MONEYSCHOOL's Simplified Guide to FAFSA and Federal Student Aid

MONEY SCHOOL

Table of Contents

MONEYSCHOOL's Simplified Guide To FAFSA and Federal Student Aid

Introduction

If you are planning to apply for grants and loans to help pay for college or a career school, you will soon become all too familiar with the U. S. Department of Education's **Free Application for Federal Student Aid**, and its acronym, **FAFSA**.

Think your federal tax return is confusing? There's a good chance you'll encounter a whole new level of frustration in applying for federal student aid. After all, you're dealing with the government. The good news is that the FAFSA allows you to apply for all federal student aid programs with a single application.

This Guide isn't intended to tell you everything you need to know about FAFSA and federal student aid. What it does do is give you a simplified, big-picture orientation to financial aid programs and the application process, including some information you won't find in the official guides. Also, it pulls together a lot of critical information that can be hard to track down on the Federal Student Aid web site.

Federal financial aid programs are extremely complex and confusing. Understanding how the system works will help you make sense out of the application process, and it will also help you make smart choices about how to pay for college or career education.

There's one other really important thing MONEYSCHOOL wants you to get out of this guide. Although student loans are an essential form of financial aid for many students, most students and their parents don't realize that student loan debt is actually more dangerous than most other types of debt—even worse than credit cards in some ways. We'll explain why later, in the section titled "What to Watch Out For!" at the end of this guide.

The material contained in this Guide is based on the best available information at the time of publication. However, a number of changes to federal student aid programs were under consideration when this Guide was prepared. More recent information may be available at the U. S. Department of Education's Office of Federal Student Aid web site: www.FederalStudentAid.ed.gov.

Important tip: MONEYSCHOOL will be issuing free email updates on changes to federal student aid programs and the application process. If you haven't already provided us with your email address, you can sign up to receive those updates at www.moneyschool.com/fafsasignup.html *.*

Federal Student Aid Basics

One thing that confuses many aid-seekers is the variety of financial aid programs offered by the federal government. In addition, many colleges and universities use the information in your FAFSA to determine your eligibility for non-federal programs, including state-funded grants. But let's start with the basics. There are three general types of federal financial aid programs:

- Grants, which don't have to be repaid
- Federal Work-Study, which allows you to earn money for school through either on-campus or off-campus employment
- Loans, which must be repaid with interest.

There are several different types of federally-sponsored grant and loan programs. We'll get into more detail later, but you really don't have to worry much about those options when you fill out your FAFSA, because you don't get to choose which ones will be offered to you.

Eligibility

Except for certain types of loans, federal student aid is awarded based on your financial need, as determined by the Department of Education's Office of Federal Student Aid (FSA). Much of the information you are required to provide in your FAFSA is used to figure out how much the government thinks you, and your parents if you are a dependent student, can afford to contribute to the cost of your education. That's called your "Expected Family Contribution" or "EFC." Remember that acronym.

Your EFC is critical, because the total amount of financial aid you can receive from most federal programs is limited to the difference between: (1) the cost of attendance at your school, and (2) your EFC. Your EFC will probably be higher than you expect it to be. Fortunately, some federal loan programs allow you to borrow money to cover a portion of your expected family contribution. More on that below.

By the way, your family's financial situation may change over time, so you have to submit a new FAFSA for each year that you will want to receive financial aid.
In addition to financial need, there are some other eligibility requirements for federal financial aid. You must:

- Be a U. S. citizen or eligible non-citizen
- Have a valid social security number
- Have a high school diploma or GED, or otherwise demonstrate that you are qualified to obtain a post-secondary education
- Be working toward a degree or certificate in an eligible program

- Register with Selective Service If you are a male between 18 and 25 (The Selective Service System is the agency responsible for instituting a military draft if it should become necessary. See www.sss.gov.)
- Maintain satisfactory academic progress once you are in school

Important Tip: The Office of Federal Student Aid does not consider the credit history of undergraduate students when determining eligibility for federally-guaranteed student loans.

Federal Grant and Loan Programs

The Office of Federal Student Aid administers several types of grant and loan programs. We discuss them here, but as an applicant you don't really have to worry about the details. When you submit a FAFSA, you will be considered for all available programs and Federal Student Aid will determine what type of aid you are eligible to receive.

The types and amount of financial aid you are offered will depend on your financial need which is determined using the information you provide in your FAFSA. The information in your FAFSA is also used by many schools to determine your eligibility for non-federal financial aid programs, including state grant programs.

Pell Grants

Obviously, grants are the most desirable form of financial aid, because grant money does not have to be repaid. Grants are offered only to students with the greatest financial need, meaning the lowest EFC. Grant amounts are limited and students who receive grants may also need loans to help cover the cost of attendance at a particular school.

The Pell grant is the most common type of federal grant. Students who receive Pell grants may receive additional money from other grant programs based on exceptional financial need or other qualifications. They may also be offered student loans to cover the portion of their educational expenses not covered by grants. The maximum size of a Pell Grant changes yearly. For the 2009-10 academic year, the maximum amount is $5,350. For 2010-11 it will increase to $5,550.

There are other specialized federal grant programs available, but in the interest of brevity, we won't discuss them here. Once you submit a FAFSA, Federal Student Aid will inform you which types of aid you are eligible to receive. For more detail on grant programs, you can access the 2009 FSA fact sheet at this web page: http://studentaid.ed.gov/students/attachments/siteresources/Grant_Programs_Fact_Sheet_04_2009.pdf

Student Loan Overview

If you are approved for a federally-guaranteed student loan, the loan may be funded in one of two ways:

- By the Department of Education under the Federal Direct Loan program
- By a private lender under the Federal Family Education Loan (FFEL) program

Educational institutions can choose to participate in either the Direct Loan program or the FFEL program, so whether you get a Direct loan or an FFEL loan depends on where you attend school. The interest rates and repayment terms for undergraduates are the same for direct loans as for FFEL loans.

At present, the majority of federal student loans are made through the FFEL program, but that could be changing. Reductions in federal subsidies and the credit crunch of 2008 caused some lenders to drop out of the program.

Also, in 2009, President Obama has proposed that the FFEL program be eliminated, and that all federally-sponsored student loans be issued through the direct loan program. The money saved by that change would be used to increase the availability of Pell grants. Congress would have to act on that proposal before it takes effect and the lenders are lobbying hard to retain it. Stay tuned.

Below, is a summary of the various types of federally-sponsored student loan programs and key differences among them. Once again, the type of financial aid you are offered will depend on your financial need, i.e., the difference between your cost of attendance and your expected family contribution.

Your cost of attendance is the cost for one academic year at a particular school, and includes the cost of tuition, books and supplies, room and board, and other reasonable expenses. Obviously, the cost of attendance will vary depending on which school you attend. Most colleges and universities post their estimated cost of attendance on their web sites.

The amount available to a student annually from each program is limited, so if your EFC is low (meaning your financial need is great), you might be offered a combination of grants, subsidized loans, and unsubsidized loans to cover your entire cost of attendance. If your EFC is relatively high, you might be offered only an unsubsidized loan. Subsidized and unsubsidized loans are discussed below.

Important Tip: It is critical for borrowers to distinguish between federal student loan programs and private student loans. Private student loans are available from a number of lenders, including some that also participate in the FFEL program. Private student loans are negotiated directly between the borrower and the lender much like any other consumer loan, and are not guaranteed or regulated *by the Department of Education. Private loans may require credit approval and/or a co-signer. For more information, see the section on private student loans, near the end of this guide.*

Perkins Loans

Perkins loans carry a lower interest rate than other federal student loans. They are originated directly by participating schools, and depend on available funding from the Department of Education each year. See the chart below for annual loan limits and interest rates. No origination fees are charged for Perkins loans.

Subsidized Stafford Loans

These loans may be originated either as Direct loans from the Department of Education or as federally-guaranteed FFEL loans from private lenders. Subsidized Stafford loans to undergraduate students carry a lower interest rate than unsubsidized Stafford loans.

In addition, the Department of Education pays the interest on subsidized loans while you are in school and for six months after you leave school. *The amount of a subsidized loan may not exceed your financial need, which is your cost of attendance minus your EFC.* See the table below for annual loan limits, interest rates and fees

Unsubsidized Stafford Loans

Like subsidized Stafford Loans, these loans may be originated either as Direct loans or as FFEL loans. Interest on unsubsidized loans accrues while you are in school, and is added to the amount of the loan. *The amount of an unsubsidized loan may not exceed your cost of attendance minus any other financial aid you are receiving.* See the table below for annual loan limits, interest rates, and fees.

PLUS Loans

Parents of dependent students may apply for PLUS loans to pay for costs not covered by other federal student aid. (PLUS loans are also available to independent students in graduate and professional degree programs.) PLUS loans are unsubsidized, and may be originated either as Direct loans or as FFEL loans.

Interest on PLUS loans accrues from the time the money is disbursed, and repayment begins 60 days after the loan is fully disbursed, although it can be deferred while the student remains in school.

Unlike the other federal loan programs discussed above, PLUS loans are subject to credit approval. *The amount of a PLUS loan may not exceed the student's cost* *of attendance minus any other financial aid received.* See the chart below for annual loan limits, interest rates, and fees.

Loan Interest Rates, Annual Limits, Fees, and Repayment Time

The table below lists interest rates, annual award limits, fees and repayment time for various federal student loan programs. This information is subject to change and should be verified with the Office of Federal Student Aid. Annual award limits are shown for dependent undergraduate students. Limits for independent students and graduate or professional students are higher.

The standard term for repayment of all loans is 10 years, but the repayment schedule for some loans may be extended

Federal Perkins Loan	Subsidized Stafford Loan	Unsubsidized Stafford Loan	PLUS Loan (Direct)	PLUS Loan (FFEL)
5% Interest	5.6% Interest after 7/1/09 [1]	6.8% Interest	7.9% Interest	8.5% Interest
Maximum loan: amount $5,500 per Yr.	Maximum loan: $3,500 1st Yr. $4,500 2nd Yr. then $5,500	Maximum loan: $5,500 per year less grants and subsidized loans	Maximum loan: cost of attendance less other financial aid	Maximum loan: cost of attendance less other financial aid
No Loan Fee	Loan Fee: 2%	Loan Fee: 2%	Loan Fee: 4%	Loan Fee: lender option
Time to repay: 10 Years	Time to repay: 10-25 Years	Time to repay: 10-25 Years	Time to repay: 10-25 Years	Time to repay: 10-25 Years

[1] The interest rate on subsidized Stafford loans is scheduled to decline in steps to 3.4% in 2011.

Estimating Aid Award

You can receive an early estimate of your potential federal student aid award before you submit a FAFSA by using the Department of Education's FAFSA4caster, which you can find at www.FederalStudentAid.ed.gov and clicking on the section titled *Students, Parents and Counselors*.

The FAFSA4caster will estimate your expected family contribution (EFC) based on financial information you provide and on typical costs for the type of school you plan to attend. It will also estimate the types and amounts of aid for which you are eligible. Some of the data you enter in the FAFSA4caster will automatically be entered into your FAFSA later if you use the online version (*FAFSA on the Web*).

Important Tip: If you are not ready to share your FAFSA information with the Department of Education, consider using another financial aid calculator such as the one provided by FinAid at http://www.finaid.org/calculators/finaidestimate.phtml.

When to Apply

You can submit your FAFSA for the 2010-11 academic year as early as January 1, 2010, but not before. The official deadline for submitting a FAFSA for the 2010-11 academic year is not until June 30 2011, but don't let that confuse you. If you want to start receiving aid in the Fall of 2010, you should apply as early as possible in 2010. Some federal student aid is awarded on a first-come-first-served basis, so submit your FAFSA as soon after January 1 as possible.

Your FAFSA may be used to determine your eligibility for some state grant programs as well as for federal aid, and March 1 is the application deadline for many states programs. Some may have even earlier deadlines. <u>Check with the financial aid administrators at schools where you are applying to get more specific information.</u>

Important tip: To apply for non-federal aid, some schools may also require you to complete the CSS/Financial Aid Profile, which is administered by a division of the College Board. For info see https://profileonline.collegeboard.com/prf/index.jsp.

Since you may be submitting your FAFSA before you know where you have been accepted to school, you can choose to have it transmitted to multiple schools—up to ten if you submit the online version of FAFSA.

Even if you don't expect to be eligible for state aid, it is wise to submit your FAFSA no later than the end of April. Once your FAFSA is processed, you will receive a student aid report (SAR). The SAR is discussed in the next section.

FAFSA requires information from your federal income tax return for the previous year. Federal income tax returns don't have to be filed until April 15, and W-2s may not be mailed by employers until the end of January.

It is best to complete your tax return before filling out the FAFSA, if possible. If the necessary tax returns have not been completed by the time you submit your FAFSA, you can apply using estimated amounts initially, and submit corrected data when it is available.

Student Aid Report (SAR)

The SAR summarizes the information on your FAFSA, and shows your expected family contribution (EFC). As discussed previously, your financial need is defined as the difference between your EFC and the cost of attendance at a particular school. Your SAR will also be sent to you and to all of the schools you listed in your FAFSA.

The final determination regarding offers of financial aid will come from your school in the form of an award letter. If you are accepted as an incoming Freshman by more than one school, you should receive an award letter from each school.

Getting a Federal Student Aid PIN

The last item we want to address before getting into the application itself is your Federal Student Aid PIN, which is an electronic access code, much like the PIN you use at a bank ATM. The PIN serves as your personal identifier for online transactions related to federal student aid.

You can apply for a PIN anytime at www.pin.ed.gov. In fact, it's a good idea to apply for your PIN before you complete your FAFSA so you can use your PIN to sign your FAFSA electronically online. If you are a dependent student, one of your parents will also need a PIN to sign the FAFSA online. Later, the PIN can be used to view your SAR, to make corrections to your FAFSA, or to submit a subsequent FAFSA online.

If you don't apply for a PIN before you fill out the FAFSA, you can apply while you are completing the FAFSA online and to receive it instantly so you can use it to sign your application.

Completing the FAFSA

Now we come to the application itself. A lot of the frustrations associated with completing the FAFSA have to do with assembling all of the information you will need, especially about your family's finances.

If your parents are divorced, or your family or financial situation is otherwise complicated, it's a bit more of a challenge and you need to take the time necessary to understand exactly what is required. For example, if your parents are divorced, you are only required to provide financial information for the custodial parent. Including financial information for both parents could reduce the amount of aid you receive.

The Office of Federal Student Aid strongly recommends that you complete the online version of FAFSA (FAFSA on the Web) at www.fafsa.ed.gov rather than a paper FAFSA. Not only is it faster and easier, the online application contains internal checks that will help you avoid errors. And if you have to make corrections, that is easier online too.

Some of the information you need for the FAFSA is basic stuff like social security number, driver's license number, state of residence, citizenship, and marital status. If you are a dependent student, a lot of the same information must be provided for your parents. By the way, some of this info, e.g., your social security number, will be checked to make sure it matches up with government records.

The FAFSA contains several questions designed to determine whether you will be classified as a dependent or independent student. That's important because it affects your EFC as well as the limits on certain types of loans. There are also questions about your course of study, your level in school and whether you will be a full-time student.

The hardest part of the FAFSA is the part that deals with your family's finances. You will have to provide a lot of information and answer a lot of questions about sources of income as well as assets like savings and investments. If you are a dependent student, your parents will have to provide similar information about their finances. A number of the questions you will encounter deal with things that probably don't apply to most applicants, like child support or combat pay

If you plan to complete your FAFSA online, you can download a *FAFSA on the Web* Worksheet to help you prepare. You will find a link to the worksheet in the box titled "Before Beginning a FAFSA" at www.fafsa.ed.gov.

The worksheet lets you see all of the questions you will encounter on the application, so you can pull together everything you need before you go online to complete the application. *FAFSA on the Web* has instructions available for each question on the application, and you can access live assistance from a customer service representative if you need more help.

There are some things you should think about to make sure you get as much financial aid as possible. The fewer assets you and your parents can legitimately show on the FAFSA, the more aid you are eligible to receive.

So, for example, if your grandparents are going to contribute to your education, you don't want them to give you money in advance because that additional cash must be shown on your FAFSA, which will increase your EFC and reduce the amount of aid you are awarded.

If your grandparents transfer the money to your parents, it would still show up on your parents' section of the FAFSA and affect your aid. A better strategy might be to ask your grandparents to help you pay off loans you have to take out for school.
Similarly, if you have saved money for college, anything you spend before you submit the FAFSA, say for a computer or other supplies for school, will reduce the amount you have to show on your FAFSA.

Repaying Student Loans

Obviously, if you borrow money for school you will have to repay it with interest at some point. You must repay your student loans, even if you don't complete your education or can't find a job after you graduate.

Student borrowers with Perkins or Stafford loans are not required to begin repayment until they leave school or drop below half-time. Then there is a grace period of six months (Stafford loans) or nine months (Perkins loans) before repayment begins. When you graduate, or if you notify your lender that you are leaving school or dropping below half-time, you will receive instructions on repaying your loan and on the options available for repayment.

The standard repayment schedule for federal student loans is ten years of fixed monthly payments, but there are optional plans available. The graduated payment plan provides for reduced payments initially, with payments increasing every two years so that the loan is repaid in ten years.

Borrowers with loans totaling over $30,000 in either Direct loans or FFEL loans can choose an extended payment plan which stretches payments out over 25 years. The graduated and extended payment options are available for PLUS loans as well as for Perkins and Stafford loans. Of course, plans that allow loans to be repaid more slowly increase the total amount of interest paid on the loan.

Income-Based Repayment

Starting on July 1, 2009, a new Income-Based Repayment (IBR) option is available for student loans. This program caps payments on existing or future Direct or FFEL loans at 15% of discretionary income. Discretionary income is defined as the amount exceeding 150% of the federal poverty level for your family size. After 25 years of making payments under this program, any remaining principal and interest is completely forgiven.

IBR could be very helpful to low income borrowers with heavy student loan debts. This option is not available for parents' PLUS loans. For more info, see:
http://studentaid.ed.gov/PORTALSWebApp/students/english/OtherFormsOfRepay.jsp#IBR

Important Tip: It is extremely important to keep close track of the amounts you receive from student loans. Your loans will normally be approved for the entire year but a portion of the loan will be disbursed for each term, and the checks may go directly to your school. You should receive a statement of the amount of each disbursement. So, if you receive student loans for four years and are on a semester system you could receive eight separate disbursements. When it comes time to repay your loans, you want to be sure that your payments are based on the correct loan balance. Some borrowers have complained that the amounts owed to *certain FFEL lenders exceeded the amount that was borrowed. You need to protect yourself in case that occurs. Make a student loan file and keep all of your paperwork in it.*

Deferment or Forbearance

Once a student loan is in repayment status, it is possible under some circumstances to delay repayment temporarily through either *deferment* or *forbearance*.

Deferment is a period of time when no payments are required. Deferments can be granted to students who are enrolled in school at least half-time, or in cases where the borrower is unable to find full-time employment or is suffering from economic hardship. Deferments also are available for active duty military service. For subsidized Stafford loans, interest is not charged while the loan is in deferment. For unsubsidized Stafford loans and PLUS loans, interest continues to be charged while the loan is in deferment. Deferments are limited to three years.

Forbearance may be available for borrowers who are temporarily unable to meet their repayment schedules and are not eligible for deferment. In forbearance, the lender may agree to suspend or reduce loan payments for a specific and limited amount of time. There are some situations in which forbearance is mandatory, including periods when the borrower is in a medical or dental residency or has loan payments that exceed 20% of monthly income. While a loan is in forbearance, interest continues to be charged.

It is extremely important to understand that if you apply for either deferment of forbearance, you must continue to make payments on your student loan until you have been notified in writing that the deferment or forbearance has been granted. If you stop making payments without approval, your loan can go into default. Defaulting on a student loan can have very serious consequences. For more on loan default, see the section titled “What To Watch Out For” below.

Public Service Loan Forgiveness

The College Cost Reduction and Access Act of 2007 created the Public Service Loan Forgiveness Program to encourage individuals to work full time in public service careers. Under this program, borrowers may qualify for forgiveness of the remaining balance due on eligible federal student loans after they have made 120 payments on those loans while employed full-time by certain public service employers.

This option applies only to federal Direct loans. However, some other types of federal student loans, such as Perkins and FFEL loans can be consolidated into Direct loans to become eligible. The FSA fact sheet with details on the program, including the types of service that qualify for this program, can be found at: http://studentaid.ed.gov/students/attachments/siteresources/LoanForgivenessv4.pdf .

Loan Consolidation

Since students may receive loans from more than one program (e.g., subsidized and unsubsidized Stafford loans), many students end up with multiple loans when they leave school. In that case, it may be to your advantage to consolidate all of your student loans into a single loan.

Consolidation loans are available both as Direct loans and as FFEL loans. Interest rates on consolidation loans are based on the weighted average of rates on the underlying loans. Consolidation will simplify repayment, and may give you more time to repay your loans, but could also result in the loss of interest discounts available on the original loans.

Once you consolidate your loans, you may not consolidate or refinance them again, so when the time comes to repay your loans, it is important to research your options carefully. For loan consolidation details, check out this web page: http://studentaid.ed.gov/PORTALSWebApp/students/english/consolidation.jsp?tab=repaying

Private Student Loans

It is extremely important to distinguish between the federal student loan programs described in this Guide and the private student loans offered by a number of lenders. The FFEL loan program described earlier in this Guide is a federally-subsidized program where the loans are actually made by private lenders. FFEL loans are subject to the same rules as federal Direct loans.

However, a number of banks and other private lenders, including some who also participate in the FFEL program, offer private student loans which are not subsidized or regulated like federal student loans. Private student loans are much like any other consumer loan, except that they can't be wiped out in bankruptcy. They may involve a credit check, and a co-signer is often required. Such loans typically entail high fees and high interest rates similar to credit card rates, and co-signers' assets are in jeopardy in case of default.

Our advice is to avoid private student loans like the plague. There are serious risks involved in any student loan, including those sponsored by the federal government, but private loans are even more dangerous. The only reason anyone should even consider a private loan is if all resources available through federal programs have been exhausted. Even then a private loan may not be worth the risk.

The good news is that since the financial crisis of 2008, many lenders have stopped making private student loans, and federal programs have been expanded to take up the slack.

What To Watch Out For!

Many students and parents put their faith in higher education as a good investment. You may have heard it said that, on average, someone with a Bachelor's degree will earn $1 million more over a lifetime than someone with only a high school diploma.

As we explain in our special report on student loans, that "statistic" is highly misleading. But faith in the financial benefits supposedly assured by higher education is one of the main reasons people assume that student loans are "good debt" and that borrowing for school is a good investment. That assumption isn't always valid.

Student loans make college possible for many individuals who otherwise could not afford to attend. But they are a double-edged sword. Student loan programs allow young adults to borrow very large amounts of money, and since repayment doesn't begin for several years down the road, borrowers often don't think too hard about the burden those future loan payments will impose on them.

Some young borrowers have unrealistic expectations about their post-college incomes, and don't appreciate the difficulty they may face in repaying their student loans. Few are aware of the financial devastation that awaits them if they default on those loans.

The fact is, student loans come with none of the consumer protections that apply to other types of debt. They cannot (except in the very rarest of circumstances) be discharged in bankruptcy. And if you default, in addition to ruining your credit and garnishing your wages, issuers of student loans can and will grab tax refunds and even social security and disability payments to satisfy the debt.

As the economy has worsened, a growing number of borrowers have found themselves struggling to repay student loans because they can't find a job or don't earn enough money to make their loan payments on top of their other expenses. That is a desperate situation.

It's not hard to find horror stories about borrowers who have defaulted on student loans and have found their loan balances increased by 50% or more as a result of penalties, attorney fees, and collection charges.

These people couldn't afford their student loan payments before, and now they are even deeper in a hole. Of course, after defaulting they are tainted by bad credit, which makes it harder to get a good job. And since there is no way to escape from student loan debt, once you start down that path you are pretty much doomed to life as a permanent member of the underclass.

Upcoming Special Reports

MONEYSCHOOL will soon be releasing two special reports—one on how to protect yourself from the risks of student loan debt and one on how to evaluate college or career training as an investment. If you haven't already given us your email address, you can sign up at www.moneyschool.com/fafsasignup.html and we'll let you know when those reports are available. We'll also send you the latest updates on federal student aid programs and other useful information about paying for college.

Other Resources

This Guide provides only an overview of federal student aid programs. We recommend that you download the official publication, ***Funding Education Beyond High School: The Guide to Federal Student Aid***, to use as a reference. Here's a link for that booklet and many other FSA publications on student financial aid programs: http://studentaid.ed.gov/PORTALSWebApp/students/english/publications.jsp

Important Tip: The best source of information on financial aid specific to a particular school is the financial aid administrator at the school.

Copyright Note

About MONEYSCHOOL

To learn more about MONEYSCHOOL, visit our web site: www.moneyschool.com .