What Every Student Should Know About Federal Aid

American Council on Education
The Unifying Voice for Higher Education

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"Every year, the federal government makes more than $81 billion available to help more than 10 million families and students finance a postsecondary education at one of the more than 6,200 colleges, universities, and trade schools that participate in the programs authorized by the U.S. government. Here's how they work."

American Council on Education
The Unifying Voice for Higher Education

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Introduction

For more than 50 years, the federal government has helped low- and middle-income students and families finance a college education. This assistance has allowed millions of individuals to pursue their educational dreams, and has made America's colleges the most open and accessible in the world.

According to the U.S. Department of Education (the Department), nearly 17 million students were enrolled at a higher education institution in 2003. This number has been increasing steadily for the last 20 years, and the Department estimates that 17.5 million students will be enrolled by 2010.

In 2004, the federal government provided $81 billion to help students and families pay for a postsecondary education. The Department estimates that in the current year, 10.1 million students will receive federal student aid while attending one of the more than 6,200 colleges, universities, and trade schools that participate in the federal student aid programs authorized by the Higher Education Act.

A variety of federal programs help students and families finance an education. By far the largest and most important programs are found in Title IV of the Higher Education Act. This document summarizes these vital programs by explaining how students and families apply for and receive Title IV student aid, describing the major programs that are available, and outlining what institutions must do to participate in the federal programs.[1]

[1] This paper summarizes only those student aid programs in the Higher Education Act and does not deal with other federal programs that may help students and families finance higher education, such as AmeriCorps, GI bill benefits, or the National Health Service Corps. Finally, this paper does not deal with student aid that is provided through private scholarship and loan programs or institutional student aid. Statistical information on the total amount of student aid is available in *Trends in Student Aid*, an annual series of reports published by the College Board.

Federal Student Aid: Goals, Eligiblility, and Applications

The aim of the Higher Education Act, which governs the major federal grant and loan programs, is to make it possible for all academically qualified individuals to obtain a college education, regardless of their economic circumstances. More specifically, the dual goals of the federal student aid programs are to give students *access* to higher education and to permit *choice* in the institution they attend.

The major federal student aid programs are authorized by the Higher Education Act and are administered by the Department of Education. In general, financial aid is awarded to individual students who may use an award at any of the colleges, universities, and trade schools that meet federal eligibility criteria to participate in these student aid programs.2 However, the amount of money a student receives will vary from institution to institution, depending upon the cost of attendance.

Determining Student Eligibility

To receive federal student aid, a student must:

- Have a high school diploma or its equivalent (such as the GED); have passed a test demonstrating his or her "ability to benefit"; or have been home-schooled (self-certified) and possess either a completion credential or an exemption from state compulsory attendance law.
- Be admitted to or enrolled in a degree or certificate program at an institution that participates in the federal programs.
- Meet "satisfactory academic progress" standards established by the college or university.
- Must not be in default on a student loan or owe a refund on a federal student grant.
- Be registered for the Selective Service (men only).
- Not have been convicted of a drug-related offense or, if convicted, have been "rehabilitated" in a federally approved program.
- Be a U.S. citizen or permanent resident.
- Have financial need.

[2] Students can use federal Pell Grant and FFEL/DL loan funds at any institution that participates in the federal student aid programs. However, not all institutions participate in the three campus-based programs, Federal Supplemental Educational Opportunity Grants, Federal Work-Study, and Perkins Loans.

Calculating a Student's Financial Need

Most federal student aid programs are based on financial need.[3] Qualifying for these programs depends on two things: the expected family contribution (EFC), the amount of money that a family is expected to contribute toward the student's education; and the cost of attendance, which includes tuition, fees, books, transportation, and room and board at the college or university that the student plans to attend. Both terms are defined in the law.

The Higher Education Act prohibits the Department from issuing regulations prescribing the calculation of the EFC. The needs analysis system that calculates the EFC is commonly known as the *federal methodology*, and is performed by a central processing system of the federal government.

Applying for Federal Student Aid

The Free Application for Federal Student Aid (FAFSA) is the only application required to apply for federal student aid.[4] The Department processes more than 13 million FAFSA applications each year, the vast majority of which are received and processed between January and August.

To determine the EFC, each student and his or her family must complete a FAFSA, either in paper form or online at *http://www.FAFSA.ed.gov.* The Department ascertains that all required information has been provided and verifies the data with several federal agencies, including the Social Security Administration, the Selective Service System, and the Immigration and Naturalization Service. When necessary, applicants are asked to provide additional information and to correct inconsistencies.

After the Department processes the FAFSA, the student receives a Student Aid Report (SAR) showing the expected family contribution. At the same time, each institution identified by the applicant receives the same information in an electronic document called the Institutional Student Information Record (ISIR). In general, if the EFC is less than the cost of attendance as determined by the school, the student is eligible for need-based federal student aid. Students who are not eligible for need-based federal aid may be eligible for unsubsidized student loans.

[3] Two federal student loan programs are not based on financial need: Both the unsubsidized Stafford student loans and the Parental Loans for Undergraduate Students (PLUS) are, with a few restrictions, available to all students enrolled in an eligible academic program. In 2003–04, $30.1 billion was awarded under these two programs.

[4] A copy of the application can be found in Appendix 2.

Applying for Institutional Aid

The FAFSA provides all the student information necessary to receive federal Pell Grants, federal student loans, and federal campus-based aid. However, some schools collect additional information before awarding their own funds, i.e., institutional student aid. In many cases, colleges and universities use a commercially available supplemental form. This and similar systems are known as *institutional methodology* (IM), to distinguish them from federal methodology.

In general, institutional methodology is more comprehensive than federal methodology and assumes that more assets can be used for college expenses. For example, in most cases, institutional methodology considers home equity as an asset that can be used to help finance a college education; federal methodology does not.

Creating a Financial Aid Package for Students

As noted above, students identify the institution(s) that should receive an ISIR showing the amount of the student's EFC. If the cost of attendance exceeds the EFC, the student is eligible for need-based student aid. Using the information from the ISIR and the results of any institutional methodology calculations, the campus financial aid administrator prepares a financial aid package for every qualified student. Institutions generally issue *award letters* to notify students of their financial aid packages.

Under federal law, students who have the lowest EFC among FAFSA applicants are entitled to a federal Pell Grant before any other federal financial aid. Students who still have financial need after receiving a Pell Grant–and needy students who do not qualify for a Pell Grant–may be offered a package of grants, loans, and work-study jobs. Campus financial aid administrators use a wide variety of techniques to put together financial aid packages. One of the most popular strategies is *equity packaging*, a method designed to equalize the treatment of all needy students by establishing a minimum amount of aid for each student from grants, scholarships, and parental contributions.

As part of their financial aid package, many colleges have a "self-help requirement" that holds all students responsible for meeting at least some of the cost of attendance themselves. Typically, students meet the self-help requirement by working and/or taking out loans.

Differences in Dependency Status

More than half of all college students are not financially dependent on their parents and are termed *independent* students. The Higher Education Act defines an independent student as one who is at least 24 years old, is married, has dependents other than a spouse, is an orphan or ward of the court, is a veteran, or is attending graduate or professional school. In rare circumstances, the campus financial aid administrator may determine that special circumstances warrant independent status for a student who does not meet one of these criteria. While independent students also must fill out the FAFSA, they are not required to include parental assets and income, and their EFC is calculated differently.

Defining Unmet Need

For many students, their family contribution added to the total amount of financial aid awarded does not cover the full cost of their education. This gap between the cost of attendance and the available student resources is called *unmet need*. To obtain additional funds, some students will work more hours, seek additional money from family resources, attend part time, or borrow money from private loan programs. Others, however, will simply not attend college. Indeed, recent research by the Advisory Committee on Federal Student Assistance demonstrates that students with higher amounts of unmet need are less likely to enroll in or complete higher education than their more fortunate peers.[5]

[5] Advisory Committee on Student Financial Aid. (2002). *Empty promises: The myth of college access in America*. Washington, DC: Author.

The Major Federal Student Aid Programs

The Higher Education Act authorizes several types of student aid: the federal Pell Grant, three "campus-based" programs, a federal-state partnership program, and federal student loans.[6]

Pell Grants

The centerpiece of federal student aid is the Pell Grant program, named in honor of former Senator Claiborne Pell of Rhode Island, who championed its creation. These grants, which do not have to be repaid, are awarded to undergraduate students solely on the basis of financial need. Students may use a federal Pell Grant at any eligible institution. More than 5.3 million students receive these grants every year.

The federal Pell Grant is known as a *quasi-entitlement* because all eligible students receive assistance. The amount of a Pell Grant awarded to an individual student depends on the student's EFC and attendance status (full time or part time), and the maximum grant as specified in the most recent federal appropriations process. In other words, all eligible students will receive a grant–the "entitlement" part–but the amount of a student's grant will depend on the funding provided for the program as part of the annual appropriations process–the "quasi" part.

Because federal funding for the Pell Grant program is appropriated almost a full year before the start of the academic year, it is difficult to predict exactly how much money will be needed. For example, the fiscal 2004 appropriations bill–signed into law on January 23, 2004–provided funds for the 2004–05 school year. In some years, Congress provides more money than is needed and the Pell Grant program has a surplus. In other years (and more often), especially when the economy stumbles and college enrollments grow, the program runs a shortfall. When there is a surplus, the appropriations committees reallocate the unused funds in a future appropriations bill. Conversely, in the case of a deficit, the committees provide additional funding in a future appropriations bill to cover the shortfall.

For academic year 2004–05, Congress appropriated $12 billion for this program, and individual awards ranged from $400 to $4,050, with the average approximately $2,469. The average family income for a dependent student receiving a Pell Grant was $24,600, while average family income for independent students was $15,500.

[6] In addition, TRIO and GEAR UP, which provide supportive services to help students enroll in and complete postsecondary education, also are considered student aid programs.

Campus-based Programs

Three additional programs–Federal Supplemental Educational Opportunity Grants, Federal Work-Study, and Federal Perkins Loans–are collectively known as the campus-based programs because they are administered directly by the financial aid office at each participating institution. The amount of money a student receives from these programs depends on the individual's financial need, the amount of aid the student receives from other sources, and the availability of campus-based funds at the college or university. The last factor is critical. Unlike Pell Grants, which provide every eligible individual with some funding, the campus-based programs provide assistance to only some of the eligible students. On most campuses, student eligibility is greater than available aid.

- Federal Supplemental Educational Opportunity Grants (SEOG) support undergraduate students with "exceptional financial need" and usually go to students who also receive large Pell Grants. Recipients get between $100 and $4,000 a year, depending on need and availability. In 2004–05, 1.2 million students received an average SEOG of $765.
- The Federal Work-Study (FWS) program provides jobs for undergraduate and graduate students with financial need, allowing them to earn money to pay educational expenses, often in areas related to their academic program or in community service positions. Students are generally paid by the hour and must receive at least the federal minimum wage. Last year, nearly 1 million students earned an average award of $1,450 through the FWS program. Currently, at least 7 percent of FWS funds must be spent on placing students in community service positions.
- The Federal Perkins Loan Program, named for the late Congressman Carl Perkins of Kentucky, enables colleges and universities to lend money to individual students who have exceptional financial need. This program has a statutorily set interest rate (5 percent) and is available to both undergraduates and graduates. Eligible undergraduates can borrow up to $4,000 per year and graduate students may borrow up to $6,000 per year. Repayment begins nine months after the borrower leaves school and interest does not accrue while students are enrolled.

  Perkins Loans can be cancelled after graduation if borrowers engage in specified public service activities, such as teaching in a Head Start program or low-income school, full-time law enforcement work, or nursing.

  Each year, the federal government distributes a relatively small amount of additional Perkins funds to participating institutions–about $100 million in fiscal 2004, when it was last funded–and reimburses schools for loans that have been canceled (about $67 million). These funds, together with money

the school receives in the form of repaid loans, are lent to borrowers. In this way, Perkins Loans are a revolving fund. In 2004–05, nearly 700,000 borrowers received loans that averaged $1,875 from this program.

Campus-based aid is awarded to students according to federal guidelines, as part of a financial aid package that campus financial aid administrators put together. As required by law, institutions provide at least 25 percent of all campus-based funds awarded, which means that colleges and universities provide at least one-third as much money as does the federal government. This requirement results in increased funding for students receiving campus-based financial aid.

A Federal-State Partnership Program

The Leveraging Educational Assistance Partnerships (LEAP) program is designed to encourage states to maintain and expand need-based grant programs. States must match federal funds on a dollar-for-dollar basis. However, when the federal appropriation for LEAP reaches $30 million, the state match increases to $2 for every federal dollar. States that provide the higher match gain additional flexibility in spending the money–they can use it for increased grant aid, merit scholarships for needy students, and scholarships in specialized academic areas.

It is difficult to determine how many students benefit from LEAP because some states provide far more money–and therefore more scholarships–than is required to match the federal contribution. Last year, more than 1 million college students received a need-based state grant.

Federal Student Loans

Student loans are the major source of federal student aid. In the 2004–05 academic year, 6.2 million people borrowed $41 billion in federal student loans.[7] Through fiscal 2000, more than 126 million loans totaling more than $377 billion had been issued since the creation of the original student loan program in 1965.

Federal student loans are divided into two basic programs: the Federal Family Education Loan (FFEL) program and the William D. Ford Direct Student Loan program, named for former Representative William Ford of Michigan. Both offer similar benefits to borrowers, and both include three different types of federal education loans: a subsidized Stafford loan, an unsubsidized Stafford loan, and an unsubsidized PLUS loan for parents of dependent students. Former Senator Robert Stafford of Vermont is the namesake of these programs.

[7] The College Board. (2004). *Trends in student aid 2004*. New York, NY: Author.

The Difference Between Federal Family Education Loans and Direct Loans

Each higher education institution decides whether to participate in the Direct Loan program, the FFEL program, or both. Borrowers must use the program their school designates. Eligibility requirements and loan limits are identical for both programs.

The basic difference between the Direct Loan and FFEL programs is who originates and holds the loans. In the FFEL program, a private lender (usually a bank or credit union) receives a subsidy from the federal government to make the loan. The college or university certifies the borrower's eligibility and helps disburse the loan. The student repays the holder of the loan and, if the student becomes delinquent, the holder of the loan initiates collection efforts.

In the Direct Loan program, by contrast, the federal government makes the loans directly to the students. Upon graduation, the borrower repays the government. The federal government, through a federal contractor, manages the portfolio of loans. If the student does not repay the loan, the federal government initiates loan collection efforts.

More than 4,000 private lenders, guaranty agencies, loan servicers, secondary markets, and collection agencies participate in the FFEL program. Included in this total is Sallie Mae, the largest holder of student loans in the country, which currently holds 45 percent of all federal student loans. In addition to making, holding, and servicing student loans, Sallie Mae operates a secondary market that buys federal student loans from private lenders, thus releasing the original lenders from the complex loan collection requirements and freeing their capital to make new loans. Besides Sallie Mae, some 25 private nonprofit and state secondary markets purchase loans from the original lenders.

Roughly three dozen state and private nonprofit guaranty agencies administer federal insurance on FFEL student loans and work to minimize student loan defaults. If an FFEL borrower defaults on repayment, the guaranty agency pays the holder 98 percent of the face value of the loan and attempts to collect from the borrower. At the same time, the federal government reimburses the guaranty agency up to 98 percent of the value of the loan. If the agency is unable to collect, it assigns the loan to the Department of Education and the federal government initiates collection efforts.

Subsidized Loans vs. Unsubsidized Loans

Regardless of whether they are participating in the FFEL or Direct Loan programs, borrowers can receive either subsidized or unsubsidized loans and many students get both types simultaneously. A federal subsidized Stafford loan is awarded on the basis of financial need, and interest does not accumulate while the student is enrolled in school. By contrast, financial need is not required to receive a federal unsubsidized Stafford loan, but interest on the loan accrues while the borrower is enrolled. Students can defer interest payments while they are in school, but doing so increases the amount of money that eventually must be repaid.

Fees on Federal Student Loans

Upfront fees–similar to points on a home mortgage–are charged on federal student loans. In the FFEL program, lenders must pay a 3 percent origination fee to the Department for each new loan they originate, and guaranty agencies may charge a 1 percent fee to the borrower for each new loan. All or part of the origination fee may be passed on to consumers, but lenders and guaranty agencies often waive all or part of the origination or insurance fee to keep loan costs competitive. When charged, these fees are deducted from the loan proceeds. Therefore, a borrower who requests a $5,000 loan will actually receive $4,800 after the upfront fees (i.e., origination and insurance fees), but must repay the full $5,000. If applicable, interest will be charged on the total value of the loan.

All borrowers in the Direct Loan program must pay a 3 percent fee because it is specified in the statute and cannot be reduced. Originally, Direct Loan borrowers paid a 4 percent fee–an amount comparable to the 3 percent origination fee and the 1 percent loan guarantee fee. However, in June 1999, the U.S. Department of Education used its discretion to eliminate one percentage point of the fee.

Applying for a Loan

To receive an FFEL or Direct Loan, a potential borrower must fill out the FAFSA to determine whether the student has financial need and is eligible for a Pell Grant. Students who still have financial need after receiving a Pell Grant and other aid are eligible for a subsidized Stafford loan. To get a loan, the borrower must sign a promissory note that includes a "plain-language disclosure notice" describing the borrower's obligation to repay his or her student loan.

Borrowers receive extensive counseling to make certain they understand their rights and responsibilities. In addition, they are counseled about repayment obligations when they leave school. Both entrance and exit counseling are done in accordance with detailed federal regulations.

Loan Limits

The maximum amount an undergraduate student may borrow each year is determined by the student's dependency status–dependent or independent–and by his or her year in school. Dependent undergraduate students may borrow Stafford loans of up to the maximum amounts shown in the chart below. Independent students may borrow the same amounts in subsidized Stafford loans as dependent students, plus an additional $4,000 a year in the first two years of their academic program and $5,000 a year for the remainder of the program, though the unsubsidized Stafford loan program.[8]

Graduate and professional students are financially independent and can borrow up to $18,500 ($8,500 in subsidized Stafford and $10,000 in unsubsidized Stafford) per year. No student can borrow more money than the established cost of attendance at the school he or she attends.

In addition to annual borrowing limits, there are cumulative limits. Dependent undergraduate students may borrow up to $23,000 during their education. Independent undergraduate students may borrow up to $46,000, but only $23,000 of this total can be in subsidized loans. Graduate and professional students may borrow up to $138,500 for their education, including any undergraduate loans, with a maximum of $65,000 in subsidized loans.[9]

Annual Borrowing Limits in Federal Stafford Student Aid Programs (Subsidized and Unsubsidized Loans)

	Dependent Students	Independent Students
First-Year Students	$2,625	$6,625
Second-Year Students	$3,500	$7,500
Third-, Fourth-, and Fifth-Year Students	$5,500	$10,500

[8] Dependent students are not eligible for additional unsubsidized loans unless their parents have been refused a PLUS Loan.

[9] Graduate students in some health profession fields can borrow an additional $20,000 in unsubsidized loans.

Borrower Interest Rate

The interest rate on federal Stafford loans is a variable rate, adjusted every July 1 using a formula based on the 91-day Treasury bill (T-bill), and depends on whether the student is in school or in repayment. While in school, the borrower is charged an interest rate equal to the 91-day T-bill rate plus 1.7 percent. This interest is paid by the Department for students in the subsidized Stafford program as long as they remain enrolled at least half time and through a post-graduation grace period, but is charged to those borrowing in the unsubsidized Stafford program. During repayment, the borrower pays an interest rate equal to the 91-day T-bill rate plus 2.3 percent. In both cases, the rate to borrowers is capped at 8.25 percent, with the federal government subsidizing the amount above the cap. The interest rate for the year beginning July 1, 2004 is 3.37 percent, the lowest it has been in more than 30 years.

Repaying Student Loans

Students must begin to repay subsidized federal loans six months after graduating, leaving school, or dropping below half-time enrollment, and interest on the loans is charged once repayment begins. Borrowers in the unsubsidized program must begin to repay interest on the loans within 30 days of disbursement, although many borrowers defer these payments.

Postponing Repayment

In some cases, borrowers can receive a deferment or forbearance on their student loan. Borrowers who are still in school, who face "economic hardship," or who are unable to find a full-time job are eligible for a deferment. A deferment allows borrowers who have a subsidized loan to temporarily postpone repayment of the loan without incurring interest charges. A borrower with an unsubsidized loan can get a deferment, but the borrower is responsible for interest during the deferment period.

Individuals who are unable to repay their loans, but who are not eligible for a deferment may be granted forbearance–a temporary postponement or reduction of repayments during which interest continues to accrue. Borrowers serving in a medical residency or in the AmeriCorps program often receive forbearance.

Under a few specific circumstances (e.g., death or total and permanent disability), federal student loans may be completely discharged, that is, cancelled without repayment.

Repayment Options

Borrowers may select from several repayment options. The most common choice–favored by 85 percent of borrowers–is called Standard Repayment, and requires the borrower to pay a fixed amount every month for 10 years. The Extended Repayment Plan in the FFEL program allows borrowers with loans exceeding $30,000 up to 25 years to repay their loans. The Graduated Repayment plan permits borrowers to make smaller monthly payments at the beginning of their loan repayment period and to increase the payment amount over time, to reflect the earning patterns of most adults.

In addition to these three options, Direct Loan borrowers may choose an income-contingent repayment method under which yearly income, family size, and the amount of the loan determine the monthly payments. As income increases or falls, so do payments. After 25 years, any remaining balance is forgiven, though borrowers may be liable for taxes on the amount forgiven.

FFEL program borrowers also may elect an income-sensitive repayment method, under which monthly payments are based on income and the amount owed. This plan, however, has no forgiveness provision, so payments continue until the entire FFEL is repaid.

Consolidation Loans

Consolidation loans allow borrowers to combine different student loans into a single loan and thus make only one monthly payment. Some borrowers use consolidation to refinance their loans at a fixed rate and lock in other repayment benefits. However, borrowers can only consolidate their loans once, even if a second consolidation would result in a lower interest rate, unless a new loan is obtained.

The interest rate on consolidation loans is determined by the weighted average of the interest rates of the loans being consolidated, rounded up to the next one-eighth percentage point–not to exceed 8.25 percent. Both the Direct Loan program and the FFEL program offer consolidation loans. FFEL borrowers who wish to use income-contingent repayment may do so by consolidating their loans into the Direct Loan program.

Parent Loans

The Parent Loans for Undergraduate Students (PLUS) program enables parents who do not have an adverse credit history to borrow money to cover the education expenses of dependent undergraduate students. PLUS loans are available in both the Direct and FFEL programs, and the terms and benefits are identical. A 4 percent origination fee, paid by the borrower, is charged on all PLUS loans. However, FFEL lenders may waive this fee as a way of attracting business.

Parents may borrow up to the cost of attendance at the college or university that their child attends. However, the exact amount a parent may borrow is reduced by the amount of other financial aid the student has received. PLUS loans have a variable interest rate that is reset every year on July 1. The rate is equal to the 91-day T-bill rate plus 3.1 percent, and may not exceed 9 percent. Interest is charged from the day the loan is disbursed and repayment begins within 60 days of disbursement. As with student loans, parents have the option to select standard, extended, or graduated repayment options.

Defaults on Federal Education Loans

Student loans become delinquent if a scheduled payment is not made within 30 days of the due date. When a student loan is delinquent for more than 270 days, it is in default.

The consequences of defaulting on a student loan are serious. Credit bureaus are notified, credit ratings plummet, and a defaulter will find it much harder to get any form of credit. In addition, federal income tax refunds are withheld, wages may be garnished, and collection agencies are hired to get the loan repaid. Defaulters are ineligible for additional federal student aid until the defaulted loan is in good standing and satisfactory arrangements have been made with the lender to repay the loan.

Over the last decade, extensive efforts have been made to educate borrowers about the consequences of default, collection strategies have been strengthened, and institutions with persistently high default rates have been excluded from the programs. As a result, the annual cohort default rate on student loans fell from 5.4 percent in fiscal 2003 to 5.2 percent in fiscal 2004.

How Much Money Do Students Actually Borrow?

According to the Department, 57 percent of four-year public college graduates in 2003–04 borrowed from the federal student loan programs, with a median debt of $14,400. For students who elected the standard 10-year repayment, the monthly payment is roughly $170. At private four-year colleges, 69 percent of the graduates borrowed, with a median indebtedness of $17,125. This translates into a monthly payment of $200. At community colleges, 30 percent of associate degree graduates borrowed, with a median indebtedness of $5,760, or $65 per month.

The amount of debt that students—especially professional school students—accumulate can be substantial. However, the dollar amount of debt alone does not indicate that a student will have difficulties in repayment. The debt burden facing a borrower in repayment often depends less on the amount borrowed than on the borrower's income. A radiologist who borrowed $100,000 may find his or her income less encumbered by student loan repayments than a preschool teacher who borrowed $15,000. Financial experts estimate that borrowers who spend more than 10 percent of their gross income on repaying student loans carry a significant debt burden.

Tax Benefits Available to Students and Families

In addition to the many grant and loan programs administered by the Department of Education, the federal government also supports several tax-related provisions that assist students and families in funding a college education.

Prepaid Tuition and College Savings Plans—Section 529 Plans

Every state has established special programs that allow families to save money for college costs. There are two types of "529 plans" (so named for Section 529 of the Internal Revenue Code [IRC]) currently available–prepaid tuition plans and college savings plans. Prepaid tuition plans allow families to prepay tuition at today's rate for a college education in the future. The prepayment of tuition is guaranteed. The second option, college savings plans, are administered through the state treasurer's office, which contracts with an investment firm to manage the funds. Families are able to invest whatever amount of money they would like and use it for a public or private education in any state. Recently, a third option–national private plans–has emerged that allows families to save money for their children to attend private institutions across the country.

In 2001, Congress expanded the definition of 529 plans and made all funds invested in either of the existing plans completely tax-free.

Hope and Lifetime Learning Tax Credits

In 1997, Congress created two new tax credits for higher education tuition expenses–the Hope and Lifetime Learning Tax Credits. Hope and Lifetime are nonrefundable credits that are applied against federal income tax for students' qualified educational expenses. The Hope Credit allows individual taxpayers to claim a credit against federal income taxes, up to $1,500 per student for qualified tuition and fees. The credit rate is 100 percent on the first $1,000 of qualified tuition and fees, and 50 percent on the next $1,000 of qualified tuition and fees. The Hope Credit is only available for the first two years of a student's postsecondary education.

The Lifetime Learning Credit allows individual taxpayers to claim a credit against federal income taxes equal to 20 percent of qualified tuition and fees. A student is eligible if he or she is taking undergraduate courses or graduate-level classes to acquire or improve job skills. For expenses paid after 2002, up to $10,000 of qualified tuition and fees per taxpayer return will be eligible for the credit (the maximum credit amount is $2,000).

Both credits are phased out for individual taxpayers earning between $40,000 and $50,000 annually (between $80,000 and $100,000 for joint returns).

Tuition Deduction

The Economic Growth and Tax Relief Act (EGTRA) of 2001 included a new tuition deduction for students and their families who are not eligible for the Hope and Lifetime Learning Credits. Single filers with an adjusted gross income (AGI) of up to $65,000 ($130,000 for joint filers) were able to deduct $3,000 per year in 2002 and 2003, and $4,000 per year in 2004 and 2005. Filers do not need to itemize in order to claim the new deduction (an *above-the-line* deduction). Without action by Congress, the deduction is set to expire on December 31, 2005.

Student Loan Interest Deduction

In 1997, Congress passed legislation allowing individuals who have paid qualified education loans to claim an above-the-line deduction for interest paid on those loans. The maximum deduction is $2,500. In 2001, EGTRA expanded the student loan interest deduction by eliminating an existing requirement that interest be deducted only for the first five years (60 months) of the loan. The income limits also were increased to $50,000 for individuals and $100,000 for joint filers.

Employer-Provided Education Assistance—Section 127

Section 127 of the IRC allows an employee to receive up to $5,250 per year in tax-free educational assistance from his or her employer. Section 127 is classified as an *extender*, meaning it is an expiring tax provision that has to be reinstated by Congress to continue. Section 127 was last extended in the EGTRA of 2001 and is set to expire in 2011 without Congressional action. Graduate coursework was extended as well.

Education Savings Accounts (ESAs)

The Taxpayer Relief Act enacted into law in 1997 created education IRAs, allowing taxpayers to save $500 per year tax-free for the higher education expenses of a named beneficiary under age 18. In 2001, these IRAs were renamed Coverdell Education Savings Accounts and the annual tax-free contribution limit was raised to $2,000. The provisions passed in 2001 are set to expire in 2011 if there is no Congressional action.

Institutional Eligibility to Participate in Federal Student Aid Programs

According to the Department, more than two-thirds of the nation's 9,400 institutions of postsecondary education participate in the Higher Education Act programs. About 4,000 of these schools are traditional colleges and universities; the remainder are trade schools.

Schools must clear three hurdles, collectively known as "the triad," before their students can receive federal student aid. First, an institution must be accredited by an accrediting agency determined to be a reputable judge of academic quality by the Secretary of Education. National or regional accreditation provides the assurance that an institution offers an academically sound education. By relying on nongovernmental accreditors to evaluate and report on the academic quality of schools, the government avoids steps that could lead to federal control of curricula or national academic standards.

Second, a college or university must be licensed or approved to do business in the state where it is located. And third, the Department must determine that the institution has both the administrative capability to manage the federal program funds, and the financial responsibility to ensure that it is financially stable and will not suddenly close, to the detriment of students or taxpayers.

Institutions that want to participate must abide by the Department's Program Participation Agreement, which spells out the terms and conditions of the federal student aid programs. Some of these requirements are general, such as, "The institution will establish and maintain such administrative and fiscal procedures and records as may be necessary to ensure proper and efficient administration of funds." Other requirements are highly detailed, such as the reporting requirements for intercollegiate athletics revenues and expenses.

In addition, the Higher Education Act requires that colleges participating in the federal student aid programs provide a substantial amount of information to students regarding such diverse topics as campus crime, special facilities available to students with disabilities, refund policies, and graduation rates. Schools that fail to meet the terms of the Program Participation Agreement may be fined or have their eligibility to participate revoked.

Appendices

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Appendix 1: Student Aid Glossary

CAMPUS-BASED AID: Financial aid programs administered by the university. The government provides the university with a fixed annual allocation, which is awarded by the financial aid administrator to deserving students. The federal Perkins Loan program, Supplemental Education Opportunity Grant (SEOG), and Federal Work-Study are the federal campus-based aid programs.

COST OF ATTENDANCE (COA): The total estimated cost to the student to attend an institution, including tuition and fees, room and board, allowances for books and supplies, transportation, and personal and incidental expenses. Loan fees, if applicable, also may be included in the COA. Childcare and expenses for disabilities also may be included at the discretion of the financial aid administrator. Schools establish different standard budget amounts for students living on campus and off campus, married and unmarried students, and in-state and out-of-state students. (Also known as the cost of education or "budget.")

DEPENDENT STUDENT: An undergraduate student whose parents provide more than half of his or her financial support. A dependent student is not married, is under 24 years of age, has no legal dependents, is not an orphan or ward of the court, nor is a veteran of the U.S. Armed Forces. Parents of a dependent student must submit parental information on the FAFSA for their son or daughter to be considered for financial aid. Parents of dependent students are eligible for the PLUS Loan program. (See also *Independent Student*.)

EXPECTED FAMILY CONTRIBUTION (EFC): The amount of money that the family is expected to be able to contribute to the student's education, as determined by the federal methodology need analysis formula approved by Congress. The EFC includes the parental contribution and the student contribution, and depends on the student's dependency status, family size, number of family members in school, and taxable and nontaxable income and assets. The difference between the COA and the EFC is the student's financial need, and is used in determining the student's eligibility for need-based financial aid. If a student has unusual financial circumstances (such as high medical expenses, loss of employment, or death of a parent) that may affect his or her ability to meet educational expenses, the financial aid administrator (FAA) can adjust the COA or EFC to compensate.

FEDERAL DIRECT STUDENT LOAN (FDSL) PROGRAM: Similar to the Federal Family Education Loan (FFEL) program. The funds for these loans are provided by the U.S. government directly to students and their parents through their schools. Benefits of the program include a faster turnaround time and less bureaucracy than the bank loan program. The FDSL program includes Federal Direct Stafford Loans (subsidized and unsubsidized) and Federal Direct Parent Loans for Undergraduate Students (PLUS).

FEDERAL FAMILY EDUCATION LOAN (FFEL) PROGRAM: Includes the Federal Stafford Loans (subsidized and unsubsidized) and the Parent Loans for Undergraduate Students (PLUS). The funds for these loans are provided by private lenders, such as banks, credit unions, and savings and loan associations. These loans are guaranteed against default by the federal government.

FEDERAL PELL GRANT PROGRAM: The largest federal grant program, which provides funds up to $4,050, based on the student's financial need.

FEDERAL PERKINS LOANS: Federally insured loans funded by the government and awarded by the institution. The loans feature a low interest rate and are repayable over an extended period.

FEDERAL SUPPLEMENTAL EDUCATIONAL OPPORTUNITY GRANT (SEOG) PROGRAM: Grant funds made available through participating institutions to a limited number of undergraduate students who demonstrate exceptional financial need.

FEDERAL WORK-STUDY (FWS) PROGRAM: A program that provides undergraduate and graduate students with part-time employment during the school year. The federal government pays a portion of the student's salary, making it cheaper for departments and businesses to hire the student. For this reason, work-study students often find it easier to get a part-time job through this program than on their own. Eligibility for FWS is based on financial need.

FINANCIAL AID PACKAGE: The complete collection of grants, scholarships, loans, and work-study employment from all sources (federal, state, institutional, and private) offered to students to enable them to attend the college or university. Note that unsubsidized Stafford loans and PLUS loans are not considered part of the financial aid package, because these financing options are available to families to help them meet the EFC.

FINANCIAL NEED: The difference between the COA and the EFC is the student's financial need–the gap between the cost of attending an institution and the student's resources. The financial aid package is based on the amount of financial need. The process of determining a student's need is known as need analysis: Cost of Attendance (COA) – Expected Family Contribution (EFC) = Financial Need.

GRANTS: Financial aid awards that do not have to be repaid. Grants are available through the federal government, state agencies, colleges, and private sources.

INDEPENDENT STUDENT: An independent student is at least 24 years old as of January 1 of the academic year, is married, is a graduate or professional student, has a legal dependent other than a spouse, is a veteran of the U.S. Armed Forces, or is an orphan or ward of the court (or was a ward of the court until age 18). Parental refusal to support their child's education is not sufficient for the child to be declared independent.

LEVERAGING EDUCATIONAL ASSISTANCE PARTNERSHIP (LEAP) PROGRAM: Formerly the State Student Incentive Grant (SSIG) program. LEAP is a state-run financial aid program for state residents. The states receive matching funds from the federal government to help fund the program.

LOAN: A type of financial aid that is available to students and their parents. Education loan programs have varying interest rates and repayment provisions. An education loan must be repaid.

MERIT-BASED AID: Financial aid that is awarded based on criteria such as a student's academic, artistic, or athletic skill. Merit aid is not dependent on financial need, but may be used to meet financial need. Merit-based awards use grades, test scores, hobbies, and special talents to determine eligibility for scholarships.

NEED ANALYSIS: The process of determining a student's financial need by analyzing the financial information provided by the student and his or her parents (and spouse, if any) on a financial aid form. The student must submit a need analysis form to apply for need-based aid. Need analysis forms include the Free Application for Federal Student Aid (FAFSA) and the Financial Aid PROFILE. (See also *Financial Need*.)

ORIGINATION FEE: A fee paid by the borrower and deducted from the principal of a loan, before disbursement to the borrower. For federally backed loans, the origination fee is paid to the government to offset the cost of the interest subsidy to borrowers. For private loan programs, the origination fee is generally paid to the originator to cover the cost of administering and insuring the program.

PARENT LOANS FOR UNDERGRADUATE STUDENTS (PLUS) PROGRAM: Federal loans available to parents of dependent undergraduate students to help finance their children's education. Parents may borrow up to the full cost of their children's education, less the amount of any other financial aid received. PLUS loans may be used to pay the EFC. There is a minimal credit check required for the PLUS loan, so a good credit history is required. If a parent's application for a PLUS loan is turned down, the children may be eligible to borrow additional money under the unsubsidized Stafford loan program.

STAFFORD LOANS: Federal loans that come in two forms, subsidized and unsubsidized. Subsidized loans are based on need; unsubsidized loans are not. The interest on the subsidized Stafford loan is paid by the federal government while the student is in school and during a six-month grace period that follows graduation. The subsidized Stafford loan was formerly known as the Guaranteed Student Loan (GSL).

STUDENT AID REPORT (SAR): The document sent to a student summarizing financial and other information reported by the student on the FAFSA. The student's Expected Family Contribution (EFC) is printed on the front of the SAR and is the figure used by colleges to determine eligibility for aid.

SUBSIDIZED LOAN: A loan for which the government pays the interest while the student is in school, during a six-month grace period that follows graduation, and during any deferment periods. Subsidized loans are awarded based on financial need and may not be used to finance the family contribution. Examples include the Perkins Loan and the subsidized Stafford loan. (See also *Stafford Loans* and *Unsubsidized Loan*.)

TRIO: A group of programs designed to educate disadvantaged students about college and provide the support they need to enter and successfully complete college. The first component was established in the 1960s. TRIO now includes Educational Opportunity Centers, the McNair Postbaccalaureate Program, Talent Search, Upward Bound, Student Support Services, and College Completion Grants.

UNSUBSIDIZED LOAN: A loan for which the government does not pay the interest while the student is enrolled. The borrower is responsible for the interest on an unsubsidized loan from the date the loan is disbursed. Students may avoid paying the interest while they are in school by capitalizing the interest, which increases the loan amount. Unsubsidized loans are not based on financial need and may be used to finance the family contribution.

Additional student aid glossaries can be found online at the following web sites:

- College Is Possible: *http://www.collegeispossible.org/paying/glossary.htm*
- Completing the FAFSA: *http://studentaid.ed.gov/completefafsa*
- Looking for Student Aid: *http://studentaid.ed.gov/students/publications/lsa/index.html*
- The SmartStudent™ Guide to Financial Aid: *http://www.finaid.org/questions/glossary.phtml*
- The Student Guide: Financial Aid from the U.S. Department of Education: *http://studentaid.ed.gov/students/publications/student_guide/index.html*

Appendix 2: 2005–06 FAFSA

FAFSA

We Help Put America Through School

July 1, 2005 — June 30, 2006

FREE APPLICATION FOR FEDERAL STUDENT AID

OMB # 1845-0001

Use this form to apply free for federal and state student grants, work-study and loans. Or apply free online at www.fafsa.ed.gov.

Applying by the Deadlines

For federal aid, submit your application as early as possible, but no earlier than January 1, 2005. We must receive your application no later than June 30, 2006. Your college must have your correct, complete information by your last day of enrollment in the 2005-2006 school year.

For state or college aid, the deadline may be as early as January 2005. See the table to the right for state deadlines. You may also need to complete additional forms. Check with your high school guidance counselor or a financial aid administrator at your college about state and college sources of student aid and deadlines.

If you are filing close to one of these deadlines, we recommend you file online at **www.fafsa.ed.gov**. This is the fastest and easiest way to apply for aid.

Using Your Tax Return

If you are filing a 2004 federal income tax return, we recommend that you complete the tax return before filling out this form. If you have not yet filed your return, you can still submit your FAFSA but you must provide income and tax data. Once you file your tax return, you must correct on your FAFSA any income or tax data that changed.

Filling Out the FAFSA

Your answers on this form will be read electronically. Therefore:

- use black ink and fill in ovals completely:
- print clearly in CAPITAL letters and skip a box between words:
- report dollar amounts (such as $12,356.41) like this:

Correct ● Incorrect ✗ ✓

15 ELM ST

$ 12,356 no cents

Green is for student information and purple is for parent information.

If you or your family has unusual circumstances (such as loss of employment), complete and submit this form as instructed and then consult with the financial aid office at the college you plan to attend.

If you have questions about this application, or for more information on eligibility requirements and the U.S. Department of Education's student aid programs, visit our Web site at **www.studentaid.ed.gov**. You can also call 1-800-4-FED-AID (1-800-433-3243). TTY users may call 1-800-730-8913.

Mailing Your FAFSA

After you complete this application, make a copy of pages 3 through 6 for your records. Then mail the original of only pages 3 through 6 in the attached envelope or send it to: Federal Student Aid Programs, P.O. Box 7001, Mt. Vernon, IL 62864-0071. Do not send the worksheets on page 8; keep them for your records.

If you do not receive the results of your application—a *Student Aid Report* (SAR)—within four weeks, please check online at **www.fafsa.ed.gov** or call 1-800-433-3243. If you provided your e-mail address in question 13, you will receive information about your application within a few days after we process it.

Let's Get Started!

Now go to page 3, detach the application form and begin filling it out. Refer to the notes as instructed.

STATE AID DEADLINES

File Online and File On Time
www.fafsa.ed.gov

AR	For State Grant - April 1, 2005 For Workforce Grant - July 1, 2005 *(date received)*
AZ	June 30, 2006 *(date received)*
*^ CA	For initial awards - March 2, 2005 For additional community college awards - September 2, 2005 *(date postmarked)*
* DC	June 28, 2005 *(date received by state)*
DE	April 15, 2005 *(date received)*
FL	May 15, 2005 *(date processed)*
* IA	July 1, 2005 *(date received)*
# IL	First-time applicants - September 30, 2005 Continuing applicants - August 15, 2005 *(date received)*
IN	March 10, 2005 *(date received)*
#* KS	April 1, 2005 *(date received)*
# KY	March 15, 2005 *(date received)*
#^ LA	May 1, 2005 Final deadline - July 1, 2005 *(date received)*
#^ MA	May 1, 2005 *(date received)*
MD	March 1, 2005 *(date received)*
ME	May 1, 2005 *(date received)*
MI	March 1, 2005 *(date received)*
MN	14 days after term starts *(date received)*
MO	April 1, 2005 *(date received)*
# MT	March 1, 2005 *(date received)*
NC	March 15, 2005 *(date received)*
ND	March 15, 2005 *(date received)*
NH	May 1, 2005 *(date received)*
^ NJ	June 1, 2005, if you received a Tuition Aid Grant in 2004-2005 All other applicants - October 1, 2005, fall & spring term - March 1, 2006, spring term only *(date received)*
*^ NY	May 1, 2006 *(date received)*
OH	October 1, 2005 *(date received)*
# OK	April 30, 2005 Final deadline - June 30, 2005 *(date received)*
* PA	All 2004-2005 State Grant recipients & all non-2004-2005 State Grant recipients in degree programs - May 1, 2005 All other applicants - August 1, 2005 *(date received)*
# RI	March 1, 2005 *(date received)*
SC	June 30, 2005 *(date received)*
TN	May 1, 2005 *(date processed)*
*^ WV	March 1, 2005 *(date received)*

Check with your financial aid administrator for these states and territories:
AK, AL, *AS, CO, *CT, *FM, GA, *GU, *HI, ID, *MH, *MP, MS, *NE, *NM, *NV, OR, PR, *PW, *SD, *TX, UT, *VA, *VI, *VT, WA, WI and *WY.

 # For priority consideration, submit application by date specified.
^ Applicants encouraged to obtain proof of mailing.
** Additional form may be required.*

STATE AID DEADLINES

Notes for questions **14 – 15** (page 3)

If you are an eligible noncitizen, write in your eight- or nine-digit Alien Registration Number. Generally, you are an eligible noncitizen if you are: (1) a U.S. permanent resident and you have an Alien Registration Receipt Card (I-551); (2) a conditional permanent resident (I-551C); or (3) an other eligible noncitizen with an Arrival-Departure Record (I-94) from the Department of Homeland Security showing any one of the following designations: "Refugee," "Asylum Granted," "Parolee" (I-94 confirms paroled for a minimum of one year and status has not expired) or "Cuban-Haitian Entrant." If you are in the U.S. on an F1 or F2 student visa, a J1 or J2 exchange visitor visa, or a G series visa (pertaining to international organizations), you must fill in oval **c**. If you are neither a citizen nor an eligible noncitizen, you are not eligible for federal student aid. However, you may be eligible for state or college aid.

Notes for question **23** (page 3) — Enter the correct number in the box in question 23.

Enter **1** for 1st bachelor's degree.
Enter **2** for 2nd bachelor's degree.
Enter **3** for associate degree (occupational or technical program).
Enter **4** for associate degree (general education or transfer program).
Enter **5** for certificate or diploma for completing an occupational, technical, or educational program of less than two years.
Enter **6** for certificate or diploma for completing an occupational, technical, or educational program of at least two years.
Enter **7** for teaching credential program (nondegree program).
Enter **8** for graduate or professional degree.
Enter **9** for other/undecided.

Notes for question **24** (page 3) — Enter the correct number in the box in question 24.

Enter **0** for never attended college & 1st year undergraduate.
Enter **1** for attended college before & 1st year undergraduate.
Enter **2** for 2nd year undergraduate/sophomore.
Enter **3** for 3rd year undergraduate/junior.
Enter **4** for 4th year undergraduate/senior.
Enter **5** for 5th year/other undergraduate.
Enter **6** for 1st year graduate/professional.
Enter **7** for continuing graduate/professional or beyond.

Notes for questions **29 – 30** (page 3)

Some states and colleges offer aid based on the level of schooling your parents completed.

Notes for questions **33 c. and d.** (page 4) and **71 c. and d.** (page 5)

If you filed or will file a foreign tax return, or a tax return with Puerto Rico, Guam, American Samoa, the U.S. Virgin Islands, the Marshall Islands, the Federated States of Micronesia, or Palau, use the information from that return to fill out this form. If you filed a foreign return, convert all figures to U.S. dollars, using the exchange rate that is in effect today. To view the daily exchange rate, go to **www.federalreserve.gov/releases/h10/update**.

Notes for questions **34** (page 4) and **72** (page 5)

In general, a person is eligible to file a 1040A or 1040EZ if he or she makes less than $100,000, does not itemize deductions, does not receive income from his or her own business or farm, and does not receive alimony. A person is not eligible if he or she itemizes deductions, receives self-employment income or alimony, or is required to file Schedule D for capital gains. If you filed a 1040 only to claim Hope or Lifetime Learning credits, and you would have otherwise been eligible for a 1040A or 1040EZ, you should answer "Yes" to this question.

Notes for questions **37** (page 4) and **75** (page 5) — only for people who filed a 1040EZ or TeleFile

On the 1040EZ, if a person answered "Yes" on line 5, use EZ worksheet line F to determine the number of exemptions ($3,100 equals one exemption). If a person answered "No" on line 5, enter 01 if he or she is single, or 02 if he or she is married.

On the TeleFile, use line J(2) to determine the number of exemptions ($3,100 equals one exemption).

Notes for questions **43 – 45** (page 4) and **81 – 83** (page 5)

By applying online at **www.fafsa.ed.gov**, you may be eligible to skip some questions. If you do not have Internet access, completing questions 43–45 will not penalize you.

Net worth means current value minus debt. If net worth is one million dollars or more, enter $999,999. If net worth is negative, enter 0.

Investments include real estate (do not include the home you live in), trust funds, money market funds, mutual funds, certificates of deposit, stocks, stock options, bonds, other securities, Coverdell savings accounts, college savings plans, installment and land sale contracts (including mortgages held), commodities, etc. *Investment value* includes the market value of these investments as of today. *Investment debt* means only those debts that are related to the investments.

Investments do not include the home you live in, the value of life insurance, retirement plans (pension funds, annuities, noneducation IRAs, Keogh plans, etc.), and prepaid tuition plans, or cash, savings, and checking accounts already reported in 43 and 81.

Business and/or investment farm value includes the market value of land, buildings, machinery, equipment, inventory, etc. Business and/or investment farm debt means only those debts for which the business or investment farm was used as collateral.

Notes for question **54** (page 4)

Answer "**No**" (you are not a veteran) if you (1) have never engaged in active duty in the U.S. Armed Forces, (2) are currently an ROTC student or a cadet or midshipman at a service academy, or (3) are a National Guard or Reserves enlistee activated only for training. Also answer "No" if you are currently serving in the U.S. Armed Forces and will continue to serve through June 30, 2006.

Answer "**Yes**" (you are a veteran) if you (1) have engaged in active duty in the U.S. Armed Forces (Army, Navy, Air Force, Marines or Coast Guard) or are a National Guard or Reserve enlistee who was called to active duty for purposes other than training, or were a cadet or midshipman at one of the service academies, **and** (2) were released under a condition other than dishonorable. Also answer "Yes" if you are not a veteran now but will be one by June 30, 2006.

Page 2

Notes continued on page 7.

FAFSA

July 1, 2005 — June 30, 2006

FREE APPLICATION FOR FEDERAL STUDENT AID

We Help Put America Through School

OMB # 1845-0001

Step One: For questions 1–30, leave blank any questions that do not apply to you (the student).

1-3. Your full name (as it appears on your Social Security card)

1. LAST NAME FOR INFORMATION ONLY
2. FIRST NAME DO NOT SUBMIT
3. MIDDLE INITIAL

4-7. Your permanent mailing address

4. NUMBER AND STREET (INCLUDE APT. NUMBER)
5. CITY (AND COUNTRY IF NOT U.S.)
6. STATE
7. ZIP CODE

8. Your Social Security Number XXX–XX–XXXX

9. Your date of birth MMDD19YY

10. Your permanent telephone number ( ) –

11-12. Your driver's license number and state (if any)

11. LICENSE NUMBER
12. STATE

13. Your e-mail address — WE WILL USE THIS E-MAIL ADDRESS TO CORRESPOND WITH YOU. YOU WILL RECEIVE YOUR FAFSA INFORMATION THROUGH A SECURE LINK ON THE INTERNET, SENT TO THE E-MAIL ADDRESS YOU PROVIDE. LEAVE BLANK TO RECEIVE INFORMATION THROUGH REGULAR MAIL. WE WILL ONLY SHARE THIS ADDRESS WITH THE SCHOOLS YOU LIST ON THE FORM AND YOUR STATE. THEY MAY USE THE E-MAIL ADDRESS TO COMMUNICATE WITH YOU.

@

14. Are you a U.S. citizen? Pick one. **See page 2.**

- a. Yes, I am a U.S. citizen. **Skip to question 16.** 1
- b. No, but I am an eligible noncitizen. **Fill in question 15.** 2
- c. No, I am not a citizen or eligible noncitizen. 3

15. ALIEN REGISTRATION NUMBER A

16. What is your marital status as of today?

- I am single, divorced or widowed 1
- I am married/remarried 2
- I am separated 3

17. Month and year you were married, separated, divorced or widowed MMYYYY

18. What is your state of legal residence? STATE

19. Did you become a legal resident of this state before January 1, 2000? Yes 1 No 2

20. If the answer to question 19 is "**No**," give month and year you became a legal resident. MMYYYY

21. Are you male? (Most male students must register with Selective Service to get federal aid.) Yes 1 No 2

22. If you are male (age 18–25) and not registered, answer "Yes" and Selective Service will register you. Yes 1 No 2

23. What degree or certificate will you be working on during 2005–2006? **See page 2** and enter the correct number in the box.

24. What will be your grade level when you begin the 2005–2006 school year? **See page 2** and enter the correct number in the box.

25. Will you have a high school diploma or GED before you begin the 2005–2006 school year? Yes 1 No 2

26. Will you have your first bachelor's degree before July 1, 2005? Yes 1 No 2

27. In addition to grants, are you interested in student loans (which you must pay back)? Yes 1 No 2

28. In addition to grants, are you interested in "work-study" (which you earn through work)? Yes 1 No 2

29. Highest school your father completed — Middle school/Jr. High 1 High School 2 College or beyond 3 Other/unknown 4

30. Highest school your mother completed — Middle school/Jr. High 1 High School 2 College or beyond 3 Other/unknown 4

31. **Do not leave this question blank.** Have you ever been convicted of possessing or selling illegal drugs? If you have, answer "Yes," complete and submit this application, and we will send you a worksheet in the mail for you to determine if your conviction affects your eligibility for aid. No 1 Yes 2 — DO NOT LEAVE QUESTION 31 BLANK

Page 3

For Help – www.studentaid.ed.gov/completefafsa

Step Four: Complete this step if you (the student) answered "No" to all questions in Step Three. Go to page 7 to determine who is a parent for this step.

55. What is your parents' marital status as of today?

Married/Remarried ..... ○ 1 Divorced/Separated ..... ○ 3

Single ..... ○ 2 Widowed ..... ○ 4

56. Month and year they were married, separated, divorced or widowed M M Y Y Y Y

57-64. What are the Social Security Numbers, names and dates of birth of the parents reporting information on this form? If your parent does not have a Social Security Number, you must enter 000-00-0000.

57. FATHER'S/STEPFATHER'S SOCIAL SECURITY NUMBER ___ – __ – ____

58. FATHER'S/STEPFATHER'S LAST NAME, AND 59. FIRST INITIAL ____ , ___

60. FATHER'S/STEPFATHER'S DATE OF BIRTH M M D D 1 9 Y Y

61. MOTHER'S/STEPMOTHER'S SOCIAL SECURITY NUMBER ___ – __ – ____

62. MOTHER'S/STEPMOTHER'S LAST NAME, AND 63. FIRST INITIAL ____ , ___

64. MOTHER'S/STEPMOTHER'S DATE OF BIRTH M M D D 1 9 Y Y

65. **Go to page 7** to determine how many people are in your parents' household. ___

66. **Go to page 7** to determine how many in question 65 (exclude your parents) will be college students between July 1, 2005, and June 30, 2006. ___

67. What is your parents' state of legal residence? STATE ___

68. Did your parents become legal residents of this state before January 1, 2000? Yes ○ 1 No ○ 2

69. If the answer to question 68 is "**No**," give month and year legal residency began for the parent who has lived in the state the longest. M M Y Y Y Y

70. For 2004, have your parents completed their IRS income tax return or another tax return listed in question 71?

a. My parents have already completed their return. ○ 1
b. My parents will file, but they have not yet completed their return. ○ 2
c. My parents are not going to file. **(Skip to question 76.)** ○ 3

71. What income tax return did your parents file or will they file for 2004?

a. IRS 1040 ..... ○ 1
b. IRS 1040A, 1040EZ, 1040TeleFile ..... ○ 2
c. A foreign tax return. **See page 2.** ..... ○ 3
d. A tax return with Puerto Rico, Guam, American Samoa, the U.S. Virgin Islands, the Marshall Islands, the Federated States of Micronesia, or Palau. **See page 2.** ..... ○ 4

72. If your parents have filed or will file a 1040, were they eligible to file a 1040A or 1040EZ? **See page 2.** Yes ○ 1 No ○ 0 Don't Know ○ 3

For questions 73-83, if the answer is zero or the question does not apply, enter 0.

73. What was your parents' adjusted gross income for 2004? Adjusted gross income is on IRS Form 1040—line 36; 1040A—line 21; 1040EZ—line 4; or TeleFile—line L. $ ___ , ___

74. Enter the total amount of your parents' income tax for 2004. Income tax amount is on IRS Form 1040—line 56; 1040A—line 36; 1040EZ—line 10; or TeleFile—line K(2). $ ___ , ___

75. Enter your parents' exemptions for 2004. Exemptions are on IRS Form 1040—line 6d or on Form 1040A—line 6d. For Form 1040EZ or TeleFile, **see page 2**. ___

76-77. How much did your parents earn from working (wages, salaries, tips, etc.) in 2004? Answer this question whether or not your parents filed a tax return. This information may be on their W-2 forms, or on IRS Form 1040—lines 7 + 12 + 18; 1040A—line 7; or 1040EZ—line 1. TeleFilers should use their W-2 forms.

Father/ Stepfather (76) $ ___ , ___

Mother/ Stepmother (77) $ ___ , ___

Parent Worksheets (78-80)

78-80. **Go to page 8** and complete the columns on the right of Worksheets A, B, and C. Enter the parents' totals in questions 78, 79 and 80, respectively. Even though your parents may have few of the Worksheet items, check each line carefully.

Worksheet A (78) $ ___ , ___

Worksheet B (79) $ ___ , ___

Worksheet C (80) $ ___ , ___

81. As of today, what is your parents' total current balance of **cash, savings, and checking accounts**? $ ___ , ___

82. As of today, what is the net worth of your parents' **investments**, including real estate (not your parents' home)? *Net worth* means current value minus debt. **See page 2.** $ ___ , ___

83. As of today, what is the net worth of your parents' current **businesses and/or investment farms**? Do not include a farm that your parents live on and operate. **See page 2.** $ ___ , ___

Now go to Step Six.

Step Two: **For questions 32–45, report your (the student's) income and assets. If you are married as of today, report your and your spouse's income and assets, even if you were not married in 2004. Ignore references to "spouse" if you are currently single, separated, divorced or widowed.**

32. For 2004, have you (the student) completed your IRS income tax return or another tax return listed in question 33?

a. I have already completed my return. ○ ›
b. I will file, but I have not yet completed my return. ○ ›
c. I'm not going to file. **(Skip to question 38.)** ○ ›

33. What income tax return did you file or will you file for 2004?

a. IRS 1040 ○ ›
b. IRS 1040A, 1040EZ, 1040TeleFile ○ ›
c. A foreign tax return. **See page 2.** ○ ›
d. A tax return with Puerto Rico, Guam, American Samoa, the U.S. Virgin Islands, the Marshall Islands, the Federated States of Micronesia, or Palau. **See page 2.** ○ ›

34. If you have filed or will file a 1040, were you eligible to file a 1040A or 1040EZ? **See page 2.** Yes ○ › No ○ › Don't Know ○ ›

For questions 35–47, if the answer is zero or the question does not apply to you, enter 0.

35. What was your (and spouse's) adjusted gross income for 2004? Adjusted gross income is on IRS Form 1040—line 36; 1040A—line 21; 1040EZ—line 4; or TeleFile—line I. $ ___ , ___

36. Enter the total amount of your (and spouse's) income tax for 2004. Income tax amount is on IRS Form 1040—line 56; 1040A—line 36; 1040EZ—line 10; or TeleFile—line K(2). $ ___ , ___

37. Enter your (and spouse's) exemptions for 2004. Exemptions are on IRS Form 1040—line 6d or on Form 1040A—line 6d. For Form 1040EZ or TeleFile, **see page 2.** ___

38-39. How much did you (and spouse) earn from working (wages, salaries, tips, etc.) in 2004? Answer this question whether or not you filed a tax return. This information may be on your W-2 forms, or on IRS Form 1040—lines 7 + 12 + 18; 1040A—line 7; or 1040EZ—line 1. TeleFilers should use their W-2 forms.

You (38) $ ___ , ___

Your Spouse (39) $ ___ , ___

Student (and Spouse) Worksheets (40–42)

40-42. **Go to page 8** and complete the columns on the left of Worksheets A, B, and C. Enter the student (and spouse) totals in questions 40, 41 and 42, respectively. Even though you may have few of the Worksheet items, check each line carefully.

Worksheet A (40) $ ___ , ___

Worksheet B (41) $ ___ , ___

Worksheet C (42) $ ___ , ___

43. As of today, what is your (and spouse's) total current balance of **cash, savings, and checking accounts**? Do not include student financial aid. $ ___ , ___

44. As of today, what is the net worth of your (and spouse's) **investments**, including real estate (not your home)? *Net worth* means current value minus debt. **See page 2.** $ ___ , ___

45. As of today, what is the net worth of your (and spouse's) current **businesses and/or investment farms**? Do not include a farm that you live on and operate. **See page 2.** $ ___ , ___

46-47. If you receive veterans' education benefits, for how many months from July 1, 2005, through June 30, 2006, will you receive these benefits, and what amount will you receive per month? Do not include your spouse's veterans' education benefits.

Months (46) ___

Monthly Amount (47) $ ___ , ___

Step Three: **Answer all seven questions in this step.**

48. Were you born before January 1, 1982? Yes ○ › No ○ ›
49. At the beginning of the 2005–2006 school year, will you be working on a master's or doctorate program (such as an MA, MBA, MD, JD, PhD, EdD, or graduate certificate, etc.)? Yes ○ › No ○ ›
50. As of today, are you married? (Answer "Yes" if you are separated but not divorced.) Yes ○ › No ○ ›
51. Do you have children who receive more than half of their support from you? Yes ○ › No ○ ›
52. Do you have dependents (other than your children or spouse) who live with you and who receive more than half of their support from you, now and through June 30, 2006? Yes ○ › No ○ ›
53. Are both of your parents deceased, or are you (or were you until age 18) a ward/dependent of the court? Yes ○ › No ○ ›
54. Are you a veteran of the U.S. Armed Forces? **See page 2.** Yes ○ › No ○ ›

If you (the student) answer "No" to every question in Step Three, go to Step Four.
If you answer "Yes" to any question in Step Three, skip Step Four and go to Step Five on page 6.

(Health Profession Students: Your school may require you to complete Step Four even if you answered "Yes" to any Step Three question.)

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Step Five: Complete this step only if you (the student) answered "Yes" to any Step Three question.

84. **Go to page 7** to determine how many people are in your (and your spouse's) household.

85. **Go to page 7** to determine how many people in question 84 will be college students, attending at least half time between July 1, 2005, and June 30, 2006.

Step Six: Please tell us which schools may request your information, and indicate your enrollment status.

Enter the 6-digit federal school code and your housing plans. Look for the federal school codes at **www.fafsa.ed.gov**, at your college financial aid office, at your public library, or by asking your high school guidance counselor. If you cannot get the federal school code, write in the complete name, address, city and state of the college. For state aid, you may wish to list your preferred school first.

	1st FEDERAL SCHOOL CODE	OR	NAME OF COLLEGE / ADDRESS AND CITY	STATE		HOUSING PLANS
86.		OR			87.	on campus ○ 1 / off campus ○ 2 / with parent ○ 3
	2nd FEDERAL SCHOOL CODE					
88.		OR			89.	on campus ○ 1 / off campus ○ 2 / with parent ○ 3
	3rd FEDERAL SCHOOL CODE					
90.		OR			91.	on campus ○ 1 / off campus ○ 2 / with parent ○ 3
	4th FEDERAL SCHOOL CODE					
92.		OR			93.	on campus ○ 1 / off campus ○ 2 / with parent ○ 3
	5th FEDERAL SCHOOL CODE					
94.		OR			95.	on campus ○ 1 / off campus ○ 2 / with parent ○ 3
	6th FEDERAL SCHOOL CODE					
96.		OR			97.	on campus ○ 1 / off campus ○ 2 / with parent ○ 3

98. **See page 7.** At the start of the 2005-2006 school year, mark if you will be: Full time ○ 1 3/4 time ○ 2 Half time ○ 3 Less than half time ○ 4 Not sure ○ 5

Step Seven: Read, sign and date.

If you are the student, by signing this application you certify that you (1) will use federal and/or state student financial aid only to pay the cost of attending an institution of higher education, (2) are not in default on a federal student loan or have made satisfactory arrangements to repay it, (3) do not owe money back on a federal student grant or have made satisfactory arrangements to repay it, (4) will notify your school if you default on a federal student loan and (5) will not receive a Federal Pell Grant for more than one school for the same period of time.

If you are the parent or the student, by signing this application you agree, if asked, to provide information that will verify the accuracy of your completed form. This information may include your U.S. or state income tax forms. Also, you certify that you understand that **the Secretary of Education has the authority to verify information reported on this application with the Internal Revenue Service and other federal agencies.** If you sign any document related to the federal student aid programs electronically using a Personal Identification Number (PIN), you certify that you are the person identified by the PIN and have not disclosed that PIN to anyone else. If you purposely give false or misleading information, you may be fined $20,000, sent to prison, or both.

99. Date this form was completed.

M M D D 2005 ○ or 2006 ○

100. **Student** (Sign below)

Parent (A parent from Step Four sign below)

If this form was filled out by someone other than you, your spouse or your parents, that person must complete this part.

Preparer's name, firm and address

101. Preparer's Social Security Number (or 102)

102. Employer ID number (or 101)

103. Preparer's signature and date

SCHOOL USE ONLY: Federal School Code

D/O ○ 1

FAA Signature

DATA ENTRY USE ONLY: ○ P ○ + ○ L ○ E

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Notes for questions **55–83** (page 5) **Step Four:** Who is considered a parent in this step?

Read these notes to determine who is considered a parent on this form. **Answer all questions in Step Four about them**, even if you do not live with them. (Note that grandparents and legal guardians are not parents.)

If your parents are both living and married to each other, answer the questions about them.

If your parent is widowed or single, answer the questions about that parent. If your widowed parent is remarried as of today, answer the questions about that parent and the person whom your parent married (your stepparent).

If your parents are divorced or separated, answer the questions about the parent you lived with more during the past 12 months. (If you did not live with one parent more than the other, give answers about the parent who provided more financial support during the past 12 months, or during the most recent year that you actually received support from a parent.) If this parent is remarried as of today, answer the questions on the rest of this form about that parent and the person whom your parent married (your stepparent).

Notes for question **65** (page 5)

Include in your parents' household (see notes, above, for who is considered a parent):

- your parents and yourself, even if you don't live with your parents,
- your parents' other children if (a) your parents will provide more than half of their support from July 1, 2005, through June 30, 2006, or (b) the children could answer "no" to every question in Step Three on page 4 of this form, and
- other people if they now live with your parents, your parents provide more than half of their support, and your parents will continue to provide more than half of their support from July 1, 2005, through June 30, 2006.

Notes for questions **66** (page 5) and **85** (page 6)

Always count yourself as a college student. Do not include your parents. Include others only if they will attend, at least half time in 2005-2006, a program that leads to a college degree or certificate.

Notes for question **84** (page 6)

Include in your (and your spouse's) household:

- yourself (and your spouse, if you have one),
- your children, if you will provide more than half of their support from July 1, 2005, through June 30, 2006, and
- other people if they now live with you, you provide more than half of their support, and you will continue to provide more than half of their support from July 1, 2005, through June 30, 2006.

Notes for question **98** (page 6)

For undergraduates, "full time" generally means taking at least 12 credit hours in a term or 24 clock hours per week. "3/4 time" generally means taking at least 9 credit hours in a term or 18 clock hours per week. "Half time" generally means taking at least 6 credit hours in a term or 12 clock hours per week. Provide this information about the college you are most likely to attend.

Information on the Privacy Act and use of your Social Security Number

We use the information that you provide on this form to determine if you are eligible to receive federal student financial aid and the amount that you are eligible to receive. Sections 483 and 484 of the Higher Education Act of 1965, as amended, give us the authority to ask you and your parents these questions, and to collect the Social Security Numbers of you and your parents. We use your Social Security Number to verify your identity and retrieve your records, and we may request your Social Security Number again for these purposes.

State and institutional student financial aid programs may also use the information that you provide on this form to determine if you are eligible to receive state and institutional aid and the need that you have for such aid. Therefore, we will disclose the information that you provide on this form to each institution you list in questions 86–96, state agencies in your state of legal residence, and the state agencies of the states in which the colleges that you list in questions 86–96 are located.

If you are applying solely for federal aid, you must answer all of the following questions that apply to you: 1–9, 14–16, 18, 21–22, 25–26, 31–36, 38–45, 48–67, 70–74, 76–85 and 99–100. If you do not answer these questions, you will not receive federal aid.

Without your consent, we may disclose information that you provide to entities under a published "routine use." Under such a routine use, we may disclose information to third parties that we have authorized to assist us in administering the above programs; to other federal agencies under computer matching programs, such as those with the Internal Revenue Service, Social Security Administration, Selective Service System, Department of Homeland Security and Veterans Affairs; to your parents or spouse; and to members of Congress if you ask them to help you with student aid questions.

If the federal government, the U.S. Department of Education, or an employee of the U.S. Department of Education is involved in litigation, we may send information to the Department of Justice, or a court or adjudicative body, if the disclosure is related to financial aid and certain conditions are met. In addition, we may send your information to a foreign, federal, state, or local enforcement agency if the information that you submitted indicates a violation or potential violation of law, for which that agency has jurisdiction for investigation or prosecution. Finally, we may send information regarding a claim that is determined to be valid and overdue to a consumer reporting agency. This information includes identifiers from the record; the amount, status and history of the claim; and the program under which the claim arose.

State Certification

By submitting this application, you are giving your state financial aid agency permission to verify any statement on this form and to obtain income tax information for all persons required to report income on this form.

The Paperwork Reduction Act of 1995

The Paperwork Reduction Act of 1995 says that no one is required to respond to a collection of information unless it displays a valid OMB control number, which for this form is 1845-0001. The time required to complete this form is estimated to be one hour, including time to review instructions, search data resources, gather the data needed, and complete and review the information collection. If you have comments about this estimate or suggestions for improving this form, please write to: U.S. Department of Education, Washington DC 20202-4651.

We may request additional information from you to process your application more efficiently. We will collect this additional information only as needed and on a voluntary basis.

Notes continued from page 2.

Worksheets

Calendar Year 2004

Do not mail these worksheets in with your application.
Keep these worksheets; your school may ask to see them.

Worksheet A

Report Annual Amounts

Student/Spouse: For question 40		Parents: For question 78
$	Earned income credit from IRS Form 1040—line 65a; 1040A—line 41a; 1040EZ—line 8a; or TeleFile—line L	$
$	Additional child tax credit from IRS Form 1040—line 67 or 1040A—line 42	$
$	Welfare benefits, including Temporary Assistance for Needy Families (TANF). Don't include food stamps or subsidized housing.	$
$	Social Security benefits received, for all household members as reported in question 84 (or 65 for your parents), that were not taxed (such as SSI). Report benefits paid to parents in the Parents column, and benefits paid directly to student (or spouse) in the Student/Spouse column.	$
$	**Enter in question 40.** **Enter in question 78.**	$

Worksheet B

Report Annual Amounts

For question 41		For question 79
$	Payments to tax-deferred pension and savings plans (paid directly or withheld from earnings), including, but not limited to, amounts reported on the W-2 Form in Boxes 12a through 12d, codes D, E, F, G, H and S	$
$	IRA deductions and payments to self-employed SEP, SIMPLE, and Keogh and other qualified plans from IRS Form 1040—total of lines 25 + 32 or 1040A—line 17	$
$	Child support you received for all children. Don't include foster care or adoption payments.	$
$	Tax exempt interest income from IRS Form 1040—line 8b or 1040A—line 8b	$
$	Foreign income exclusion from IRS Form 2555—line 43 or 2555EZ—line 18	$
$	Untaxed portions of IRA distributions from IRS Form 1040—lines (15a minus 15b) or 1040A—lines (11a minus 11b). Exclude rollovers. If negative, enter a zero here.	$
$	Untaxed portions of pensions from IRS Form 1040—lines (16a minus 16b) or 1040A—lines (12a minus 12b). Exclude rollovers. If negative, enter a zero here.	$
$	Credit for federal tax on special fuels from IRS Form 4136—line 10 (nonfarmers only)	$
$	Housing, food and other living allowances paid to members of the military, clergy and others (including cash payments and cash value of benefits)	$
$	Veterans' noneducation benefits such as Disability, Death Pension, or Dependency & Indemnity Compensation (DIC), and/or VA Educational Work-Study allowances	$
$	Any other untaxed income or benefits not reported elsewhere on Worksheets A and B, such as workers' compensation, untaxed portions of railroad retirement benefits, Black Lung Benefits, disability, etc. Don't include student aid, Workforce Investment Act educational benefits, or benefits from flexible spending arrangements, e.g., cafeteria plans.	$
$	Money received, or paid on your behalf (e.g., bills), not reported elsewhere on this form	XXXXXXXX
$	**Enter in question 41.** **Enter in question 79.**	$

Worksheet C

Report Annual Amounts

For question 42		For question 80
$	Education credits (Hope and Lifetime Learning tax credits) from IRS Form 1040—line 49 or 1040A—line 31	$
$	Child support you paid because of divorce or separation or as a result of a legal requirement. Don't include support for children in your (or your parents') household, as reported in question 84 (or question 65 for your parents).	$
$	Taxable earnings from need-based employment programs, such as Federal Work-Study and need-based employment portions of fellowships and assistantships	$
$	Student grant and scholarship aid reported to the IRS in your (or your parents') adjusted gross income. Includes AmeriCorps benefits (awards, living allowances and interest accrual payments), as well as grant or scholarship portions of fellowships and assistantships.	$
$	**Enter in question 42** **Enter in question 80.**	$

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Appendix 3: Examples of Financial Aid Packages

Below are sample financial aid packages that one student might be offered at several different types of institutions. In creating these examples, it was assumed that each of these colleges and universities participates in the Direct Loan program. If these institutions participate in the Federal Family Education Loan (FFEL) program, the amounts provided for Direct Subsidized, Direct Unsubsidized, and Direct PLUS loans would be the same, but the names of the programs would change to federal Stafford Subsidized Loan, Stafford Unsubsidized Loan, and PLUS Loan.

These examples are courtesy of the National Association of Student Financial Aid Administrators.

Financial Aid Package #1: Community College (living at home)

Cost of Attendance	$ 8,279
EFC	– 260
Financial Need	$ 8,019
Federal Pell Grant	$ 3,800
State Need-based Grant	1,250
Federal SEOG	400
Federal Work-Study	+ 1,650
Total Aid	$ 7,100
Unmet Need	$ 919

The Community College does not package loan assistance. The cost of attending Community College is relatively low, and school officials typically don't award loans when direct costs appear to have been met with gift aid. Student loans can be requested to meet unmet need.

This student is eligible for a $3,800 federal Pell Grant and a $1,250 state grant. The college had to take these resources into account before awarding other federal assistance. Campus-based aid is allocated to schools by the federal government and, within certain parameters, the school decides how it will award these funds. The campus-based aid awarded to this student includes SEOG of $400, a typical addition for students with high need, and Federal Work-Study (FWS) of $1,650. (Community College does not participate in the federal Perkins Loan program.) If the academic year is 30 weeks long, and the pay rate is $5.15 per hour, the student will need to work an average of 10-11 hours per week to earn the entire FWS award.

While a Direct Loan is not a part of this package, the student could borrow up to $919 from the Direct Subsidized Loan Program to replace the unmet need and $260 from the Direct Unsubsidized Loan Program to replace the EFC. Or, even though unlikely, the student's parent could borrow the EFC amount of $260 from the Direct PLUS Program, instead of the student borrowing an unsubsidized loan.

Financial Aid Package #2: State College (living at home)

Cost of Attendance	$12,779
EFC	– 260
Financial Need	$ 12,519
Federal Pell Grant	$ 3,800
State Need-based Grant	2,000
Federal SEOG	1,000
Federal Work-Study	1,550
Federal Direct Subsidized Loan	2,625
Federal Perkins Loan	+ 1,525
Total Aid	$ 12,500
Unmet Need	$ 19

The cost of attending State College is higher, even though this student is living at home. Tuition and fee costs at most baccalaureate degree–granting schools will typically be somewhat higher than those charged at community colleges. Notice that the EFC remains the same, as does the federal Pell Grant. However, because many state grants are tuition- and fee-sensitive and State College charges more for tuition and fees, the state grant has increased.

State College believes in meeting as much of a student's total need as possible and offers an SEOG of $1,000 and FWS of $1,550. These amounts are the typical limits in SEOG and FWS that are offered to first-year students commuting from home. The FWS allows the student to work approximately 10 hours per week. This practice recognizes that first-year students need adequate time to adjust to the academic demands of college. Further, State College recognizes that most of its commuting students who want or need to work, find or maintain employment off-campus.

State College awards loans only after gift aid and work-study. It awards Direct Subsidized Loans first and adds a Perkins Loan (up to the institution's self-imposed limit of $2,500) when it is needed to meet the student's needs. The package includes the maximum (for first-year students) $2,625 Direct Subsidized Loan and a Perkins Loan of $1,525.

The student's parent could borrow the amount of the EFC ($260) and the unmet need ($19) from the Direct PLUS Program, if necessary.

Financial Aid Package #3: State College (living in a residence hall)

Cost of Attendance	$ 14,779
EFC	– 260
Financial Need	$ 14,519
Federal Pell Grant	$ 3,800
State Need-based Grant	2,000
Federal SEOG	1,450
Federal Work-Study	2,100
Federal Direct Subsidized Loan	2,625
Federal Perkins Loan	+ 2,500
Total Aid	$ 14,475
Unmet Need	$ 44

The student also requested an aid package at State College that would support

on-campus residence. This package reflects a cost of attendance that is $2,000 greater than the one for living at home, but State College still wants to meet the entire need, even with the additional cost.

This student's federal Pell Grant and state grant remain the same. The Direct Subsidized Loan remains the same also, because $2,625 is the maximum subsidized loan amount for a first-year student. State College does, however, have the ability to adjust the campus-based funding it offers to meet the additional residence hall costs. It therefore increases the SEOG offer to $1,450, typical for high-need, on-campus residents; the FWS to $2,100 (this is 13–14 hours per week, presuming that the convenience of living on campus will facilitate greater earnings); and the federal Perkins Loan to $2,500, still within the institution's self-imposed maximum.

The student's parent maintains the ability to borrow from the federal PLUS program for the EFC and the $44 unmet need.

Financial Aid Package #4: State University (living in a residence hall)

Cost of Attendance	$ 17,279
EFC	– 260
Financial Need	$ 17,019
Federal Pell Grant	$ 3,800
State Need-based Grant	2,000
Federal SEOG	1,000
Federal Work-Study	2,300
Federal Direct Subsidized Loan	2,625
Federal Perkins Loan	2,500
Federal PLUS Loan (recommended)	+ 2,760
Total Aid	$ 16,985
Unmet Need	$ 34

State University attracts many applications. Most of its financial aid packages meet all of the applicants' needs. However, unless a student has been specifically recruited to this university with an aid package that rewards his or her special skills or capabilities, the student's financial aid package will reflect national norms and include significantly more self-help than gift aid.

This student's offer includes a federal Pell Grant of $3,800 and a state grant of $2,000, as it did in Financial Aid Package #3. The student also is eligible for the same $2,625 Direct Subsidized Loan. State University offers $1,000 in FSEOG, an average amount that allows it to distribute its federal allocation equally across its many needy applicants. The university also offers $2,300 in FWS and a $2,500

federal Perkins Loan, the maximum Perkins Loan that it will give to a first-year student. According to practice and to be able to meet the student's total need, the university also has awarded (recommended) a Direct PLUS Loan for $2,760. State University feels that if the student wants to attend the institution, the family will borrow or make the necessary sacrifices in order to make that happen.

Because the student will live in a residence hall, on-campus employment is likely the best choice. The student can work in an FWS position for 15 hours per week, as awarded, or request consideration for an increase in the FWS award and reduce the need to borrow. Further, with prior work experience, the student could look for a non–need-based job on campus. This will allow the student to earn more income without affecting the financial aid package for the current year.

Financial Aid Package #5: Private University (living in a residence hall)

Cost of Attendance	$ 39,154
EFC	– 260
Financial Need	$ 38,894
Federal Pell Grant	$ 3,800
State Need-based Grant	2,000
Federal SEOG	2,000
Institutional Grant	16,650
Federal Work-Study	2,315
Federal Direct Subsidized Loan	2,625
Federal Perkins Loan	2,500
Institutional Loan	+ 6,885
Total Aid	$ 38,775
Unmet Need	$ 119

As a private institution, Private University does not receive state subsidization to help pay for the costs of educating its students. Private University must depend on tuition and fee expenses as the major source of its operating budget. Therefore, it has a higher cost of attendance for its students.

The student will receive the same $3,800 federal Pell Grant as from the other institutions under consideration. The state grant is a standard value that is given to recipients at all of the private colleges and universities to help equate their tuition and fee costs to those at state public institutions. The student will also receive the same $2,625 Direct Subsidized Loan, as this is the regulated maximum for first-year students at any institution.

This university awards campus-based resources up to the institutionally set maximum values for each program. The student has been offered $2,000 in SEOG, $2,315 in FWS (15 hours per week over a 30-week year), and a Perkins Loan of $2,500.

Any remaining need is met through institutional grants and loans. The amount of the grants and loans that the university offers to a recipient is determined by the student's remaining need and is awarded in amounts that will closely equate total gift aid and self-help aid. The student was awarded $16,650 in grants, bringing the gift aid total to $24,450. The student's institutional loan is $6,885, bringing the self-help aid to a total of $14,325.

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