Tips for College Financial Aid

If one or more of your children will reach college age soon, you may be wondering how you will pay for all the costs. For many families, a financial aid package provides some level of tuition support. This often includes grants, scholarships, loans, or work-study placements. Aid is primarily based on the family's need. If it is determined that you are able to afford the cost of college, your quest for assistance is going to be challenging, but not impossible.

Forms must be filled out in order to ascertain if you qualify for aid. If you want to get an idea of your eligibility before applying for aid, try using the following formula:

The Five Percent Test

Take 5% of the value of your total family assets (including home equity, savings, and investments) and add this figure to your adjusted gross income (AGI) from last year's tax return. Divide that result by the estimated, annual cost of college. If the result is six or less, you could qualify for financial aid. If the final number is higher, you may have a difficult time convincing financial aid officers of your need.

No matter what you expect your chances to be, it is still worthwhile to go through the application process. Many different factors enter into the final outcome. Public and private institutions alike offer varying amounts of aid, and you may be pleasantly surprised.
Sources of Funds

If you do not receive aid from your chosen institution, there are other options. The federal government, state government, banks, insurance companies, and religious, ethnic, civic, and fraternal organizations are a few of the alternative sources for funds. The number of federal aid programs alone should be encouraging. Here are some of the most popular programs:

Pell Grants—These grants are generally awarded to undergraduates based on need and family income qualifications. The size of the grant depends on program funding. The maximum award for the 2005–2006 award year was $4,050.

Federal Supplemental Educational Opportunity Grants (FSEOGs)—These grants are earmarked for undergraduates who are in greater need than Pell Grant applicants. The federal government supplies this money, but the individual colleges carry out the distribution of funds. The availability of these grants may be limited depending on how much funding is allocated to a particular school. Annual grants range from $100 to $4,000.

Federal Perkins Loan—These loans are generally available for students with exceptional financial needs. Factors that determine qualification for a Perkins Loan are: 1) when the application is submitted; 2) a student's financial need; and 3) the funding level for the particular school. An eligible undergraduate student can borrow up to $4,000 per undergraduate year of study, not to exceed a total of $20,000. An eligible graduate student can borrow up to $6,000 per graduate year of study, not to exceed a total of $40,000. Interest is 5%. If the borrower is more than a half-time student, repayment begins nine months after the recipient graduates or leaves school. (These nine months are called the "grace period." Students who are attending school less than half-time may have a shorter grace period.) Payments can be spaced over a maximum of ten years after the grace period expires.

Federal Work-Study Program—This program essentially provides an award in exchange for work. The typical school work schedule is about 12 to 15 hours per week (up to 40 hours per week during vacations). These jobs may be on or off campus, but are generally with a government agency or non-profit organization if they are off campus (under some circumstances, a school may have arrangements with a private for-profit company). When possible, the jobs are often related to the student's major. The pay is generally modest, but it is at least minimum wage. However, hours and compensation cannot exceed the Federal Work-Study award.

Stafford Loans—This federally insured loan program permits eligible students to borrow at favorable interest rates. These loans are typically arranged through private lenders, and the program offer flexible loan repayment options. The federal government subsidizes some Stafford loans based on financial need, deferring interest charges until loan repayment begins or during qualified deferment periods. Subsidized loans have much lower limits than unsubsidized loans, which are not based on financial need and begin accruing interest when the loan is disbursed.

PLUS (formerly "Parents' Loans for Undergraduate Students")—Parents are eligible for this loan if they pass a credit check. The amount of the loan is generally limited to the actual "cost of attendance" minus any financial aid already received. Parents taking this loan must begin repayment 60 days after the final loan disbursement for the academic year. Interest on PLUS loans is variable, but cannot exceed 9%.

Some states base their programs not only on need, but also on academic performance. The recipients of state loans generally must be legal residents of the state and enrolled in a college or university within their state. In addition, some states have "reciprocity agreements" with other states. For more information, refer to the U.S. Department of Education website at www.ed.gov.
No matter how slight you believe your chances are of receiving aid, it is always best to apply. You may qualify for more aid than you think.

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