March 2013

College Financial Aid Demystified

FAFSA—

1. **EVERYONE** should fill out **the FREE Application for Federal Student Aid (FAFSA)** whether you think you will get aid or not. Income is one of 7 factors used to determine aid eligibility. In Pennsylvania, the state grant and award program (PHEAA) uses the FAFSA form as well as their own brief form. Other states have similar programs.
2. FAFSA forms filing **deadline** for most colleges is **February 1** but some have a later deadline. Because these forms usually are completed before the student's or parents tax returns are filed with the IRS, the FAFSA can be completed with estimated numbers and then automatically synched through the website once the tax returns have been filed.
3. In the case of **divorced parents**, the child's financial need is generally based upon the income of the custodial parent or whichever parent the student is living with.
4. For FAFSA purposes, the parent's primary residence home is generally not included counted as potential source for family college contributions. However, equity in rental property and vacation homes can be included.
5. The FAFSA need to be filled out **EVERY YEAR**. There are estimated to be over 1 million students every year that miss out on receiving financial aid.

CSS

The **College Scholarship Service Financial Aid Profile Application (CSS)** was created by the College Board, is required by some colleges and is not free. The CSS application is more detailed and requests additional information taken directly from the prior year's tax filings. The questions tend to be more involved and detailed—an effort to get at the underlying reasons for the numbers on the tax returns, not just the end result. The CSS charges an additional fee to the applicant and a fee for each college you send the CSS data to, while the FAFSA forms are free for the applicant.

What We Have Learned:

1. **ALWAYS BE SURE TO CHECK FOR ERRORS AND OMMISSIONS!!**
2. .If seeking help, be sure the web address has .gov at the end or you may be paying for an application service which is provided for free to the public.
3. The PHEAA grants are distributed depending on the number of applicants and the amount of funding to families earning up to $99,999 per year. The grants in the latest flier list amounts to as much as $5000

FEDERALLY GUARANTEED STUDENT LOANS

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There are generally three types of federal loans, Direct Subsidized Loans, Direct Unsubsidized Loans, Direct PLUS Loans and Direct Consolidation Loans.

The Direct Subsidized loans are based on financial need and have much better terms because the student is not responsible for making payments on the loan while the student is in school and for the first six months after leaving school. These are the least expensive loans to the borrower.
The Direct Unsubsidized loans are available to students without having to demonstrate financial need but the student is responsible for the accrued interest during all periods, but does have to make payments until after graduation. With compounding even low interest rate costs can become substantial during protracted stays in universities as one pursues a graduate degree.

Direct Plus loans are made to the student and the parents of dependent undergraduate students. These loans have a fixed interest rate of 7.9% and have a maximum amount determined is the cost of attendance less any financial aid received. These loans can be deferred while the student is still in school at least half time but the interest will be accrued while the deferment period runs. The other issue related to the Direct Plus Loans are that there is a 4% origination fee on all Direct Plus loans, so these loans may not be suitable vehicles for temporary tuition financing.

<u>There are two federal loan programs:</u>

> **Perkins loans** are need based loans and are available in amounts currently up to $5,500 per year as an undergraduate. This is a federally subsidized loan program but administered by the college or university. These loans do not accrue interest until after graduation. A **Perkins loan carries an interest rate of 5% with a 10 year term** and the college is the lender. Repayment of this loan begins nine months after graduation. In addition there is a series of career options with restrictions which would allow for cancellation or forgiving of the loan either in full or in part. Examples if this are if the student becomes a teacher, nurse or enters certain public service jobs.
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> **Stafford loans** are fixed rate loans that have an interest rate as low as 3.4% for subsidized loans (no payment until six months after graduation) and 6.8% for unsubsidized loans . These loans are based on financial need and awarded based on the FAFSA report. Stafford loans are capped at $3,500 for the first year, $4,500 for the second year and $5,500 for each year beyond with a maximum amount of $23,000. The unsubsidized Stafford loans is awarded on a non-need-based and does not take into account the expected family contribution but may not exceed the total cost of attendance.

The point is that these financial aid programs are more widely available than most people think. **<u>In order to qualify for these loans and other programs you first have to complete the FAFSA forms accurately on time</u>**