

Quick Guide to Financial Aid

A few weeks after filing the Free Application for Federal Student Aid (FAFSA), you will receive a copy of your Student Aid Report (SAR) with your Expected Family Contribution (EFC). The prospective college(s) will receive your FAFSA information as well. Each school you applied to will send you a Financial Aid Award Letter, breaking down the college costs and summarizing your eligibility for each type of financial aid. The aid offered in the letter will be based on your demonstrated financial need, which is equal to the Cost of Attendance (COA) minus your EFC. To understand the financial aid process better, here are the key terms you need to know:

Free Application for Federal Student Aid (FAFSA): The FAFSA is a form used to apply for student financial aid from the federal and state government, as well as most colleges and universities. The government uses the information from your FAFSA to determine your expected family contribution (EFC). You can file the FAFSA at www.fafsa.ed.gov.

Personal Identification Number (PIN): A PIN is a 4-digit number used to electronically sign the online version of the FAFSA. The student and parent must each obtain their own PIN at www.pin.ed.gov. The PIN also gives you access to personal records on the US Department of Education web site. Do not share your PIN with anybody.

Student Aid Report (SAR): The SAR is the official notification sent to you about a week after filing the FAFSA online. This document includes your Expected Family Contribution (EFC). The SAR also provides information about the colleges you are considering, such as the graduation rates.

Expected Family Contribution (EFC): The EFC is a measure of your family's financial strength. It is based on the information you submitted on the FAFSA, including income, assets, family size and the number of children in college. Your EFC represents the amount of money the federal government believes your family can contribute toward one academic year of college. It is a harsh assessment of ability to pay, since it does not consider many types of consumer debt, such as credit card debt, student loan debt and auto loans. The actual amount your family ends up paying could be higher or lower than the EFC figure, depending on the sources of aid available to you.

There are two main formulas for calculating an EFC, the federal methodology (FM) and the institutional methodology (IM). The two formulas differ in the types of assets that are included (e.g., family home, assets of siblings), the assumption of a minimum student contribution, the treatment of paper losses, regional differences in cost of living, allowances for educational savings and emergency funds, the treatment of children of divorced parents and adjustments for more than one child in college at the same time. The FM EFC is used for determining eligibility for federal and state aid and financial aid at most colleges. About 250 colleges use the IM EFC for awarding their own financial aid funds.

Financial Aid Package: The financial aid package is a combination of multiple types and sources of financial aid available to you to help pay for college costs. It may include money from the federal government, state government, the college itself and private sources. It can include scholarships, grants, work-study and loans. The financial aid offered by each college may vary and is summarized in financial aid award letters sent by the prospective colleges.

Financial Aid Award Letter: The financial aid award letter is the list of all the aid from multiple sources that you are eligible to receive through your prospective college, including terms and conditions. You are not required to accept every type of aid found in the letter. For example, you could turn down loans. Turning down loans, however, will not increase the amount of grants and/or scholarships you may receive.

Cost of Attendance (COA): The cost of attendance includes the total price of tuition, fees, room, board, textbooks, supplies, transportation and personal expenses for one year of college. This is also known at some colleges as the "Student Budget." There may be separate student budgets for students who live on campus, off campus or with their parents. Some colleges will adjust the cost of attendance to include the cost of a computer, student health insurance and dependent care.

Net Price: The net price or out-of-pocket cost is the bottom line cost of college. It is the difference between the cost of attendance and grants. It is the amount of money you must pay from savings, income and loans to cover college costs.

Types of Aid

There are many different types of financial aid available from federal and state government, college and private sources. The major types of financial aid include:

Grants are awards typically based on financial need that do not need to be repaid. An example is the Federal Pell Grant. Eligibility often depends on your EFC and/or financial need. For example, the Federal Pell Grant is based on your EFC.

Scholarships are awards usually based on achievement or talent that also do not need to be paid back. You can search for scholarships for free at www.fastweb.com. Fastweb adds and updates scholarships every single day, and will send you email notification when there's a new scholarship that matches your personal background profile. Also, your prospective college(s) may offer scholarships based on academic merit and/or financial need. Call the financial aid office to find out which scholarships are available to you and how you can apply.

Federal Work-Study (FWS) provides part-time jobs for students with financial need. The jobs are usually available on or near campus. A list of available jobs can be found at the college's financial aid office or student employment office. Students who don't qualify for a work-study job may be able to find student employment to help pay for college bills or get a little spending money.

Loans are funds that must be paid back, usually with interest. There are federal student loans, federal parent loans, and private or alternative loans. The good news is that interest rates for education loans are currently at historic lows. However, you must demonstrate financial need for some loans, like the Federal Perkins Loan or the Federal subsidized Stafford Loan. Other loans, such as the Federal unsubsidized Stafford loan and the Federal Parent PLUS loan, do not depend on financial need. Private student loans may depend on your credit history. To find out more about loans, visit www.finaid.org/loans.

Education Tax Benefits are available to you and your parents when you file your federal income tax returns based on amounts you paid for college. The most popular education tax benefits are the Hope Scholarship tax credit, Lifetime Learning tax credit and the student loan interest deduction.

American Opportunity Tax Credit provides a federal income tax credit of up to \$2,500 (40% refundable) per student based on the first \$4,000 in postsecondary tuition, fees and course materials paid by the taxpayer during the tax year. The full \$2,500 credit is available to individuals with modified adjusted gross income of \$80,000 or less and to married couples filing a joint return with modified AGI of \$160,000 or less. For more information about the Hope Scholarship tax credit and other education tax benefits, visit www.finaid.org/otheraid.

Public Service Loan Forgiveness (PSLF). Students who work full-time in a public service job for 10 years may qualify to have their remaining debt forgiven. Public service loan forgiveness works in conjunction with income-based repayment. Public service jobs include public school teachers, police, fire, EMT, members of the military, public defenders, prosecutors and others who work for the city, state and federal government, as well as people working for 501(c)(3) tax-exempt charitable organizations. Public service loan forgiveness is available only for federal student loans. Private student loans and Federal Parent PLUS loans are not eligible. To find out more about public service loan forgiveness, visit www.finaid.org/publicservice.

Key Loan Terms

Federal education loans, including both student loans and parent loans, are available direct from the federal government and are administered by your college. Private student loans, sometimes called alternative loans, are available from a private lender (like a bank) and have interest rates and repayment terms set by the lender and not the government. Here are loan terms you need to know:

Annual Percentage Rate (APR): The APR is the overall cost of borrowing money, expressed as an annual percentage of the loan balance. The APR calculates the combined impact of the interest rate, loan fees, capitalization of interest (the addition of unpaid interest to the principal) and other repayment terms.

Cancellation: Some loan programs provide for cancellation (forgiveness) of the loan under certain circumstances, such as death or total and permanent disability of the borrower.

Capitalization: Capitalization is the practice of adding unpaid interest charges to the principal balance of an education loan, thereby increasing the size and cost of the loan. Interest is then charged on the new balance, including both the unpaid principal and the accrued interest. Interest can be capitalized monthly, quarterly, annually or when the loan enters repayment. Capitalization causes interest to be charged on top of interest.

Consolidation: A consolidation loan combines one or more eligible federal educational loans into a single new loan.

Default: Default is the failure to repay your loan according to the terms. It may lead to legal action to recover the money and can negatively affect your credit rating. Private student loans are considered to be in default after 120 days of nonpayment, while federal education loans are considered to be in default after 360 days of nonpayment.

Deferment: A deferment is a postponement of payment on a federal loan that is allowed under certain conditions and during which the government pays the interest on any subsidized loans. The borrower is responsible for the interest on any unsubsidized loans during a deferment. The economic hardship deferment has a three-year limit. Deferments during the in-school period are unlimited.

Forbearance: A forbearance is a period during which your monthly loan payments are temporarily suspended or reduced. Interest continues to accrue and will be capitalized if unpaid by the borrower. You may qualify for a forbearance if you are willing but unable to make loan payments due to certain types of financial hardships. Federal loans have a five-year limit on forbearances. Private student loans typically have a one-year limit.

Interest: Interest is a periodic fee for borrowing money, expressed as a percentage of the loan balance. Interest rates are either variable (the rate can change) or fixed (the rate will not change). The interest rate on a variable rate loan can reset (change) annually, quarterly or monthly.

Loan Fees: Loan fees are one-time charges to originate or guarantee a loan, expressed as a percentage of the loan balance.

Principal: The principal is the full amount borrowed. During repayment, it refers to the portion of the original loan amount still owed (not including interest or fees).

Promissory Note: A promissory note is a binding legal document you sign when you get a student loan. It contains the loan terms and conditions under which you're borrowing and the terms under which you agree to pay back the loan. It may also mention deferment and cancellation provisions available to the borrower.

Subsidized: The government pays the interest on subsidized loans while the student is in school, during the six-month grace period and during any deferment periods. Subsidized loans are awarded based on demonstrated financial need. Note: The government will not pay interest on subsidized loans awarded in 2012-13 and 2013-14 during the six-month grace period. The government will continue to pay interest on these loans during the in-school and other deferment periods.

Unsubsidized: An unsubsidized loan is a loan for which the government does not pay the interest. The borrower is responsible for the interest on an unsubsidized loan from the date the loan is disbursed, even while the student is still in school. Students may avoid paying the interest while they are in school by capitalizing the interest, which adds the interest to the loan balance. Examples of unsubsidized loans include the unsubsidized Stafford loan and the Parent PLUS loans. These loans are not based on financial need or income and may be used to pay for the family share of college costs.

Understanding Your Financial Aid Award Letter

Use this example as a guide to reading your financial aid award letter. Remember, you can choose to accept or decline any part of your financial aid package. If you decide to decline any type of aid, contact the Financial Aid Office. If you have any questions, make sure to contact your prospective college's aid office immediately.

Expenses (COA*)	
Tuition:	\$7,334
Room/Board	\$5,204
Health Fees	\$ 176
Books/Supplies	\$1,015
Personal	\$2,600
Transportation	\$ 900
Total Expenses	\$17,239

*Cost of Attendance (COA): The total expenses (tuition, fees, etc.) of one year's education. Your college may also include indirect costs (books, room and board, transportation, personal expenses, etc.). Our example includes both direct and indirect expenses.

Resources (EFC*)	
Parent's Contribution	
From Earnings	\$2,500
From Assets	\$ 112
Student's Contribution	\$ 500
Total Resources	\$3,112

*Expected Family Contribution: Amount your family is expected to contribute determined by the Free Application for Federal Student Aid (FAFSA).

The amount you end up actually paying for the academic year, could differ from the EFC, depending on what resources are available at the college you decide to attend.

Sample Award Letter Explained

Dear Student:

The results of your Free Application for Federal Student Aid (FAFSA) indicate that you are eligible for financial assistance for the upcoming academic year. We are pleased to offer you the following financial aid award. Please review each type of award before accepting.

Award	Federal Pell Grant (free money)		Option to accept or decline each award		Total
	Fall	Spring	Accept	Decline	
Federal Pell Grant	\$ 625	\$ 625	€	€	\$1,250
Total Direct Loans					\$6,876
Direct Federal Stafford Loan (Subsidized)	\$1,500	\$1,500	€	€	
Direct Federal Stafford Loan (Unsubsidized)	\$1,938	\$1,938	€	€	
Total Financial Aid Package					\$8,126

Federal Stafford Loan – Unsubsidized
 (Interest accrues immediately after loan is disbursed)

Federal Stafford Loan – Subsidized
 (Interest-free until graduation when repayment of interest & principal begins)

What does this mean to you?

Cost of Attendance (COA)	\$17,239
Less Gift Aid (Pell Grant)	- \$1,250
Out-of-Pocket Cost (Net Price)	\$15,989

The out-of-pocket cost (net price) is the difference between the cost of attendance and the gift aid, such as grants and scholarships. It is the amount of money you will have to pay from savings (past income), income and loans (future income). Scholarships and grants will always be the best way to meet the costs of a college education. Search for scholarships at free websites like www.fastweb.com!