other rewards for making payments on time.

Looks ahead to the earning power an education provides.

It is a fact of life that employment in some fields pays better than in others. It makes sense to look ahead to see what jobs in your field are likely to pay. Then you can avoid accumulating so much debt that your monthly loan payment takes up too much of your monthly salary. In other words, you can avoid being financially overextended.

Keeps track of all the documents related to financial aid, loans, scholarship awards and conditions, etc.

Keeping documents organized puts important information at your fingertips when you need it in a hurry. That can save you a lot of time and aggravation. Oftentimes it can save you money, too.

How The Federal Stafford Loan Process Works

1. Complete either a Student Loan Data Sheet and/or a Federal Stafford Loan Master Promissory Note application (MPN). In some instances, you might need to complete and return both forms. Your school, guaranty agency, or lender has these forms. The MPN application and promissory note are contained in one document. The promissory note is your promise to repay all the monies you borrow—with interest.

You may receive multiple loans based on the same MPN during the current year and in succeeding years, up to a maximum of 10 years, depending on your school.

2. A guarantor will certify your eligibility and then insure your loan to your lender.

You will receive a Notice of Loan Guarantee and Disclosure Statement that indicates the names, addresses, and phone numbers of your guarantor, lender, and school. It also notifies you of your interest rate, any origination and/or guaranty fees, and the disbursement dates that have been set by your school. This notice is an important document and should be kept with your permanent records.

3. Your loan funds (minus origination, and possibly guaranty fees) are sent directly to your school via Electronic Funds Transfer (EFT) or check. When you sign the check or authorize EFT, you accept the loan and authorize the funds to be applied to your unpaid

school bills. Loan funds are typically sent in two or more installments. The first disbursement may not exceed one-half of the total loan amount. Your next disbursement will arrive shortly before, or during, the next term of the school period.

4. If you are a first-time student-borrower, you must complete Entrance Loan Counseling where your rights and responsibilities are explained to you. In addition, if you are a first-year, first-time borrower, your loan proceeds cannot be disbursed until 30 days after classes begin. Your school will notify you of their disbursement policy.

Keep This Information Handy!

It will be useful when filling out your financial aid forms and student loan applications.

LEGAL NAME (FIRST NAME, MI, LAST NAME)

SOCIAL SECURITY NUMBER

PERMANENT STREET ADDRESS

AREA CODE AND PHONE NUMBER

CITY / STATE / ZIP CODE

DRIVER'S LICENSE NUMBER

LENDER NAME

LENDER CODE

DATE OF BIRTH

Indicate two separate references with different U.S. addresses. The first reference should be a parent or legal guardian.

NAME

NAME

ADDRESS

ADDRESS

CITY / STATE / ZIP CODE

CITY / STATE / ZIP CODE

AREA CODE AND PHONE NUMBER

AREA CODE AND PHONE NUMBER

RELATIONSHIP TO BORROWER

RELATIONSHIP TO BORROWER

For More Information

Start with your high school guidance counselor or the college financial aid office.

To obtain general information about federal financial aid, to check to see if your FAFSA has been processed, or to obtain a copy of your Student Aid Report, call the toll-free number of the Federal Student Aid Information Center between 8:00 a.m. and 8:00 p.m. (Eastern Standard Time), Monday through Friday. The telephone number is 1-800-4-FED-AID (1-800-433-3243).

The toll-free number for the hearing-impaired is 1-800-730-8913.

You can also write to the Federal Student Aid Information Center at the following address:

Post Office Box 84
Washington, D.C. 20044-0084

Be sure to include your full name, permanent address, Social Security Number, date of birth, and signature.

World Wide Web Resources

- NRCCUA
www.nrccua.org
- FAFSA on the Web
www.fafsa.ed.gov
- The Financial Aid Information Page
www.finaid.org
- Federal Student Aid Gateway
<http://federalstudentaid.ed.gov/>
- Federal ACG State Requirements
<http://www.ed.gov/admins/finaid/about/ac-smart/state-programs06.html>
- Federal SMART Grant Eligible Majors
<http://ifap.ed.gov/dpceletters/attachments/GENO615Attach1.pdf>

Federal Tax Incentives for Higher Education

Federal tax law now provides benefits for students and families paying for higher education. Whether you may take advantage of the benefits depends on your individual circumstances, including your income. Be sure to obtain a complete explanation of these tax benefits. Also, you should consult with your tax advisor before you make financial decisions or claim the benefits on your federal income tax returns.

Hope Scholarship Credit

For each student, tax payers may receive a 100 percent tax credit each year for the first \$1,000 of qualified out-of-pocket expenses. They also may claim a 50 percent credit on the second \$1,000 used for qualified expenses. These expenses include only tuition and required fees for most students.

This credit may be claimed for students who are in their first two years of college or vocational school and who are enrolled at least half-time in a degree or certificate program.

Lifetime Learning Credit

A family may claim a 20 percent tax credit for the first \$10,000 of tuition and fees paid each year. Unlike the Hope Credit, this tax credit may be claimed for any number of years. The maximum credit is determined per family, regardless of how many eligible students are in the family. Students must be enrolled in at least one course.

Tuition Deduction

Tuition and related expenses paid to accredited Post-Secondary institutions may be deducted by a taxpayer for the taxpayer's, spouse's, or dependent's college attendance. This deduction is limited to \$4,000 for 2004 and 2005 and must be coordinated with the hope and lifetime learning credits.

Student Loan Interest Deduction

Taxpayers may deduct the interest on the student loans of themselves, a spouse and dependents who were enrolled at least half time when the loans were made. The maximum deduction in 2004 was \$2,500.

Early Withdrawals from IRAS

Taxpayers may make early withdrawals from an IRA without the usual 10 percent penalty. The money must be used for their own qualified education expenses – or those of a spouse, child or even grandchild. Room and board is also a qualified expense if the student is enrolled at least half-time.

There are also tax benefits for Education IRAs, Qualified State Tuition Programs and Employer-Provided Education Assistance. Consult with your school's financial aid office or your tax advisor about these programs.