

Quick Guide to Financial Aid Terms

A few weeks after submitting your Free Application for Federal Student Aid (FAFSA), you will receive a copy of your Student Aid Report (SAR), and your prospective college(s) will receive FAFSA information as well. Using information taken from your SAR, your financial aid eligibility will be determined. If eligible, each school you applied to will send you a Financial Aid Award Letter, breaking down the cost and 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 Expected Family Contribution (EFC). This may get confusing. To understand the financial aid process better, here are the key terms you need to know:

Free Application for Federal Student Aid (FAFSA): This is the form used by the government to determine the amount of money you and your family can afford to pay for one year. You can file the FAFSA online at www.fafsa.gov.

Student Aid Report (SAR): This is the official notification sent to you that confirms your FAFSA has been processed. This document will include your Expected Family Contribution (EFC).

Expected Family Contribution (EFC): This is a measure of your family's financial strength based on income, assets, family size and number of children in college, which you submitted on the FAFSA. Your EFC represents the amount of money the federal government believes your family can contribute toward one academic year of college. The actual amount your family ends up paying could differ from the EFC figure, depending on the sources of aid available to you.

Financial Aid Package: This is the total aid you are eligible to receive. It can include scholarships, grants, work-study and loans. Aid offered is typically summarized in an award letter and sent to you by your prospective college(s).

Financial Aid Award Letter: This is the list of aid from multiple sources that you are eligible to receive through your prospective college, including terms and conditions. You should be aware that you are not required to accept each 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 you receive.

Cost of Attendance (COA): This figure includes the total price of tuition, fees, room, board, books, 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 off campus, live with your parents, etc.

It should be much clearer to you! Please visit www.finaid.org for more information on the financial aid process.

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 paid back. An example is the Federal Pell Grant. Eligibility often depends on your EFC. For example, the Federal Pell Grant is based on your EFC.

Scholarships are awards usually based on achievement or talent that also do not to be paid back. You can search for scholarships at www.fastweb.com. Fastweb adds and updates scholarships every single day. 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/Student Employment programs provide part-time jobs for students with financial need. Jobs are usually available on- and off-campus and listed with a school's financial aid or student employment office.

Loans are funds 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 federal student loans and parent loans are currently at historic lows. However, you must demonstrate financial need for some loans, like the Federal Perkins Loan or the

subsidized Stafford Loan. Other loans, such as the unsubsidized Stafford loan and the Parent PLUS loan, do not depend on financial need. 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 is an extension of the Hope Scholarship. It is a temporary expansion currently limited to the 2009-2010 tax year. The full credit is available to individuals whose modified adjusted gross income is \$80,000 or less, or \$160,000 or less for married couples filing a joint return.

Loans 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 terms and interest rates set by the lender and not the government. Here are loan terms you need to know:

Interest: An annual charge 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

Annual Percentage Rate (APR): The overall cost of borrowing money, expressed as an annual percentage of the loan balance. The APR combines the interest rate with loan fees, the addition of interest to the principal, which is called capitalization, and the loan repayment terms.

Default: 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.

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

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

Promissory Note: 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 will mention deferment and cancellation provisions available to the borrower.

Forbearance: 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 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.

Consolidation: The process of combining one or more eligible federal educational loans into a single new loan.

Deferment: 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. In-school deferments are unlimited.

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

Capitalization: The practice of adding unpaid interest charges to the principal balance of an educational loan, thereby increasing the size of the loan. Interest is then charged on the new balance, including both the unpaid principal and the accrued interest.

Subsidized: A loan for which the government pays the interest on the loan while the student is in school, during the six-month grace period and during any deferment periods. Subsidized loans are awarded based on financial need and may not be used to finance the family contribution.

Unsubsidized: 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 increases the loan amount. Unsubsidized loans are not based on financial need and may be used to finance the family contribution.



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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, 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 indirect and indirect expenses.

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

*Expected Family Contribution: Among your family is expected to contribute per year, determined by Free Application for Federal Student Aid (FAFSA) results.

The amount you end up actually paying could differ from the EFC, depending on what resources are available at your college.

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	<input type="checkbox"/>	<input type="checkbox"/>	\$1,250
Total Direct Loans					\$6,876
Direct Federal Stafford Loan (Subsidized)	\$1,500	\$1,500	<input type="checkbox"/>	<input type="checkbox"/>	
Direct Federal Stafford Loan (Unsubsidized)	\$1,938	\$1,938	<input type="checkbox"/>	<input type="checkbox"/>	
Total Financial Aid Package					\$8,126

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

Federal Stafford Loan – Subsidized
 (Interest-free until 6 months after graduation when repayment of interest & principal begins)

Sincerely,
Student Financial Services

What does this mean to you?

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

Out-of-pocket cost 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 will always be the best way to meet the costs of a college education. Remember to search for scholarships at free websites like www.fastweb.com!