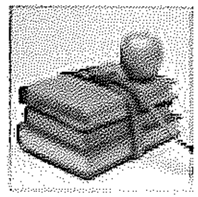

The ABC's of College Funding and Financial Aid

Q: What is financial aid?

A: Financial aid is money given by colleges and federal and state governments to help students pay for college or graduate school. This money is in the form of loans, grants, scholarships, and work-study. Loans and work-study are referred to as self-help aid because they must be repaid either through financial obligation (loans) or service to the college (work-study). By contrast, grants and scholarships are considered gift aid because they do not have to be repaid.

There are two types of financial aid: **need-based and merit-based.** Most financial aid is need-based, meaning it is based on your family's ability to pay. The discussion here focuses on need-based aid.

Q: Who are the players in the financial aid arena?

A: There are many players in the arena when it comes to providing financial aid for your child. Along with you (and your own savings and loans), think of these financial aid providers as pieces of a puzzle that must fit together to create a fully funded college or graduate school education.

Federal government

The federal government is the largest dispenser of need-based financial aid for higher education. The federal government funnels money to colleges and banks, and directly to students for loans, grants, scholarships, and work-study programs.

Colleges

Colleges constitute the second largest provider of financial aid. The money can come from the college's own reserves (private colleges generally have greater endowment funds than public colleges) or from money received from government agencies. A college may also direct students to a particular bank that coordinates loans with that school.

A college that accepts a student who is eligible for financial aid will create a financial aid package for that student. Chances are good that you will get to know the financial aid administrator at your child's college.

State governments

Most states offer financial assistance to state residents, to students attending in-state public schools, and to colleges and banks located within their borders.

Other players

A vast number of corporations, foundations, and associations of all kinds offer financial aid. Regarding grants and scholarships, be aware that most organizations seek students with specific qualifications, backgrounds, and future plans--for example, a Nebraska high school graduate who plans to major in pre-med.

Overview of the financial aid process

To understand how the financial aid process works, you must first understand how your child's financial need is determined. This process is called needs analysis.

Under the needs analysis process, household and financial information submitted on your child's financial aid application is used to calculate your family's expected contribution to college costs. Two primary formulas are used to calculate the expected family contribution (EFC): the federal methodology and the institutional methodology (these formulas will be discussed later in greater detail). The EFC is the minimum amount that a family is expected to contribute toward their child's college costs. The difference between the cost of attendance at your child's college (a variable) and your EFC (a constant) equals your child's financial need. (The cost of attendance at a particular school includes tuition, fees, books, supplies, room and board, transportation, and personal expenses; see Estimating College Costs.)

Example(s): If the cost of attendance at State University is $10,000 per year and your family's EFC is $3,000, then your child's financial need would be $7,000.

The total amount of need-based financial aid offered by a college to a student cannot exceed the student's financial need. So, in the above example, the child's financial aid package may not exceed $7,000. In addition, a college is not obligated to meet 100 percent of your child's need. If a college meets only part of your child's financial need (as is the practice at many colleges), then you have been "gapped" by the college. The remaining portion is called unmet need, and you are responsible for meeting it.

Example(s): Assume that your child's financial need is $7,000. State University offers your child $5,000 of financial aid. The result is an unmet need of $2,000. So, your family would be responsible for both the EFC of $3,000 and the unmet need of $2,000.

Q: What are the two formulas for calculating my family's expected contribution (EFC)?

A: The two primary formulas for calculating the EFC are the federal methodology and the institutional methodology.

Federal methodology

The federal methodology was created by Congress and is used by the federal government to calculate your EFC to determine eligibility for federal financial aid programs. The federal methodology is also used by colleges when federal funds are being distributed. It is codified in the Free Application for Federal Student Aid (FAFSA) form.

Institutional methodology

The institutional methodology is an alternative to the federal methodology. It is administered by the College Scholarship Service, a private company based in New Jersey that provides educational services to colleges and the public. The institutional methodology is used by some 3,000 colleges to calculate your EFC when the college's own private funds are being distributed. So, a college may use the institutional methodology to distribute its own funds and the federal methodology to distribute any federal financial aid funds at its disposal. You submit your information for the institutional methodology on the PROFILE form application rather than on the FAFSA.

In some instances, a college will not use the institutional methodology when distributing its funds, but will use its own individual formula. In this case, you will need to obtain the college's particular financial aid application form.

There are differences in the way the EFC is calculated under the federal methodology vs. the institutional methodology (discussed in greater detail below). As a general rule, the institutional methodology digs deeper into a child's financial background than the federal methodology because colleges want to make sure that their own funds go to the neediest students.

Q: How exactly is my EFC calculated under the federal methodology?

A: The federal methodology examines a family's income, assets, and household information to calculate the EFC. Since the majority of students are dependent, the discussion here focuses on dependent students and their parents, except where noted. To determine your dependency status, see the section below entitled What are the Steps in Applying for Financial Aid?

Income

The income component of the federal methodology consists of the adjusted gross income (AGI) of both parents and student from the previous tax year, plus any untaxed income and benefits, minus any applicable deductions. For independent students, only the student's AGI and untaxed income and benefits are counted, along with those of a spouse, if any. The previous tax year is known as the base year. For example, the base year for the 2003/2004 academic year is 2002.

The AGI figure is simply taken from a line on your federal tax return. The untaxed income and benefits portion is a bit trickier. The major untaxed income and benefits that must be added back to your income for financial aid purposes include (see the FAFSA for others):

- Deductible retirement plan contributions made in the base year
- Tax-exempt interest income (e.g., municipal bond interest)
- Untaxed Social Security benefits
- Child support received
- Earned income credit
- Workers' compensation
- Disability payments
- Welfare benefits

After a total income figure is determined, certain deductions can be taken. An example of a deduction is any federal and state taxes you paid in the previous year, including Social Security taxes and any taxable work-study earnings (see the FAFSA for more deductions). Perhaps the two most important deductions, however, are the income protection allowance and the employment expense allowance. The income protection allowance is an allowance for shelter, food, clothing, car maintenance, insurance, and basic medical care. For students, the allowance is a standard amount--$2,380 for the 2003/2004 academic year. For parents, the allowance depends on the number of household members. For the 2003/2004 academic year, the income protection allowance for a family of five is $24,440.

The employment expense allowance is an allowance for employment expenses that is calculated by multiplying the lesser of the earned income of the mother or father by 35 percent (or of a single parent who qualifies as a surviving spouse or head of household). The maximum employment expense allowance for the 2003/2004 school year is $3,000.

Example(s): Assume Mom had earned income of $40,000 and Dad had earned income of $7,000 in one year. Their employment expense allowance is $2,450 ($7,000 x 35%).

In addition, the FAFSA will ask you for the amount of any education tax credits (Hope credit and Lifetime Learning credit) you took in the base year in order to provide offsets for them.

A student's total financial aid income (AGI plus untaxed income/benefits minus deductions) is assessed at a 50 percent flat rate under the federal methodology formula.

Example(s): Joe's total financial aid income is $4,000. He will be expected to contribute $2,000 to college costs.

Assets

The federal methodology counts some assets and excludes others in arriving at your EFC (these assets are called assessable or non-assessable assets). Your assets for financial aid purposes are those you own at the time you sign the FAFSA. The more assessable assets your family has, the more money your family will be expected to contribute toward college costs.

The following assets are not included in the federal methodology:

- Annuities
- Cash value life insurance
- Retirement accounts (e.g., IRA, 401(k), Keogh, SEP)
- Personal items (e.g., car, clothes, furniture, household items)

- Home equity in primary residence
- Family farm

Assessable assets are all other assets of the parents and student. These include items such as checking and savings accounts, money market accounts, certificates of deposit, stocks, bonds, mutual funds, U.S. savings bonds, tax-exempt bonds, custodial accounts, trusts, limited partnerships, vacation homes, investment properties, and business and farm assets. After total assets are determined, you can then offset these assets with any investment or real estate debt (e.g., a mortgage on an investment property or a margin account loan with your broker).

Example(s): Assume the Noodle Family has an IRA worth $100,000, an annuity worth $500,000, $60,000 in home equity, and a checking account worth $1,000. Their total assets under the federal methodology are $1,000.

An important note to keep in mind is that the federal government does not care about any consumer debt you may have. In other words, your assessable assets are not reduced by the amount of your outstanding consumer debt.

Example(s): The Bensons have $100,000 in stocks, an IRA worth $50,000, and $75,000 in long-term debt. Their total assets are $100,000 under the federal methodology.

The Carlins have $20,000 in Series EE bonds (which may also be called Patriot bonds), an IRA worth $150,000, a $300,000 cash value life insurance policy, and no consumer debt. Their total assets are $20,000 under the federal methodology.

Technical Note: Regarding trust funds and custodial accounts, the income is valued as of the base year (the year before the FAFSA is submitted) and the assets (corpus) are valued as of the date the FAFSA is signed. If a trust has more than one beneficiary, only that portion attributable to the student or parent is reportable. You may need to consult a financial professional to determine income and asset values for trust funds and custodial accounts.

When a family's total assessable assets are determined, the federal methodology grants parents an asset protection allowance that enables them to exclude a certain portion of their assets from consideration. The asset protection allowance varies depending on the age of the older parent at the time the student applies for aid (the older the parent, the greater the allowance).

For the 2003/2004 academic year, the asset protection allowance for a family where the older parent is age 49 is $46,600. The exact amount of your asset protection allowance is easily obtainable from a chart that accompanies the FAFSA. Students do not receive an asset protection allowance. When a final asset figure is reached for parents and student, parents must contribute a maximum of 5.6 percent of their assets toward college costs and the student must contribute 35 percent of his or her assets toward college costs.

Example(s): The sum of $50,000 in your child's bank account equals a $17,500 expected contribution to college costs ($50,000 x 35%), whereas the same $50,000 in the parents' account equals a $2,800 contribution ($50,000 x 5.6%).

Tip: There is one situation in which the federal methodology does not factor in any assets of parent or student. This is when the parents' AGI (or an independent student's AGI) is below $50,000 and the parents are eligible to file a 1040EZ or 1040A. In this case, the EFC is calculated using only income under the Simplified Needs Test. The result is generally a lower EFC and thus more financial aid.

Caution: Although you qualify for the Simplified Needs Test under the federal methodology, colleges and your state may still require you to list your assets in order for you to be eligible for college or state funds.

Household information

If the parents are both living and married to each other, the income and asset information for both parents is listed on the FAFSA. If the parents are living together but not formally married, they should file the application as if they are separated (see below), unless their state recognizes common law marriage.

If the parents are separated (living apart for an indefinite period) or divorced, then only the income and assets of the parent with whom the child lived the majority of time during the past 12 months is listed on the application. If the parent has remarried, then the stepparent's income and assets are listed on the application as though this person were the natural parent; the noncustodial parent's income and assets are not listed.

Tip: Under the federal methodology, the federal government does not recognize legal agreements that absolve a stepparent from contributing to college costs or that make the noncustodial parent responsible for college costs. Under the institutional methodology, however, colleges may inquire about the resources of the noncustodial divorced parent or ignore the resources of the stepparent.

On a related note, legal guardians are no longer included on the FAFSA, which means their income and assets are not automatically included. A student whose parents are deceased will be considered an independent student, regardless of any legal guardianship. By contrast, a student whose parents are living will file as a dependent student, but the FAFSA will reflect the financial information of the appropriate parent(s) rather than the legal guardian, unless the financial aid officer exercises "professional judgment."

The federal methodology also requires you to list the number of people in the household whom the parents will support between July 1 and June 30 of the upcoming college year. This includes the student, parents, siblings, an unborn child, and others who get more than half their support from the parents and who will continue to get this support in the upcoming college year. From this number, students must also report the total number of household members enrolled in college in the same year. The student is always counted. In addition, parents and other siblings are counted if they are enrolled at least half time in a program leading to a degree or certificate.

Tip: If additional household members are in college, the EFC is greatly reduced. Specifically, the parents' total EFC is divided by the number enrolled in college.

Example(s): The Smart Family's EFC is $6,000. They will have two children enrolled in college in the same year, a freshman and a sophomore. As a result, their EFC for each child is $3,000.

Q: Are there steps you can take to reduce your EFC under the federal methodology?

A: Yes. There are legitimate steps you can take to position your income and/or assets in such a way as to enhance financial aid eligibility under the federal methodology. The idea is to lower your EFC, which, in turn, raises your child's aid eligibility. Examples of these strategies include deferring income and bonuses, avoiding the sale of investments that will result in capital gains in the base year, and paying down consumer debt. It should be noted that these suggestions are legal and are not meant to subvert the financial aid system in any way. To implement these suggestions, you should become familiar with them at least a couple of years before the year you complete the FAFSA.

For more information on these steps, see the discussion Positioning Your Income/Assets to Enhance Financial Aid Eligibility.

Q: In what ways does the institutional methodology differ from the federal methodology?

A: There are several differences in the way the EFC is calculated under the federal methodology (FM) vs. the institutional methodology (IM).

Regarding the institutional methodology, some of the negatives are:

- The IM formula does not recognize a simplified needs test for parents whose incomes are below $50,000.

- The IM formula requires a minimum student contribution from the student's income and does not grant students an income protection allowance.

- The IM formula includes home equity and family farm assets in its calculations (and may require parents to borrow against it before aid is distributed).

- The IM formula requires parents to report any savings accounts in the names of the student's siblings (to discourage the shifting of assets among siblings) and requires students to list any retirement accounts they have.

- The IM formula requires parents to report how much they contribute to flexible spending accounts for child care and medical care.

- The IM formula requires parents to report how much money they expect to earn in the coming year. Similarly, students must report any outside scholarships they expect to receive and any relative's contributions.

- The IM formula (at a college's discretion) may only allow dependent children (not parents) to be counted as members of the household enrolled in college.

- The IM formula (at a college's discretion) may not allow losses from tax return Schedules C, D, E, or F that lower AGI and may not allow certain depreciation expenses.

- The IM formula (at a college's discretion) may require business or farm balance sheets for the prior two years, and detailed projections of future income.

On the positive side:

- The IM formula includes an allowance against income for any unreimbursed medical expenses that exceed 4 percent of the parents' financial aid income

- The IM formula (at a college's discretion) may have an allowance against income for the private school tuition of other household members and for a parent's own student loans

- The IM formula (at a college's discretion) may consider a noncustodial parent's assets and income

Q: What are the steps in applying for financial aid?

A: There are several steps in the financial aid application process:

Step 1: The first step is for your child to apply to and be accepted by (hopefully) a number of colleges. This allows your student to compare and negotiate financial aid awards from several colleges. Keep in mind that the financial aid timeline and the admissions timeline are different. For more information on the admissions timeline, see the discussion Applying to College.

Caution: From a financial aid perspective, it is often recommended that students not apply to college on an early-decision basis. The reason is that if a college knows the student is committed to the college, it may be less inclined to award a favorable financial aid package. In addition, the student will have to examine and respond to the financial aid award before receiving awards from other schools.

Step 2: The next step is to file the appropriate financial aid applications by the stated deadlines. Unfortunately, you must apply for financial aid at each school before you learn whether you have been accepted for admission at that school. Note that students must reapply for financial aid each year.

The two basic financial aid applications are the (1) FAFSA and (2) the PROFILE. The FAFSA is used by the federal government and colleges when federal financial aid funds are being distributed; it calculates your EFC under the federal methodology. The PROFILE is used by most colleges (approximately 3,000) when their own funds are being distributed; it calculates your EFC under the institutional methodology. In addition, some colleges use their own institutional aid forms in place of the PROFILE. If so, you will need to obtain a copy of that application from the financial aid officer at that particular college.

There are actually three different types of FAFSAs: (1) for dependent students, (2) for independent students without dependents (a spouse is not considered a dependent), and (3) for independent students with dependents. The federal methodology will vary slightly depending on what form is used. The main difference is that the dependent student FAFSA uses both parent and student financial data to arrive at the EFC, and the two independent student FAFSAs do not use parental data to arrive at the EFC.

To fill out the correct FAFSA, you must first determine your child's dependency status. A dependent student is one who is at least partially dependent on his or her parents for support. If your child is just graduating from high school or less than 24 years of age, most likely he or she will be classified as a dependent. By contrast, an independent student is not dependent on parental support. The federal government considers you independent if you meet any one of the following conditions:

- You are 24 years of age by December 31 of the award year
- You are an orphan or a ward of the court, or were a ward of the court until age 18
- You are a veteran of the U.S. Armed Services
- You are married or have legal dependents other than a spouse
- You are a graduate or professional student
- You are deemed independent in the professional judgment of the financial aid administrator (FAA) based upon documented unusual circumstances

Tip: Most states and colleges go beyond this federal test when determining whether you are truly independent. For example, they may ask for written proof that your parents are unable to provide you with any financial support whatsoever. Once you have determined your dependency status, you can then obtain the correct FAFSA. The FAFSA is available at high school guidance offices or college financial aid offices. The earliest date it can be filed is January 1 in the year your child will be attending college. This is because the application relies on your previous year's tax return. The federal deadline for filing the FAFSA is June 30, but many colleges have an earlier deadline. There is no fee for submitting the FAFSA.

Tip: Parents should submit the FAFSA as close to January 1 as possible because many financial aid programs operate on a first-come, first-served basis. Because most parents have not yet completed their federal income tax returns by early January, it is recommended that parents hire a professional tax preparer to complete an estimated income tax return, a practice the federal government considers acceptable. However, parents will still need to complete their final income tax return as soon as possible because the college will likely require a copy at the time it prepares the student's financial aid package.

When it's complete, a FAFSA can be filed in four ways: (1) manually completing the form and mailing it to the regional processor listed on the form, (2) filing electronically through the college (not all colleges have this capability), (3) filing electronically using the U.S. Department of Education's FAFSA Express software (this software can be downloaded from the Internet at www.ed.gov, and (4) filing on the Internet by contacting www.fafsa.ed.gov.

Paper FAFSAs take approximately four to six weeks to process; electronic FAFSAs take only one week. However, if you file an electronic FAFSA, you still need to print out the certification page, sign it, and mail it to the designated processor within 21 days of transmitting your data (or the processing of your application will be delayed).

The PROFILE is available at high school guidance offices, college financial aid offices, or on the Internet at www.finaid.org. Like the FAFSA, there are three different PROFILE applications that depend on whether you are a (1) dependent student, (2) independent student without dependents, or (3) independent student with dependents. You determine your dependency status the same way as for the FAFSA. Also like the FAFSA, each college may have its own deadline for filing the form.

Unlike the FAFSA, there is a processing fee for filing the PROFILE application. In addition to the FAFSA and PROFILE forms, you will also need to submit any other financial aid applications (college or state) to the appropriate institutions at this time.

Step 3: Four to six weeks after the FAFSA is filed (one week if you filed your FAFSA on-line), your family should receive a Student Aid Report or SAR (or Acknowledgment Report when the PROFILE is filed). This form indicates your EFC in the upper right-hand corner of page one of the report. For example, "EFC6000" means that your expected family contribution to college costs is $6,000. The SAR will also be sent to each college you listed on the FAFSA.

You should review the SAR to make sure the EFC was calculated using accurate information. Any corrections should be made immediately and sent back for reprocessing (e.g., updating estimated tax information, arithmetic errors, or clerical errors).

Tip: If there is an asterisk (*) next to the EFC reported on the SAR, your family has been chosen for verification. Verification can range from providing tax returns and household information to providing appraisals for certain assets listed on the FAFSA. Don't take it personally if you are chosen--nearly 30 percent of all FAFSAs are verified.

Step 4: After you (and the colleges) receive the SAR, the college's financial aid administrator (FAA) goes to work. The administrator subtracts your EFC from the cost of attendance at that particular college to arrive at your child's financial need. The FAA then attempts to create a financial aid package to meet that need. The package will include various combinations of loans, grants, scholarships, and work-study programs (the type and order of financial aid resources typically used to fulfill a student's financial need is discussed in greater detail below).

Tip: Your goal is to have your child's financial need met with the highest amount of gift aid (scholarships and grants) and the least amount of self-help aid (loans and work-study). Private colleges tend to provide more gift aid than public colleges so they can better compete with their less expensive counterparts. As a guide, the average financial aid package consists of 60 percent loans that must be paid back. Unfortunately, as college becomes more and more expensive, the trend is to meet a student's financial need with a higher percentage of loans than gift aid.

Caution: As mentioned previously, colleges are not obligated to meet all of your child's financial need. Colleges have limited financial aid budgets and tend to offer the most aid to those students who meet their specific enrollment goals (e.g., improve the women's hockey program or the debating team). If the college does not meet all of your child's needs, then you have been "gapped" and you are responsible for the shortfall.

What does it take for a college to bid aggressively for your child? At the Ivy League and other top-tier institutions, it takes top grades at a good high school, top SAT scores, and some other quality such as athletic or musical ability. At the second- and third-tier private schools, the best aid packages go to those students who are 100 points above the SAT average and two-tenths to four-tenths of a grade point ahead.

Step 5: Sometime in March or April, the FAA notifies the student of the financial aid package in an award letter (the student must first be accepted to the college). The award letter states the specific amount and type of financial aid being offered, and a date by which the letter must be returned.

You may accept, decline, or attempt to renegotiate any part of the financial aid award. It is important to reply by the required date because otherwise your child's award will be cancelled and the money freed up for some other student. Note that accepting the award does not commit your child to attending that school; it just safeguards the award.

Ideally, students will want to have all of their award letters from various colleges on hand before making a decision. This is sometimes easier said than done, however. The financial aid process and the admissions process operate on different schedules, and occasionally students must make a decision to enroll at a particular college before they know the contents of their award letter. Similarly, a student may not have received all of his or her outstanding award letters before being called on to make an acceptance decision at a college from which an award letter was received. In either case, the student or parent should contact the appropriate FAA to see if you can expedite the consideration of the aid package.

Step 6: If you want to appeal all or part of your child's financial aid award, follow the instructions in the award letter. This usually involves a polite business letter to the FAA and a follow-up telephone call or meeting.

The process of renegotiating your child's financial aid package has been much publicized as of late, with descriptions ranging from haggling to dialing for dollars. Rare a decade ago, negotiating is now so much part of the picture that some colleges have set aside funds specifically for maneuvering at season's end. Some educational professionals have criticized this process on the grounds that those parents that yell the loudest reap the biggest rewards. This is not necessarily true. In fact, you'll do much better if you approach the FAA without carrying a big stick.

Your chances of successfully renegotiating your child's aid package are best if you can document a special circumstance that affects your ability to pay the EFC (rather than a simple plea of inability to pay). Such special circumstances may include the recent death or disability of a parent, divorce, prolonged unemployment, unusually high medical expenses, or a natural disaster than destroyed certain assets. In addition, more obscure circumstances may be the reason for negotiation. For example, your income on last year's tax return may have been higher than usual because you converted a traditional IRA to a Roth IRA or because you received a one-time windfall, such as a special bonus, insurance settlement, or inheritance. Make sure to document any change with the appropriate paperwork.

In addition to a special family circumstance, many parents and students attempt to play one college's aid package against another college's aid package. This strategy has the best chance of success if College A and College B are direct competitors and you have the qualities that College A is looking for. If College A is an Ivy League school and College B is a small state university, chances are that one will not be persuaded by the aid package of the other. As a matter of fact, public institutions rarely haggle, so your best chances for a deal will be at one of the approximately 1,600 private colleges.

Keep in mind that the college market, like the housing market, can be a seller's market or a buyer's market, and that this can affect the negotiation process. The seller's market of the 1960s and 1970s (crammed with baby boomers) has given way to a buyer's market where there are more spaces than students. So, colleges need to bargain to attract the brightest of the lot. Unfortunately, the current buyer's market will change in the future. By 2008, when Generation Y comes of age, it's estimated that there will be 3.2 million high school seniors vying for college slots. At that time, the outcome of financial aid negotiations may be different.

Q: What types of financial aid programs will you be eligible for?

A: There are several types of financial aid programs (for more information, see Financial Aid: Loans, Financial Aid: Grants, Financial Aid: Scholarships, Financial Aid: Work-Study). The most common financial aid programs are those offered by the federal government. The main federal programs are as follows:

Pell Grant and Supplemental Educational Opportunity Grant (SEOG)

The Pell Grant is available to undergraduate students. It is an entitlement program, which means the grant is available to all students who qualify.

The SEOG is reserved for undergraduate students with the most financial need (Pell Grant recipients are given priority). The SEOG is a campus-based program, which means that each college receives a limited amount of money for this program and the FAA at each college decides which students will receive this grant. Once the funds are awarded, there are no more until the following year. This is an example of a first-come, first-served program.

For more information, see the discussion Financial Aid: Grants.

Stafford Loan, Perkins Loan, and PLUS Loan

The federal Stafford Loan is a low-interest loan made to both undergraduate and graduate students. Your lender can be either the federal government or a private financial institution, depending on which lending program a particular college participates in. The interest rate is set each June.

A Stafford Loan may be subsidized or unsubsidized, depending on whether you have a financial need. With a subsidized federal Stafford Loan, the federal government pays the interest on the loan while you are in school, during deferment periods, and for six months after you leave school. Like the Pell Grant, the subsidized Stafford Loan is an entitlement program and is thus available to all students who qualify. With an unsubsidized federal Stafford Loan, you (not the federal government) are responsible for paying the interest during the school year and deferment periods. Regardless of whether the loan is subsidized or unsubsidized, there are limits on the amount of money that can be borrowed each year, as well as limits on the total debt that may be incurred.

A Perkins Loan is a low-interest loan available to both undergraduate and graduate students with the lowest EFCs. Like the SEOG, the Perkins Loan program is campus-based, which means each college receives a certain amount of money for this program, and you borrow the money directly from the college. When the funds run out, there are no more until the following year. This loan is subsidized; that is, the federal government pays the interest while you are in school, during deferment periods, and for nine months after you graduate.

The PLUS Loan (Parental Loan for Undergraduate Students) is a non-need-based program; that is, you can qualify without financial need. The loan is for parents with good credit histories who want to help pay for their child's education. Parents are eligible to borrow up to the full cost of their child's education, minus the EFC and any other financial aid received. This loan is obtained through financial institutions and its interest rate is set each June.

For more information on these loans, see the discussion Federal Student Loans.

Work-study

The federal work-study program is a need-based program that subsidizes jobs for both undergraduate and graduate students. Like the SEOG and Perkins Loan, the federal work-study program is campus-based. The funds are distributed on a first-come, first-served basis. Often, these jobs involve community service work and can be related to your course of study.

For more information, see the discussion Financial Aid: Work-Study.

Q: Do colleges award financial aid resources in a specific order?

A: Generally, yes. Colleges usually fulfill a student's financial need by awarding financial aid resources in the following order:

- Federal Pell Grant (for those students who qualify)
- State grant
- Federal Stafford Loan (subsidized)

- Company and organization scholarships and grants, military financial aid programs, or any other outside financial aid resources

- Perkins Loan, SEOG, or federal work-study (funds for these programs are allocated to colleges by the federal government for allocation to students; whether a student receives any of these funds depends on timing of application, financial need, and availability of funds)

- College grant or tuition discount (at the college's discretion)

Although this is the typical order, it may vary according to the availability of funds at a particular college and/or the particular student's merit. The more merit a student has, the better types of financial aid he or she will likely receive (e.g., less loans, more grants).

Q: Should you apply for financial aid even if you don't think your family will qualify?

A: Generally, the answer is yes. No matter how high your income or asset base is, your family should apply for financial aid. At the very least this means filing the FAFSA. In addition, you may choose to file the PROFILE or other individual college application. There are a few reasons for this suggestion.

First, it can be difficult to predict whether your child will qualify for financial aid without actually filing the FAFSA because the federal government's eligibility criteria for certain aid programs may change unexpectedly from year to year. Second, some financial aid programs are not based on need--such as the federal government's PLUS Program and certain state programs--yet you must still file a FAFSA to be eligible to borrow funds. Third, you really lose nothing (except a few hours of your time) for filing the FAFSA because it is a free form that costs nothing to process.

Although the PROFILE application does have a processing fee, it is a small investment to make for the opportunity to learn whether your child qualifies for a college's own aid programs. The worst that can happen is that you discover you don't qualify for any financial aid. In that case, you won't be left wondering whether you should have applied. Considering that your child may be awarded gift aid that you won't have to repay, the investment of your time may well be worth it.