Introduction to Financial Aid: An Overview for Students and Parents

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Today’s Topics

- Types of aid
- How financial need is determined
- When and how to apply
- Completing the FAFSA
- What to expect from each type of college
- How to recognize and avoid scams
- Loans and other college financing options
Types of Financial Aid

- **Gift aid**
  - not paid back
    - grants and scholarships

- **Loans**
  - paid back with interest
    - student and/or parent may borrow

- **Work-study**
  - earned as wages
    - part-time jobs on or off campus
Need versus Merit Aid

• Aid based on financial need
  – most government grants
  – subsidized student loans
  – Federal College Work-Study
• Aid based on merit
  – academic and athletic scholarships
  – some government grants
• Some scholarships require merit and need
Financial Need

Cost of Attendance
- Expected Family Contribution (EFC)
= Financial Need
Cost of Attendance

- Tuition and fees
- Books and supplies
- Room and board
- Transportation
- Personal expenses

Cost varies most by:
- Type of college (private, state or county)
- Academic program
Expected Family Contribution

- Formula established by the U. S. Congress
- Uses information reported on your FAFSA
- Calculates amount family can pay

May be adjusted by your college due to:
- Verification/correction of your FAFSA data
- Special circumstances that limit ability to pay
How to Apply for Financial Aid

• Parent and student both get a PIN
• Check college Web sites
  – application deadlines
  – required forms (CSS Profile?)
• Submit FAFSA on the Web
• Respond to college requests for documents
What’s a PIN?
www.pin.ed.gov

• Personal Identification Number
• Student *and* parent must get PINs
• Electronic signature for FAFSA on the Web
• Receive PIN by e-mail in 3 days
• Keep PIN for future use:
  – Renewal FAFSA on the Web
  – Corrections on the Web
  – National Student Loan Database
FAFSA on the Web: www.fafsa.ed.gov

- Complete and send FAFSA on the internet
- Access from anywhere
- No software to install
- Automatically edits data as you enter it
- Skip logic: asks only what you must answer
What Is the FAFSA?

- A *multi-purpose* application
- Apply for all *colleges* at once
- Apply for all *aid programs* at once
  - Federal grants, loans and work-study
  - New Jersey grants
  - most college aid
- Apply/renew each academic year
Financial Aid Award Process

Estimated award
Award conditions
Promissory notes
Document request

Completed and signed documents

CREDIT FUNDS

COLLEGE FINANCIAL AID OFFICE

YOUR FAFSA DATA

STUDENT
Special Circumstances?
Call the Financial Aid Office

• Unemployment or change in employment
• Separation or divorce
• Death of parent
• Disability of student or parent

• Windfall (inheritance, overtime, etc.)
• Loss of benefits
• Elementary/secondary school expenses
• Unreimbursed medical or dental expenses
QUESTIONS?
Financial Aid by Type of College

- Elite private colleges
- Open door private colleges
- Public 4-year colleges
- Community colleges
Elite Private Colleges

- Annual cost of attendance: $48,000
- Highly selective admission
- All or most aid is based on need
- Endowment funded institutional awards
- Collect more financial data (CSS Profile)
- Use own need analysis for institutional aid
Open Door Private Colleges

- Annual cost of attendance: $36,000
- Admit most if not all applicants
- Aid based on need and/or merit
- Will use merit aid to “buy” top students
- “Scholarships” are really tuition discounts
- Most use FAFSA need analysis for all aid
- May negotiate institutional award amounts
Public 4-Year Colleges

- Annual cost of attendance: $20,000
- Admission policies vary widely
- Aid based on need and/or merit
- May use merit aid to “buy” top students
- Mixed funding sources, mostly government
- Use FAFSA need analysis for all aid
Community Colleges

- Annual tuition: $3,000
- Admit all applicants
- Nearly all aid based on need
- Nearly all aid government funded
- Use FAFSA need analysis for all aid
How to Compare College Financial Aid Offers

• Start with tuition, fees, room and board
• Subtract grant and scholarship offers only
• The difference is your “net cost”
• Always compare net cost
• Never include loans and work-study offers
• Make sure scholarships are renewable
College Scholarship Fraud

Selling what you can get for free

• Never pay to file a FAFSA!
  – avoid .com fafsa sites

• Never pay to find a scholarship!

• Never pay a scholarship provider to apply!
FTC Consumer Alert: the FREE Financial Aid Seminar

- “The latest trend in scholarship scams”
- Direct mail marketing to parents
- Very active in New Jersey
- Scare tactics
- Phony claims and guarantees
- High-pressure sales
“Secret Strategies” We Won’t Tell You About

- Avoid saving money in student’s name
- Spend down student’s assets first
- Pay off consumer debt & accelerate purchases
- Prepay your mortgage
- Minimize capital gains
- Maximize retirement fund contributions
- Grandparents should pay bills, not give cash
- Avoid trust funds for student
Guaranteed Student Loans

• Federal Perkins loan
  – 5% fixed/need based/in-school subsidy

• Federal Subsidized Stafford loan
  – 5.6% fixed/need based/in-school subsidy

• Federal Unsubsidized Stafford loan
  – 6.8% fixed/no in-school subsidy

• PLUS loan (parent borrows for student)
  – 8.5% fixed/no in-school subsidy
Student Loans
Let the Borrower Beware!

- Must repay even if student never graduates
- Interest piles up even during deferment
- Collection can take tax refunds, etc.
- Cannot be discharged in bankruptcy
- Lenders have no incentive to renegotiate
- Never goes away until fully repaid, or…
Other Sources of Aid

• Employers and labor unions
• Religious or community organizations, clubs, and civic groups
• High schools
• Veterans Administration
Other Financing Options

• Flexible payment plans
  – spread tuition cost over several months

• Home equity loans
  – interest may qualify as tax deduction

• NJCLASS loans
  – interest rate lower than alternative loans

• Private alternative loans
  – highest interest rate, should be your last choice
NJ STARS

- Top 20% of high school graduating class
- Must complete FAFSA
- Financial need not a requirement!
- Enroll at your local community college
- Free tuition and fees (up to 15 credits/semester)
- Must enroll full-time for associate degree
- Renewable up to five semesters
- NJ STARS II: graduate with a 3.00 GPA, get your 3rd & 4th year tuition free at any NJ public college
Good Stuff on the Internet

• The Financial Aid Information Page
  www.finaid.org

• Federal Student Financial Aid Homepage
  www.studentaid.ed.gov

• Education tax incentives (IRS)
  www.irs.gov/publications/p970

• NJ Higher Education Student Assistance Authority
  www.hesaa.org
Good Luck!