

The backbone of this handbook was written in 2001 by Mark Kantowitz, considered to be a guru of financial aid. It has been edited extensively over the years for relevancy sake and to keep up with the ever changing financial aid world.

- 1 The Best Government Financial Aid Web Sites**
- 2 Overview of Financial Aid**
- 3 Determining Financial Need**
- 4 Consequences of the Need Analysis Formula**
- 5 Don't Assume You Don't Qualify**
- 6 Applying for Financial Aid**
- 7 Beware of Scholarship Scams**
- 8 The Unclaimed Aid Myth**
- 9 General Advice**
- 10 Financial Planning Tips**
- 11 My School Didn't Award Me Enough Aid!**
- 12 Common Questions and Answers**
- 13 Wrap-Up**

## **1      The Best Government Financial Aid Web Sites**

The two most useful free web sites devoted to financial aid and college planning are:

[www.studentaid.web.gov](http://www.studentaid.web.gov)

If you want to see what financial aid officers use go here:

[www.ifap.ed.gov](http://www.ifap.ed.gov) – this site is very technical as it is a professional website, but if you like technical you will love it

## **2 Overview of Financial Aid**

The major sources of money for college are the federal government, the state government, the private sector, and colleges and universities.

Most financial aid programs are "need-based". This means that the amount of aid you receive depends on your financial situation. Most government sources of aid are need-based. Other sources of financial aid are "merit-based", which usually depend on academic, artistic, or athletic talent, and may use your grades, test scores, hobbies, and special talents as awarding criteria.

There are two basic types of financial aid: GIFT AID and SELF-HELP AID. Gift aid is money that does not need to be paid back, and includes GRANTS based on financial need, SCHOLARSHIPS based on academic, artistic, or athletic merit, and FELLOWSHIPS for graduate students based on academic merit. Self-help aid includes LOANS and STUDENT EMPLOYMENT.

Although scholarships are awarded primarily based on merit, the amount of the award may depend on financial need. Scholarships provide funds toward tuition, fees, and other required educational expenses. Most scholarships do not provide funds for living expenses.

Most fellowships provide a stipend for living expenses in addition to funds for tuition, fees, and other required educational expenses. Residential fellowships provide support for a student to use an institution's facilities, such as special library or museum collections. Dissertation fellowships support students while writing the thesis.

Some forms of gift aid, such as ROTC scholarships and certain medical fellowships, require a few years of service in exchange for the financial aid. If one fails to complete the service requirement, then one must pay back the award. But most forms of gift aid do not need to be repaid and do not include a service requirement.

Loans are normally repaid with interest, and may be either a student loan or a parent loan. Some loans do not need to be repaid until the student has graduated or otherwise left school. Some loans include forgiveness provisions for students entering particular professions or serving in national need areas. Loans represent more than half of all financial aid. Most students graduate with \$10,000 to \$20,000 in debt.

Student employment includes federal and state work-study programs, assistantships, and regular part-time employment during the academic year and summer vacation. Numerous studies have found that students who work 10 hours a week do better in school, presumably because the work obligation forces the student to learn time-management skills.

Work-study programs provide employment during the academic year that should be "career oriented", although some students receive gopher-type jobs. The work is typically limited to 10 hours a week, with part of the salary subsidized by the government. Most students who receive work-study jobs are undergraduate students, but graduate students sometimes meet the eligibility requirements.

Teaching Assistantships and Research Assistantships normally provide graduate students with a full or partial tuition waiver and a small stipend and require them to perform teaching and/or research duties.

Most sources of financial aid require that you be enrolled at least half-time, though some awards are restricted to full-time students. There may be other restrictions as well. For example, most federal aid programs are restricted to US citizens, permanent residents, or eligible non-citizens. If you are a US citizen, male, and have reached age 18, you must be registered with Selective Service to receive federal aid.

### **3 Determining Financial Need**

Your school's financial aid administrator calculate your financial need using information supplied by you. If you are classified as a dependent student, as are most undergraduate students, your parents will also be required to supply some information.

Much of this information is contained on the Free Application for Federal Student Aid (FAFSA). The FAFSA must be submitted for you to be considered for virtually all need-based aid, including most federal and state sources of financial aid. Some schools may require the Financial Aid PROFILE (formerly known as the FAF or "Financial Aid Form"), or a supplemental application form for additional information.

Most schools suggest you submit the FAFSA as soon as possible after January 1 of your senior year in high school (the year you'll be starting college) and no later than May 1. The FAFSA should normally be submitted by March 1 for you to be eligible for most state aid. (Do not submit the FAFSA before January 1, or it will be automatically rejected.)

The FAFSA requires financial information for the previous tax year. For example, for the 2010-2011 academic year, you must provide 2009 financial information. Even though you may not be able to complete your federal income tax return until March or April, you should not wait to file your FAFSA until your tax returns are filed with the IRS. Instead, use estimated income information and submit the FAFSA as soon as possible after January 1. This practice is completely acceptable and recommended, especially if you anticipate your family circumstances changing during the subsequent year.

The following documents from both student and parents, as appropriate, will assist you in filling out the FAFSA:

US Income Tax Returns (IRS Form 1040, 1040A, or 1040EZ) for the fiscal year that just ended and W-2 and 1099 forms.

Records of untaxed income, such as Social Security benefits, AFDC or ADC, child support, welfare, pensions, military subsistence allowances, and veterans benefits.

Current bank statements and mortgage information.

Medical and dental expenses for the past year which weren't covered by health insurance.

Business and/or farm records.

Records of investments such as stocks, bonds, and mutual funds, as well as bank Certificates of Deposit (CDs) and recent statements from any money market accounts.

Social Security numbers.

Four to six weeks after you file the FAFSA, you will receive a Student Aid Report (SAR). The SAR summarizes the information you provided on the FAFSA and indicates the Expected Family Contribution (EFC).

The determination of financial need depends on two numbers:

The Cost of Attendance (COA) for your school. This may also be known as the school's "budget".

The Expected Family Contribution (EFC). This is the amount of money your family is expected to contribute to your education.

Your financial need is the difference between the COA and EFC:  $\text{Financial Need} = \text{COA} - \text{EFC}$

The amount of financial aid for which the student is eligible will be based on this number. Your school will try to meet this demonstrated need through a financial aid "package", which combines aid from federal and state sources with loans, institutional grants, and student employment.

Unfortunately, your school may not be able to provide you with financial aid to meet your entire demonstrated

financial need. Many colleges and universities must create a "Unmet Need" or "Need Gap" between the cost of attendance and the amount you can afford to pay because of limited funds. Schools have limited funds available for financial aid, and they must determine how to best allocate the funds to their neediest students. Very few schools can afford to meet the demonstrated need of all their students, so most assume that all students and/or parents must pay a certain minimum amount, regardless of their need. Others give financial aid only to the neediest students. You're expected to obtain the funds for the unmet need or gap through summer or term-time employment earnings and educational loans, including the Federal Parent Loan for Undergraduate Students (PLUS).

Moreover, your financial aid package may be reduced by any "outside resources" you receive. A resource is something that is available because the student is in school, and is normally counted after need is determined. For example, if your parents have contributed money to a prepaid tuition plan, the money received from that plan toward the student's education will be subtracted from the determination of financial need. Other resources include VA educational benefits and outside scholarships. Thus the determination of the school's financial aid package is actually based on

$\text{Remaining Financial Need} = \text{Financial Need} - \text{Resources}$

So even though resources do not affect the size of the Pell Grant the student will receive, they do affect the amount of Stafford or campus-based aid available. They are often counted 100% toward meeting need, and the university will reduce the size of the financial aid package to compensate. Resources represent a direct reduction of cost (e.g., a prepaid tuition plan cuts the amount of tuition the student will pay) and therefore less need.

[A few schools will "reward" students for bringing in outside scholarships by using a portion of the outside funds to reduce the self help level, or by using them to reduce the loan portion of the financial aid package and not the institutional grants.]

The school's "budget" or COA will include tuition, fees, room and board, books and supplies, travel, and personal and incidental expenses. In many cases there is a standard fixed budget amount for some of these categories. For example, the budget amount for travel may vary depending on the student's home state. Likewise room and board expenses may be reduced and travel expenses increased for commuter students.

Budget allowances are used only for determining the estimated expenses that a student will experience during the enrollment period. Actual costs will vary depending on the your particular lifestyle. If special circumstances should warrant a higher budget amount, consult your financial aid administrator, who is permitted to increase your budget, if appropriate, with documentation. For example, students with child care expenses or expenses related to a disability may be able to get their budget increased to compensate. If your books and supplies cost more than the amount in your budget, save your receipts and show them to a financial aid administrator.

The federal formula approved by Congress to calculate the EFC is called the Federal Methodology (FM). The federal methodology is used to determine eligibility for federal funds. If a college or university relies on a different formula for awarding its own funds, that formula is called the Institutional Methodology (IM). Different colleges and universities may use different institutional methodologies.

The EFC is the sum of the student contribution and the parent contribution:

$\text{EFC} = \text{Student Contribution} + \text{Parent Contribution}$

An independent student is not expected to have a parent contribution. To be classified as independent for Federal aid purposes, a student must either be 24 years of age or meet one of the following exceptions

1. be married
2. have a dependent
3. be a graduate or professional student
4. be a ward of the court or an orphan
5. be a veteran

Some schools (mostly private) expect both natural parents to contribute to their children's educational expenses, regardless of a divorce or any court orders to the contrary. In cases of divorce where the custodial parent

remarries, the financial information for both the custodial parent and the step-parent must be included on the FAFSA as well as any child support and/or alimony received from the non-custodial parent.

If a student is classified as independent because of marriage, the spouse's financial information must be included on the form.

The student contribution assesses 35% of the student's assets and 50% of the student's earnings after subtracting a small threshold from the student's earnings.

The parent contribution depends on the number of parents with earned income, their income and assets, the age of the older parent, the family size, and the number of family members enrolled in postsecondary education. Income is not just the adjusted gross income from the tax return, but also includes nontaxable income such as social security benefits and child support. Many colleges and universities still use a parent's home equity as a way of rationing their school's own grant and scholarship funds. Money set aside for retirement in a pension plan such as a 401K, IRA, Keogh, or 403b is usually not counted as an asset. However, the funds contributed to a tax-deferred retirement program during the previous year must be included on the FAFSA as "other untaxed income". In addition, an asset protection allowance shelters a portion of the assets from the calculation of the parent contribution. The parent contribution assesses a maximum of 5.64% of parent assets and 20% to 50% of parent income, after subtracting various allowances.

#### **4 Consequences of the Need Analysis Formula**

The parent contribution is divided by the number of children in college. Changes in the number of family members in college can significantly affect the amount of aid received. For example, even families that are well-off may become eligible for financial aid when two or more family members are enrolled in college at the same time. So parents should not assume that they are ineligible for aid just because they make too much money or own a house.

The assets and income of parents are "taxed" by the federal methodology need analysis formula at a much lower rate than those of the student. This means that it may not be to the advantage of the parents to shift income and assets to their children, despite the tax savings. Generally, no more than 5.64% of a parent's assets (excluding their home equity and retirement programs) are expected to be used for the child's educational costs. For most parents, the first \$40,000 or more of their assets (depending on their age and family size) will be ignored completely in the federal methodology need analysis formula. On the other hand, student assets are "taxed" at 35%, a much higher rate. This suggests that college funds should be saved in the parents' names and not the child's (the difference in aid eligibility wipes out any tax savings from Uniform Gift to Minors Act asset transfers), and spend down the student's assets before using any of the parents' assets to pay for the student's education.

The financial aid award or "package" is based on the assets and earnings for the year before the student matriculates in college. So parents should be careful about financial activity the year before their children enter college. For example, parents who avoid creating capital gains during the child's senior year in high school will be at an advantage in the federal methodology need analysis system. Likewise, they may wish to wait until after the child has entered college to withdraw money from pension plans to pay for college expenses.

## **5 Don't Assume You Don't Qualify**

Don't assume that you don't qualify for financial aid. Virtually all US citizens or eligible non-citizens enrolled at least half-time are now eligible for some form of financial aid, including the Federal unsubsidized Stafford Loan and the Federal Parent Loan for Undergraduate Students (PLUS). Even if you don't qualify for a grant, you may still be eligible for other forms of financial assistance.

Many families don't apply for financial aid because they believe that they earn too much money or own a home, or because their friends and relatives have told them that they won't qualify. They then prevent themselves from getting any aid by failing to apply for it. You don't need to be poor to get financial aid. For example, some loans and scholarships are available regardless of need, and the number of family members in college can significantly affect your eligibility for aid. Also, as mentioned previously, a parents' home equity or retirement programs are no longer considered in the federal methodology need analysis formula. There are several factors in addition to income that are used to determine your eligibility for financial aid, and there is no simple cut-off based on income. Talk to the school's financial aid administrators if you have any questions.

You can't get aid if you don't apply. So you should definitely fill out the FAFSA and apply for financial aid if you feel you may need assistance.

Do not think of the federal student assistance programs as charity. They are designed more as cash flow assistance than a handout, allowing you to spread the expense of college over many years.

It is important to apply for financial aid before admission, even if you think you won't qualify during your first year. For example, the Brown University Guidebook for Undergraduate Financial Aid says

"... it is important that students who plan to apply for admission to Brown apply for financial aid as well if they have reason to believe that the costs of attendance exceed what they and their parents can reasonably be expected to contribute. Only under the most extraordinary circumstances is it possible to grant scholarship aid to first year students who failed to apply for aid before admission. Budget limitations may also preclude the granting of University scholarships to new upperclass applicants."

Moreover, don't apply only to those schools you think you can afford. The more expensive schools may provide larger financial aid packages to compensate for the greater cost of attendance. Do not reject any school simply because of the high cost of tuition and room and board. Tuition and living expenses are like list prices; universities offer financial aid packages as discounts against the list price to bring the cost closer to what you can afford. Compare schools based on the bottom line, not the list price. You may find that the difference in the bottom line is not as significant a factor as you previously assumed. Do not limit your initial choice of schools by the high price tag.

It is, however, a good idea to apply to several different types and costs of schools for insurance purposes. Just as you apply to one or two safety schools that you are sure will admit you, you should also apply to a few schools you are certain you can afford.

Certainly college costs should be one of the factors you consider when deciding where to go to school, but it shouldn't be the only consideration.

Many students and parents avoid the financial aid office, thinking of the financial aid office as "the enemy". Most financial aid office employees are dedicated (underpaid and overworked) professionals who want to help you as much as they can. Their job is to distribute limited funds fairly to all the students. Within their constraints, however, they will do their best to ensure that you can afford to graduate from their university. True, their estimate of what you can afford may not match your own assessment, but they aren't out to get you. They will try to help you if you ask.



## **6      Applying for Financial Aid**

The Free Application for Federal Student Aid is a prerequisite for applying for federal and state aid, as well as many college aid programs. You can obtain a copy of the form from your high school guidance counselor, your college financial aid administrator, or your local public library. You can also complete the form online, at <http://www.fafsa.ed.gov/> and get your results back quicker than with the paper form. Questions about the form should be directed to 1-800-4-FED-AID.

Some colleges will require their own forms, the CSS PROFILE form, or special supplemental forms.

As the costs of postsecondary education continue to grow at a much higher rate than income and inflation the cost of committing an error on any of these forms is also increased. Check with a College Planner or Financial Planner who specializes in college finance, you will probably find the cost well spent. That being said, be careful to make sure that your planner is truly a professional in the field and not a novice.

## **7 Beware of Scholarship Scams**

College costs a lot of money, and there are some companies that try to take advantage of students and parents. The lure of "FREE MONEY" can fool even skeptical people.

Every year there are a few scams based on imitations of legitimate foundations and scholarship search companies. Be cautious if you must pay money to get money -- it almost certainly is a scam. Foundations are set up to give money away, not get it. A \$10 or \$20 application fee may seem rather innocuous, but if the "foundation" receives a few thousand applications, they can pay out a \$1,000 scholarship or two and still pocket a hefty profit, if they give out any money at all. The most common types of scholarship scams are scholarships with an application fee, scholarship matching services that guarantee results, and high pressure sales pitches disguised as a free financial aid seminar.

If you have questions about financial aid or are suspicious about a program, go to your college's financial aid office. (If you are still in high school, ask the financial aid office at a local college for advice.) They can provide you with the accurate and current information, and verify whether a foundation is legitimate.

Be wary of any on line scholarship company as their motives are not as pure as they might seem.

For example all of the following sites are very very profitable as they sell your name and contact information to lenders and other vendors who might not have your best interests at heart, but the scholarship search company is doing quite well.

[www.fastweb.com](http://www.fastweb.com) , [www.scholarships.com](http://www.scholarships.com), [www.freescholarships.net](http://www.freescholarships.net), [www.findtuition.com](http://www.findtuition.com),

Some student loan lenders will own their own scholarship search company and then boast about the fact that their site does not sell any names. Of course they don't, they keep them for their parent company to use, here are some examples:

[www.nextstduent.com](http://www.nextstduent.com)  
[www.brokescholar.com](http://www.brokescholar.com)

Owned by NextStudent  
Owned by Chase Bank

Using these search engines is not bad, however we advise that you first set up a free email account that you only use for this purpose. Additionally, whenever possible do not give out your mailing address.

## **8      The Unclaimed Aid Myth**

You may hear that millions or billions of dollars of scholarships go unused each year because students don't know where to apply, but this simply isn't true.

Most financial aid programs are highly competitive. According to the National Postsecondary Student Aid Study conducted by the National Center for Education Statistics at the US Department of Education, only 1 in 25 students (that's 4%) receive private sector scholarships and the average amount received is about \$1,600.

The most common version of the unclaimed aid myth is that "\$6.6 billion went unclaimed last year". This myth is based on a 1976-1977 academic year study by the National Institute of Work and Learning that estimated that a total of \$7 billion was potentially available from employer tuition assistance programs, but that only about \$300 million to \$400 million was being used. This money goes unused because it can't be used, is a 20-year-old estimate that has never been substantiated, and is not available to the general public. Only eligible employees whose employers offer tuition assistance and who are enrolled in an eligible program can take advantage of such programs. There are no unclaimed scholarships. Popular variations on this myth include the figures \$2.7 billion, \$2 billion, \$1 billion, and \$135 million.

## **9      General Advice**

For information about college-controlled aid, talk to the financial aid administrators at the school. You will find out about any special merit scholarships when you apply for financial aid at the school. A recent trend is for many second tier schools (and even a few top rank schools) to offer non-need merit-based aid to attract top students.

When looking for private sources of aid, use the following sources:

Public Library. Spend a few hours in the library looking at scholarship books. It doesn't take much time and the librarians are knowledgeable and can help you. There may also be a bulletin board with information about local scholarship programs.

Use an on line scholarship search, just remember the advice from the prior section.

The American Legion gives out hundreds of thousands of scholarship books a year that let you research the most common scholarships.

You should also think of any organizations to which you belong that might have aid funds available: religious organizations, fraternal organizations, clubs, athletics, veterans groups, ethnic groups, rotary clubs, unions, and your and your parents' employers. If you are presenting a paper at a technical conference, many conferences have travel funds available to enable students to attend the conference.

When considering whether to use a book, look at its copyright date. You don't want to waste time with a book that is too old, since the information does change. Books about federal student aid should be no more than one year old. Books listing individual scholarships should be no more than three years old.

Always write to the scholarship sponsor for up-to-date information, enclosing a self-addressed stamped envelope for the application materials.

Every high school student should consider checking the "yes" box on the ETS Student Search Service form or the ACT Student Profile Form, releasing your information to scholarship programs. Some scholarship programs, such as the National Merit Scholarship Corporation (NMSC), rely on this information for determining eligibility, and if you don't check the box you won't be considered for the award.

Graduate students who applied for the National Science Foundation (NSF) or Hertz Foundation graduate fellowships as undergraduate seniors should know that they can apply a second time as first year graduate students. If you didn't win a NSF as a senior, ask for a copy of your evaluation forms. Often the evaluations will be rather explicit in identifying the weaknesses in your application, and you can address those areas the second time you apply.

Be very careful not to miss any deadlines. Ask the school's bursar office about the availability of installment payment plans. Many universities will let you spread the cost of tuition out over the full year, instead of requiring you to pay a lump sum up front.

## **10 Financial Planning Tips**

1. Financial planning is the process of designing a plan to meet your financial goals. It involves identifying the goals (e.g., saving for your retirement, paying for your children's education, buying a house), your current position (net worth = assets - liabilities; net cash flow = income - expenses), and the steps you need to take in order to reach those goals. Just knowing how much you spend on monthly expenses can be an eye-opening experience. Given this information, you can then play "what if" games and make better decisions for your future.

It pays to save.

Even though the federal methodology need analysis formula will take parent assets into account when calculating the family contribution, it is still worth saving money for college despite the "savings penalty". Your home equity and retirement savings aren't counted, and an age-dependent asset protection allowance shelters some of your assets from the need analysis. Moreover, parent assets are assessed at a very low percentage rate.

When there are many years before matriculation, you can be more aggressive in your investment strategy. As college approaches, however, you should shift from risky investments like stocks to more secure investments like CDs. Two years before college you should sell the securities in order to avoid realizing the capital gains during the tax year upon which need analysis is computed.

Education is one of the best financial investments you can make. A bachelor's degree yields an increase in lifetime earning potential of nearly half a million dollars according to Census Bureau data. This is equivalent to a 20% annual return on investment.

2. Ask about the impact of a second income on aid eligibility.

If the family's second income is low and introduces additional expenses (e.g., child care), sometimes it is not reasonable for the second parent to work. Examine the tradeoffs very carefully.

3. Don't try to finagle the financial aid regulations and policies.

Many financial aid consultants suggest various ways of taking advantage of loopholes in the financial aid system. Some of these strategies are sound, but others have backfired on the families who follow them. For example, a few years ago some "consultants" advised parents to amend their previous year's tax returns to remove their child as a claimed exemption. The idea was to qualify the child as an independent student when applying for financial aid. Not only can this trigger an audit, but financial independence is not the only requirement for determining independent status. Parents who followed this advice lost a fair amount of money in lost tax savings.

If the advice you receive involves questionable ethics, think twice before following it. There is good advice and there is bad advice. Good tips include spending student assets before parent assets, keeping investments in the parent's name, and reducing family income and assets. Any financial aid administrator will admit that these strategies take advantage of genuine loopholes in the need analysis formula. But there are also strategies that try to circumvent the system, instead of trying to work within the rules. Unethical tips include giving assets to relatives or trusted friends, trying to qualify a truly dependent child as an independent, or providing false information on a financial aid form.

4. Try to bargain or appeal to the financial aid administrator only when the family financial situation has changed significantly or where a great disparity in aid offers suggests that an error has occurred. Some people may recommend trying to bargain with the school's financial aid officer to try to increase the aid offer. There is no case where any of the bargaining is written in stone.

Showing comparisons from one school's aid package to another quite often helps. However, for this to work it is much more beneficial for the student to stand out in one or another. If the student desires to attend a school and is convinced that he or she cannot afford the school; talk to a financial aid administrator at the school. They may be able to help, especially if it looks like they will lose an outstanding student because of a few thousand dollars difference in the aid package. They may, for example, be able to modify your financial aid package so that your outside scholarships reduce the loans and not the institutional grants, or suggest other sources of

financial aid.

5. Don't lie or act in an unethical manner. If the financial aid administrator believes that false information was provided on the financial aid forms, they can require additional documentation or even disallow your claims. Many schools go through a process known as verification, in which a high percentage of their students are required to provide full documentation of every piece of information listed on the financial aid forms.

Read the certification paragraph about providing false information that appears on the front of the FAFSA form. In particular, the FAFSA states that "any person who intentionally makes false statements or misrepresentations on this form is subject to fine or imprisonment or both under provisions of the United States Criminal Code"

That includes the student and his or her parents. If you received funds as a result of providing false information, you will be required to repay those funds, pay fines and possibly be imprisoned.

6. Start looking for aid early. Start planning for your children's education as soon as possible. Most parents wait until the beginning of their child's senior year to start worrying. This is often too late to make a difference. Encourage your children early on in academics and athletics, and start saving as early as possible. There are many sources of financial assistance, but you have to start searching for this aid early. It is never too early to start planning for your children's education.

7. Plan for the cost of education. College costs typically increase at about nearly twice the inflation rate, and will continue to do so while the child is in school. Plan accordingly.

8. Indicating the wrong tax return form on the FAFSA can negatively affect eligibility for some aid programs, such as the Pell Grant. Many parents choose to file the 1040 even though they are eligible to file the 1040A or 1040EZ. Likewise, companies like H&R Block often automatically file the 1040 form, regardless of the AGI or earnings. This can sometimes cause their children to not qualify for the Pell Grant. Parents should ask their tax preparers whether they would have been eligible to file a 1040A or 1040EZ. The question is NOT whether you would have gotten a bigger refund with the 1040, just whether you would have been eligible.

9. When repaying your educational loans, try to make as large a payment as possible. The longer you take to repay the loan, the more interest you will pay. A shorter loan period will save you money in the long run. There is also never a prepayment penalty for paying off a loan early.

If your loans are unsubsidized (i.e., the government does NOT pay the interest while you are in school) or a private loan, try to avoid capitalizing the interest. This can significantly increase the size of the loan, especially if you are in school for an extended period (e.g., for a graduate degree).

Talk to your bank about setting up an automatic payment plan, where a fixed amount of money is withdrawn from your checking account each month to pay for your loan. This may help you manage the repayment, if you find it difficult to avoid spending money while it is in your checking account.

Remember, your student loans will show up on your credit report. Defaulting on your student loans can have serious consequences for your ability to get credit for purchasing a home. Contact the lender before you stop making payments, not after, since you may be eligible for a deferment or a forbearance.

10. Divorce and prenuptial agreements do not shelter funds. Many universities require both natural parents to provide for their children's education. Only when the custodial parent (the parent with whom the child lived the most during the past 12 months) remarries does this obligation shift from the non-custodial parent to the step-parent.

Thus, if your parents are divorced and the custodial parent has not remarried, the income and assets of both (natural) parents must be included on the university financial aid form. This rule holds even if the non-custodial parent refuses to supply the required information. (The financial aid administrator may make an exception in cases of documented spousal abuse or abandonment. In general, however, getting divorced is not an effective means of increasing eligibility for institutional funds.)

If the custodial parent has remarried, the step-parent's income and assets must be included on any financial aid form, including the FAFSA. By step-parent, we mean the new spouse of the custodial parent, not the spouse of

the non-custodial parent. There are no exceptions, even if the step-parent refuses to provide any money for the step-children's support or to supply the required financial information. It may seem cruel, but no information, no aid. If the parent and step-parent do not comply with the reporting requirements, the student is out of luck. It is the student's responsibility to get the parents to cooperate.

Likewise, prenuptial agreements are ineffective at sheltering assets from the calculation of the parent contribution. If a step-parent is being counted in place of a natural parent, then all of that parent's assets should be considered subject to the determination of financial need.

However, any child support and/or alimony received from the non-custodial parent must be included on the FAFSA.

The federal need analysis system treats step-parents as though they were natural parents if

- a. they are married to the custodial parent (the natural parent whose information is being reported on the FAFSA), or
- b. they have legally adopted the student

The step-parent's income must be reported for the entire base year, even if the marriage did not occur until the subsequent year. Likewise, the system does not recognize prenuptial agreements.

## **11      My School Didn't Award Me Enough Aid!**

Most family complaints about insufficient financial aid derive from the practice of "need gapping" described in section 4. There is little that can be done about this, other than applying for scholarships and fellowships, working during the school year and summer, and applying for educational loans.

However, if there is a significant discrepancy between the amount of aid awarded and your financial need, perhaps you didn't bring some special circumstances to the attention of the financial aid administrator. Make an appointment to review your financial situation with a counselor in the financial aid office, especially if your family circumstances have changed since the financial forms were filed. If the circumstances warrant, they may be able to adjust the amount of financial aid for which you qualify. This process is known as Professional Judgment (PJ). For most families, however, the increase will be limited to the amount of educational loans, with the institutional grants remaining unchanged.

There are several special circumstances that families sometimes forget to mention:

1. Affecting the cost of attendance:
  - a. Unusually high supply costs (e.g., art students)
  - b. Child care expenses
  - c. Expenses related to a disability (e.g., Braille machine and readers for blind students, transportation expenses for handicapped students)
  - d. Health insurance for students who are no longer covered by their parents' health plan.
2. Affecting the parent contribution:
  - a. Death of a parent
  - b. Unemployment of a parent for 10 weeks or more
  - c. Change in income due to a change of jobs, a reduction in the number of hours worked, or retirement
  - d. Loss or reduction of alimony and child support received (or an increase in alimony and child support payments)
  - e. Divorce or separation of parents after submission of the FAFSA
  - f. Loss or reduction of disability and unemployment benefits
  - g. Losses due to natural disasters, such as floods, tornadoes, hurricanes, and mine subsidence
  - h. Unusual medical/dental and nursing home expenses
  - i. Child care expenses
  - j. Casualty and theft losses



## **12 Common Questions and Answers**

This section contains a list of common questions with concise answers.

### **General Questions:**

1. I probably don't qualify for aid. Should I apply for aid anyway?

Yes. Many families mistakenly think they don't qualify for aid, and prevent themselves from receiving financial aid by failing to apply for it.

2. Do I need to be admitted before I can apply for financial aid at a particular university?

No. You can apply for financial aid any time after January 1. To actually receive funds, however, you must be admitted and enrolled at the university.

3. Do I have to reapply for financial aid every year?

Yes. Most financial aid offices require that you apply for financial aid every year. If your financial circumstances change, you may get more or less aid. After your first year you will receive a "Renewal Application" which contains preprinted information from the previous year's FAFSA. Note that your eligibility for financial aid may change significantly, especially if you have a different number of family members in college. Renewal of your financial aid package also depends on your making satisfactory academic progress toward a degree, such as earning a minimum number of credits and achieving a minimum GPA.

4. How do I apply for a Pell Grant and other types of need-based aid?

Submit a FAFSA. For student employment, student loans, and parent loans, you should check the appropriate boxes.

5. Are my parents responsible for my educational loans?

No. Parents are, however, responsible for the Federal PLUS loans. Parents will only be responsible for your educational loans if you are under 18 and they endorse your loan. In general you and you alone are responsible for repaying your educational loans.

On the other hand, if your parents (or grandparents) want to help pay off your loan, you can have your billing statements sent to their address. Likewise, if your lender or loan servicer provides an electronic payment service, where the monthly payments are automatically deducted from a bank account, your parents can agree to have the payments deducted from their account. But your parents are under no obligation to repay your loans. If they forget to pay the bill on time or decide to cancel the electronic payment agreement, you will be held responsible for the payments, not them.

Please keep in mind however that the vast majority of private loans will need a co-signor, meaning that at least one of your parents will probably be as obligated as you are for the loan. Additionally, with the 2005 Bankruptcy Law, any education loan debt, including private loans cannot be written off in bankruptcy.

6. Why is the family contribution listed on the SAR different from the family contribution expected by the university?

The federal formula for computing the expected family contribution is different from those used by many universities.

7. If I take a leave of absence, do I have to start repaying my loans?

Not immediately. The subsidized Stafford loan has a grace period of 6 months and the Perkins loan a grace period of 9 months before the student must begin repaying the loan. When you take a leave of absence you will not have to repay your loan until the grace period is used up. If you use up the grace period, however, when you graduate you will have to begin repaying your loan immediately. It is possible to request an extension to the

grace period, but this must be done before the grace period is used up.

If your grace period has run out in the middle of your leave, you will have to make a payment on your student loans.

8. I got an outside scholarship. Should I report it to the financial aid office?

If you are receiving any kind of financial aid from university or government sources, you must report the scholarship to the financial aid office.

Unfortunately, the university will adjust your financial aid package to compensate. Nevertheless, the outside scholarship will have some beneficial effects. At some universities outside scholarships are used to reduce the self-help level. For example, at MIT 40% of the scholarship amount is applied toward the self-help level, and the rest replaces institutional funds. At other universities outside scholarships are used to replace loans instead of grants.

9. Where can I get more information about Federal student financial aid?

Call 1-800-4-FED-AID (1-800-433-3243) or 1-800-730-8913 (if hearing impaired) and ask for a free copy of "The Student Guide: Financial Aid from the US Department of Education". You can also write to

Federal Student Aid Information Center

PO Box 84

Washington, DC 20044

or read the publication on the Department's web site ([www.ed.gov](http://www.ed.gov)).

FAFSA Questions:

1. My FAFSA was submitted over four weeks ago, but haven't heard anything. What should I do?

If you haven't received a Student Aid Report (SAR) contact Collegiate Advisors and we will follow-up for you

2. My parents are separated or divorced. Which parent is responsible for filling out the FAFSA?

If your parents are separated or divorced, the custodial parent is responsible for filling out the FAFSA. The custodial parent is the parent with whom you lived the most during the past 12 months. Note that this is not necessarily the same as the parent who has legal custody. If you did not live with one parent more than the other, the parent who provided you with the most financial support should fill out the FAFSA. This is probably the parent who claimed you as a dependent on their tax return. If you have not received any support from either parent during the past 12 months, use the most recent calendar year for which you received some support from a parent or lived with either parent.

Note, however, that any child support and/or alimony received from the non-custodial parent must be included on the FAFSA.

Financial aid applications can be somewhat confusing because there are several different criteria applied for different kinds of parenthood:

1. The parent with whom the child lived the most during the past 12 months.
2. The parent who provided the most financial support to the child during the past 12 months.
3. The parent who provided more than half the child's support (and will continue to do so).
4. The parent who has legal custody.
5. The parent who claimed the child as a dependent on their tax return.

As noted above, criteria 1 and 2 are used for determining the custodial parent, with the first criteria being primary.

For determining household size (the number of family members), criteria 3 is the most important. However, the student's custodial parent gets to list him or her even if the custodial parent does not provide more than half of the student's support. This leads to the anomalous situation where a student can be counted as belonging to two different households. For example, suppose the non-custodial parent remarries and has college-aged children of his own. If the non-custodial

parent provides more than half of the student's support, he gets to list the student as a member of his household even though the custodial parent has also listed the student as a member of her household. (The IRS tax return instructions prevent this kind of double dipping on tax returns, but the FAFSA instructions do not.)

Criteria 3 is also used to determine whether the student has one or more dependents, in the rules for specifying whether the student is an independent student with dependents.

Criteria 4 and 5 are not used in the financial aid formulas, but are sometimes used to give an indication of the right choice when the other criteria are insufficient. Criteria 5 is also sometimes used to substantiate claims made under Criteria 3. For example, a financial aid administrator may ask a parent for a copy of their tax return, to see whether they claimed the child as a dependent. Criteria 5 usually implies criteria 3, because the IRS definition of a dependent includes a 50% support test. There IRS definition includes a few exceptions where the parent isn't required to provide more than half the child's support in order to claim the child as a dependent, but in almost every case, if the parent could not claim the child as a dependent (criteria 5), they did not provide more than half the child's support (criteria 3).

3. My parents are divorced, and the parent I'm living with has remarried. Does my step-parent have to report his or her income and assets on the FAFSA?

Yes, provided that the parent you're living with is the one filling out the FAFSA (your custodial parent). If your step-parent is married to them at the time you fill out the FAFSA, they must report their income and assets even if they weren't married to them in the previous year.

#### Myths About Financial Aid:

1. Won't the government take away our home if we apply for aid for our children's education?

No. Absolutely not. This myth seems to be pervasive, and causes many families to avoid applying for financial aid. The government does NOT take away your home when you apply for financial aid.

2. All financial aid packages include term-time work, and working while trying to study is bad.

First of all, numerous studies have shown that a small amount of term-time employment (10 hours per week) improves academic performance. Secondly, you can always refuse the work-study aid and pay for the expenses covered by that aid through other means, such as loans and summer employment.

## **13      Wrap-up**

The [www.studentaid.web.gov](http://www.studentaid.web.gov) site includes much more information than could be presented in this brief FAQ. It includes, among other things, a glossary of financial aid terminology, information about the tax ability of financial aid, information about bankruptcy and financial aid, and anything else you might want to know. As always please feel free to contact us at Collegiate Advisors

If you want to report fraud, waste, or abuse of federal student aid funds, call 1-800-MIS-USED (1-800-647-8733) to reach the office of the Inspector General at the US Department of Education.

Selective Service can be reached at 1-847-688-6888.

Immigration and Naturalization Services (INS) can be reached at 1-415-705-4205.

The Internal Revenue Service (IRS) can be reached at 1-800-829-1040.

The Social Security Administration can be reached at 1-800-772-1213.

The National and Community Service Program (AmeriCorps) can be reached at 1-800-94-ACORPS (1-800-942-2677).

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