

Financial Aid 101: The Overview

CAPFAA Financial Aid Fair, 2005

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Our Agenda

- What's financial aid?
- Where does it come from?
- Why do students get aid?
- How does the system work?
- What are the issues in student aid?

What Is Financial Aid?

- **Types:**
 - Grants and scholarships
 - Loans (for parents and students)
 - Jobs
- **Sources:**
 - Federal and state governments
 - Colleges and universities
 - Private organizations

Why Do Students Get Aid?

- **Need-based aid:**
 - Student and parents are found unable to meet full cost of the year at college.
- **Merit-based aid:**
 - Student is rewarded for achievement.
 - College wants the student to enroll, so it offers a scholarship (or discount).
- **75% of full-time undergrads get some kind of financial aid. Total aid in 04-05: \$129 billion.**

What Is Merit?

- Academic, artistic, athletic achievement.
- Desirability as a potential student:
 - SATs, National Merit qualification, etc.
 - Athletic, artistic, other potential
 - Racial or ethnic identity
 - ZIP code

What Is Financial Need?

- Cost of attendance is greater than family's apparent ability to pay.

| | |
|-------------------|----------|
| – Cost: | \$40,000 |
| – Ability to pay: | \$24,000 |
| – Financial Need: | \$16,000 |

Student Eligibility

- Good academic standing in an eligible academic program at an eligible school.
- Financial need.
- Program-specific eligibility:
 - Residency (state programs)
 - Citizenship
 - Loan default, Selective Service, etc.

College: What Do We Pay For?

- Tuition and fees
- Books and supplies
- Room and board
- Transportation
- Miscellaneous personal expenses
- Child care, disability-related costs

College: What Does It Cost?

- Two-year publics: \$9,000 and up
- Four-year publics: \$15,000 and up
- Four-year privates: \$30,000 and up
- Top-shelf brands: \$45,000 and up
- (46% of full-time students at four-year colleges are at schools with tuition and fees less than \$6,000. Only 12% of students at four-year colleges are at schools charging \$24,000 or more for tuition and fees.)

ISSUE: College Cost Increases

- Average tuition & fees increases in 2005-2006:
 - Public four-years: 6.6%
 - Public two-years: 5.4%
 - Private four-years: 5.7%
- The increase at the public colleges is clearly the result of cost shifting from the states' taxpayers to the students and parents paying tuition and fees.
- Public college prices increased at a slower rate than in the past two years.

ISSUE: Perceptions of Affordability

- For a middle-income family, a four-year public costs 20% of family income in 03-04.
- A four-year private cost 55% of this family's annual income.
- Financial aid eligibility formulas result in contributions greater than these families can afford from current income.
- (Middle income = \$43,196 to \$65,644 in 2003.)

Determining Ability To Pay (Need Analysis)

- Students and parents report a standard set of data on their income and assets.
- Need analysis formulas apply **assumptions** about family's basic needs and **willingness** to commit discretionary income and assets to college costs.
- **Colleges may adjust** the standard computation.
- **Need analysis formulas are primarily driven by income, not assets, for most families.**

Need Analysis: Two Varieties

- **Federal Methodology (FM)** is mandatory for federal and state aid programs. Some colleges use it for their own funds.
- **Institutional Methodology (IM)** may be used for private college or scholarship funds.
- **The difference?** Example: FM ignores home equity as an asset; IM doesn't.

Need-Based Aid: How Families Apply

- **All colleges:** FAFSA (Free Application for Federal Student Aid).
- **Many colleges:** institutional forms, tax returns, other supporting documents.
- **Some colleges** and scholarships: CSS Profile.
- Families should apply online!

FAFSA (The Federal Application)

- Required by all colleges; determines eligibility for federal, state, some institutional funds.
- 80% apply at www.fafsa.ed.gov; families should complete the worksheet first.
- Student and parent should get PINs before filing.
- Paper FAFSA to be distributed in November.
- Check individual college deadlines.
- FAFSA response is by email if student provides a valid email address (and checks the account).

The CSS Profile Application

- Required by some private colleges and scholarship programs to award private funds. Applicant pays processing fees unless waived.
- Must be completed at www.collegeboard.com
- Colleges set deadlines, which may be early.
- Profile collects much more financial and biographical data than the FAFSA does.
- Related services: Non-Custodial Profile, IDOC.

Profile Fee Waivers

- Fee waivers were previously distributed by high school counselors.
- For 05-06, CSS began online fee waivers based on reported financial data.
- For 06-07, CSS uses reduced price lunch criteria, parent assets, status.
- Automatic waivers for orphans/wards of court, and those in Katrina-affected zip codes (as of 8/29/05).
- For 06-07, waivers cover six colleges.

The Process: A Quick Look

- Family applies for aid.
- College receives and reviews data.
- College determines family contribution.
- College awards aid (or doesn't).
- College communicates decision to family.
- Family comes to see you.

The “Award Letter,” or What Families Need to Know Next

- What’s the full cost of the year at college?
- What’s the expected family contribution?
- How much aid is free (grants and scholarships)?
- How much aid is loans? Who borrows?
- How will they fill the gap?

Student Aid in 2004-2005

Grand total: \$128,900,000,000

- 47% Federal loans
- 19% Institutional grants
- 10% Federal Pell grants
- 7% Private and employer grants
- 6% Education tax benefits
- 5% State grants

Free Money

- Federal grants (Pell and SEOG) for the neediest students: FC less than \$4000.
- State grants require need and resident status.
- Institutional grants (need- or merit-based).
- Scholarships from private donors (Rotary, Gates Foundation, Waterbury Foundation, etc.)

Student Employment

- Need-based jobs: Federal Work-Study, CAP/CICS employment, institutional funds.
- Colleges typically pay students directly, rather than apply payments against charges on the student's account.
- Wages vary and hours may be limited.

Loans: Who Borrows What?

- Students take primarily federal loans.
- Parents take federal and private-sector loans.
- Some private-sector loans have students and parents as co-borrowers.
- Students and families also use non-education loans (home equity, credit cards, etc.) for college costs.
- Private loans are the fastest-growing type of “aid.”

Federal Student Loans

- Stafford Loans (FFEL or Direct)
 - Repay after college at variable interest
 - \$2625, \$3500, \$5500, \$5500 (annual limits)
 - *Available regardless of need.*
- Perkins Loans
 - Repay after college at 5% fixed
 - Up to \$4000 per undergraduate year
 - Limited availability: high need required

Parent Loans

- Federal PLUS (FFEL or Direct)
 - Borrow up to (costs - aid)
 - Need not required
 - Repay in 60 days at variable rate
- “Alternative” loans: CT FELP, TERI, etc.
- Home equity?

ISSUE: Debt Burdens

- Loans as a percentage of total aid:
 - 1980: 41%
 - 1990: 49%
 - 2004: 56%
- Constant-dollar increase since 1997:
 - Loans: 72%
 - Grants: 64%

ISSUE: Debt Burdens

- A needy undergraduate could borrow up to \$43,000 from federal programs. (What about grad school?)
- Many parents could borrow \$140,000 from the federal parent loan to pay for four years.
- In 04-05, students and parents borrowed *\$76,587,000,000* from federal and non-federal education loan programs.

Highly Recommended:

- College Board research publications:
 - Trends in College Pricing 2005
 - Trends in Student Aid 2005

(available at www.collegeboard.com)