
Updated-College Financial Aid Demystified- Including a Graduate School Examination

FAFSA forms must be completed by both undergraduate and graduate students in order to be considered for financial aid and subsidized loans.

For Undergraduate School:

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** for incoming freshman, but some colleges have a later deadline. Financial aid is generally given out on most campuses earlier than later for first year students. 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 is generally not counted as a potential source for family college contributions. However, equity in rental property and vacation homes can be included.
5. The FAFSA needs to be filled out **EVERY YEAR**. In subsequent years, the FAFSA for returning students does not have to be filled out quite as early. 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 OMISSIONS!!**
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 (Pennsylvania State grant) are distributed to Pennsylvania resident students depending on the number of applicants and the amount of funding to families earning up to \$99,999 per year. The grants currently can be as much as \$5000 per year and in some cases can be used in certain out of state schools while pursuing certain fields of study. Other states may offer similar programs to their residents. Students should check with their Financial Aid offices to see availability and eligibility of similar programs from their home states.

FEDERALLY GUARANTEED STUDENT LOANS

There are generally four 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. However, the student is responsible for the accrued interest during all periods of the loan even though the student does not have to make payments until after graduation. With compounding, even low interest rate loans 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 7.21% (plus a one- time origination fee of 4.292%) for funds disbursed July 1, 2015 and have a maximum amount determined by the cost of attendance less any financial aid received. These loans can be deferred while the student is enrolled in school at least half time but the interest will be accrued while the deferment period runs. Because of the 4.292% origination fees on all Direct Plus loans, these loans may not be suitable vehicles for short term temporary tuition financing.

Direct Consolidation Loans are government loans that allow the student borrower to consolidate their various student loans into one single debt with a longer payment period. This usually results in a lower monthly payment over a longer period of time. These loans usually have a fixed interest rate for the life of the loan.

There are two federal loan programs:

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 of these are if the student becomes a teacher, nurse or enters certain public service jobs.

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. Unsubsidized Stafford loans are not awarded on a need-basis and do not take into account the expected family contribution but may not exceed the total cost of attendance.

For Graduate Schools:

Graduate school student loans are more limited than undergraduate schools. Graduate students are regarded as independent adults by FAFSA and as such, they do not need to enter their parents' information on the FAFSA forms, only the tax return of the student (not the parents). Parents however can still claim their graduate student dependents on their tax returns and the FAFSA applications for their other college bound children. **It is strongly recommended that graduate school students talk directly to their Financial Aid offices as most graduate student aid programs (except for loans) are unique to the particular University.**

Graduate school **grants** are generally more limited than undergraduate school programs. Each program will vary from school to school and are generally unique to each university and program of study. Unsubsidized loans tend to be more prevalent in graduate schools than undergraduate because of the difficulty obtaining other forms of graduate aid.

The most attractive loans for graduate school are **Perkins Loans**. These loans are subsidized loans (interest accrues after graduation) which carry a fixed interest rate of 5% for their 10 year repayment period. Perkins loans have a 9 month grace period following graduation. For graduate schools, the limit for a Perkins loan is \$8000 per year with a lifetime limit of \$60,000. Though Perkins loans are in great demand, they have very limited availability in graduate school.

Federal Stafford Loans for graduate schools have higher loan limits for graduate students than undergraduate students. Students can borrow Stafford loans in graduate school up to \$20,500 per year but run up against a \$138,500 cap between graduate and undergraduate school combined. Some medical and health profession students may borrow much higher limits. These loans are unsubsidized (accrue interest while the student is in school) and carry an interest rate fixed at 6.21% for loans made for the 2014-2015 academic year and a 1.073% origination fee.

Rates are now a fixed rate and pegged to the 10-year Treasury note which means that each year will have a different rate based on the current market. The student does not need to make any payments while in school. However, since the loans are unsubsidized, the interest does accrue while the student is in school. Many student's parents try to make the interest payments at least while the student is still in school in order to minimize the compounding effects of the loans. Qualification for the Stafford loan is not based on the credit of the borrower.

Though the academic fiscal year is generally regarded as a fall/spring semester fiscal year, if a graduate student is starting class before the fall semester, the student may be eligible for additional Federal (Graduate) Stafford Loans to cover the summer expenses. For example, if a graduate student has taken a \$5,000 Stafford Loan as an undergraduate student senior, and graduates after the spring semester, he or she may be able to borrow an additional \$15,500 for tuition room and board expenses to cover the summer secession. During the following fall/spring academic year, the graduate student would be eligible to borrow an additional \$20,500 in a Direct Plus loan through the spring semester. However, it is most important to talk to the Financial Aid office in the graduate school the student is planning to attend.

In Summary:

1. **Everyone with a son or daughter attending college should complete the FAFSA form** even if the student and parents believe they will be receiving no aid.
2. Parents with children attending a college or graduate school for the first time in the following fall **should complete the FAFSA forms as close to February 1st as possible.** Best guess income and 1099 forms can be adjusted in subsequent FAFSA updates including syncing with your IRS tax forms. Financial aid is generally given out on most campuses earlier than later for first year students.
3. **Students attending graduate school for the first time should file their FAFSA forms separately and independently from their parent's household income.** Graduate students are looked at as adults and are not dependent on their parents Expected Family Contributions to cover graduate school and as adults, they do not need their parent's help and credit to obtain the most basic financial aid financing.

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