

Financial Aid, Part 1: Federal Student Aid and State and Institutional Aid

It can cost a lot of money to get more education after high school. One of the most important questions people face about postsecondary education is how to finance it, in other words, how to get the money to pay for it. However, there are many different ways to cut the costs. For example, a student can apply for scholarships, earn college-level credit through exams such as the CLEP® exams (see Reading Assignment 20), or live at home and attend a local school to save the high cost of room and board at a school farther away.

In addition, students should actively look for sources of financial aid—sources outside their own or their family’s income. Many such sources are available, but students must take the time to search these sources out and apply for their aid. Applying for admission to a school does not mean that you will be automatically considered for financial aid as well—filling out college applications and filling out financial aid applications are two separate processes. Ultimately, you must do most of the searching and applying for financial aid yourself.

In this Reading Assignment and Reading Assignment 22, we will be describing some of the major types of financial aid. Because the exact terms for granting financial aid change from time to time, we will not get too specific here. What we hope to do is to give you a general idea of what is available so that you can more fully explore the many options on your own.

Four major types of financial aid are available—grants, scholarships, loans, and work-study programs. **Grants** and **scholarships** are gifts of money to help a student through school. They do not need to be paid back. Most grants are given mainly on the basis of need. A scholarship, on the other hand, is usually given on the basis of need and performance (in high school, on tests such as the SAT and ACT, and the like).* A **loan** is the giving of money on the condition that it be paid back with interest. In a **work-study program**, a student works for wages while going to school.

Financial aid is available for students attending all types of eligible postsecondary institutions—technical schools, community colleges, four-year colleges, and universities.



Overview of the major types of financial aid

*Many postsecondary schools and businesses that award scholarships at least in part on the basis of ability work through the National Merit® Scholarship Program. This is a competitive program for students taking the PSAT/NMSQT (Preliminary SAT/National Merit Scholarship Qualifying Test). The student usually takes this test junior year. It is given only once a year by local high schools that register to test their own students. Many high schools will accommodate testing other students.

Any type of financial aid will have certain conditions, or **eligibility requirements**, that a student must meet to be qualified to get and use it. These requirements vary a great deal. They may involve need, **enrollment status** (the amount of time a student is studying—that is, half-time or full-time), the institution the student is attending, and the types of expenses for which the aid can be used. The aid may be available only to people who reside in a certain area, are from a certain ethnic or religious background, are in a certain profession, or some other qualification.

Financial aid is divided into two broad categories: need-based and non-need-based. **Need-based aid** is designated for students who show that they or their families do not have the available financial resources to pay for school; in other words, they have to prove they have financial need for the aid. Grants, for example, are usually need-based. It is not up to the student or parents, however, to decide if there is financial need. Government and schools' financial aid offices determine need according to their own criteria. When you apply for aid, you provide your own and your family's tax and income information on the forms; the aid officers then take that information and make calculations to determine if you have need. You will learn more about this later in this Reading Assignment.

Non-need-based aid is given to students who do not necessarily demonstrate financial need. Most loans are non-need-based. Another type of non-need-based aid is **merit-based aid**, which is for students who can prove exceptional talent or show consistent academic achievement. Scholarships, for example, are generally merit-based.

The Federal Student Aid's financial aid programs

There are many sources of student financial aid, but the largest source in the United States is the federal government. Various departments in the federal government have financial aid programs, but the **Federal Student Aid**, an office of the U.S. Department of Education (<http://studentaid.ed.gov/>), provides the most aid. It is the first place you should go to as soon as you begin the financial aid process.

The Federal Student Aid offers three types of assistance: grants, work-study programs and loans. We will cover these programs in this Reading Assignment; in the next Reading Assignment, we'll talk about other types of student financial aid available from the federal government.

Eligibility requirements for Federal Student Aid

The requirements for Federal Student Aid programs vary with each program, but there are basic eligibility requirements.* They include having a high school diploma or a GED certificate and a Social Security number, having a certain enrollment status, and being a U.S. citizen or an eligible noncitizen. For a complete, detailed list of eligibility requirements for each program, you should carefully read the information put out by the Federal Student Aid (resources and contact information are shown at the end of this Reading Assignment).

*In this Reading Assignment, we give you just some of the eligibility requirements for each of the federal student aid programs. Eligibility requirements do change, so it's very important to look on the Federal Student Aid's Web site or contact its office for up-to-date information.

Eligibility for aid is based on financial need for almost all federal programs. It is determined after you and your family have filled out and sent in the Free Application for Federal Student Aid (FAFSA) for processing. Filling out this form is extremely important because many other institutions that administer financial aid programs besides the Federal Student Aid use the information on the form to determine financial need.

We'll cover filling out the FAFSA later in this Reading Assignment. Here we will describe what happens when you turn in the form with the necessary information to the Federal Student Aid office. This office analyzes the your FAFSA information according to certain standards that apply to everyone. The end result is a determination of your **Expected Family Contribution (EFC)**. The EFC is the amount of money that you and/or your family are expected to pay towards your education. The EFC is not a figure that you and your family come up with; it is determined according to the federal government's own need analysis formula. In the end, you and your family may end up paying more or less than the EFC towards your college expenses.

Expected Family Contribution (EFC) and determining financial need

The amount of your EFC appears on a **Student Aid Report (SAR)**. A copy of the SAR is sent to you, and a copy is forwarded to the postsecondary institution(s) to which you are applying. The financial aid office at the postsecondary institution will then decide if you have financial need and, if so, set the actual amount of your award. (An **award** is the specific type of aid and the dollar amount that the student receives.) **Financial need** is the difference between your EFC and the institution's cost of attendance. Federal law specifies what expenses can be included in determining an institution's **cost of attendance (COA)**. These expenses include items such as tuition and fees, an allowance for living expenses (such as room and board), books and supplies, and miscellaneous personal expenses and transportation costs. Take a look at the example EFC calculations given on top of the next page.

How is financial need calculated?

Tuition and other costs vary from school to school, but the EFC stays the same. So, the amount of "need" you may have can vary from school to school. There are, however, limits on how much you can receive from any particular financial aid program, so you may have to get funds from several sources to meet your need. In fact, colleges tend to offer financial aid packages to students with financial need. These financial aid packages may consist of a grant or scholarship, loans, and work-study.

As we stated before, grants are awards of money that do not need to be repaid. The Federal Student Aid office has four grant programs:

Federal Student Aid grants

- Federal Pell Grant
- Teacher Education Assistance for College and Higher Education (TEACH) Grant
- Iraq and Afghanistan Service Grant
- Federal Supplemental Educational Opportunity Grant (FSEOG)

All but the Iraq and Afghanistan Service Grant are based on financial need. The Federal Pell Grant is the main grant awarded by the federal government. For the Federal Supplemental Educational Opportunity Grant (FSEOG), priority is given to students eligible to receive a Federal Pell Grant.

Any student who is eligible to receive a Federal Pell Grant will receive the full amount that he or she is eligible for because for this grant, a school receives enough money from the Department of Education to pay all of its eligible students.