

Paying for Higher Education

Advanced Level

Countless statistics demonstrate that continuing your education after high school has major benefits, such as access to higher paying jobs and a lower chance of unemployment. However, it can also come with a big price tag. As a matter of fact, **eight times as many students drop out of degree and certificate programs due to finances and debt issues than grades.**¹ This makes it even more important to plan ahead so that you have the money you need to cover continuing education costs and living expenses.

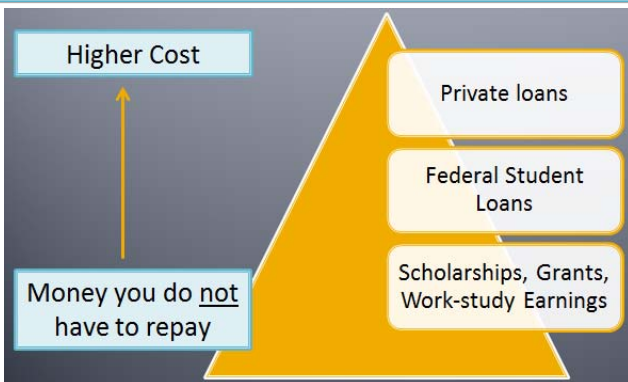
Planning ahead will provide you with flexibility to consider alternatives that reduce the total cost of higher education and training. Examples include:

- Start saving early!
- While in high school, take advanced courses or pass college-level exams to earn college credits for free or at a greatly reduced rate.
- While in high school, take college placement exams early and if a remediation course is needed, take it.
- Begin career pathway planning early and work with an advisor while earning your post-secondary education to minimize the chance of changing degree programs.
- Attend a local school and live at home.
- Work part-time to pay for part of your expenses.
- Attend a community or junior college for a few semesters before transferring to a more expensive four-year institution.
- Carefully evaluate the cost of attendance for schools you are interested in to find a school that is both high-quality and low-cost.

Why do you think college students are so susceptible to debt?

For many, receiving financial aid is necessary to pay for higher education. Understanding the types of aid available and application process is essential to reducing your total expenses.

Different Ways to Fund Higher Education



There are three primary types of higher education financial aid: money you do not have to repay, low-cost federal loans, and high-cost consumer loans.

1. Money you do not have to repay

There are three different types of “free money” you can use to pay for higher education: scholarships, grants and work-study. These financial aid options do not require you to pay anything back as long as you meet the requirements.

Find great information on types and sources of financial aid, how to apply for financial aid, college savings plans and more at MDgo4it: <http://www.mdgo4it.org/>

¹More than half of those who dropped out cited needing to work, another 31% said they couldn't afford tuition. Only 10% dropped out because they found the classes too difficult. Public Agenda, *With Their Whole Lives Ahead of Them*, 2009, www.publicagenda.org/theirwholelivesaheadofthem/reality1

Scholarships:

A **scholarship** is money awarded to students that does not have to be repaid and is based on academic or other achievements to help pay for education expenses. Scholarships usually must be applied for and have requirements for the student before, during *and* after the scholarship is awarded. Typical requirements include high school academic achievement, evidence of excellence in a high school activity (sport, club leadership, extra-curricular activity), ongoing community service, maintaining a specific GPA while in high school or taking a specific number of credits.

Possible Scholarship Sources:

- **High School Guidance Counselors:** Look here for local and school-based scholarships.
- **Financial Aid Office:** The post-secondary institution you want to attend will have many scholarships—the earlier you check and apply the better!
- **Employer:** If you have a job, paid or unpaid, your employer may provide scholarships to help fund higher education.
- **Clubs and Organizations:** Such as National Honors Society, Girl Scouts, Habitat for Humanity, and Spanish Club can all lead to potential funding for higher education.
- **Affiliations:** There are many scholarships that target students with specific backgrounds, such as race, ethnicity, military background, religion and gender.
- **Interests/Potential Major or Career:** Did you know you can get scholarships for computer programming, environmental protection, colonial printing press techniques—even yarnbombing!²

Watch out for scholarship scams. Unscrupulous companies guarantee or promise scholarships, grants or fantastic financial aid packages. Many use high pressure sales pitches at seminars where you're required to pay immediately or risk losing out on the "opportunity." You should never have to pay for a scholarship! Check out the Federal Trade Commission's website for more information: <http://www.ftc.gov/bcp/edu/microsites/scholarship/index.shtml>

Grants:

A **grant** is tax-exempt financial aid that may be given for many purposes, not necessarily just for education. Grants tend to have less rigid requirements than scholarships and are given by non-profit organizations, corporations, or foundations. Grants are generally given for specific projects, and the recipient will be expected to report information about the project to the donor.

Federal student grants:

Almost all federal grants are awarded to students with financial need. The federal grant application process begins when you submit your **Free Application for Federal Student Aid (FAFSA)**. You then work with your post-secondary institution to find out how much you can get and when you can get it. Federal grants include:

- Federal Pell Grant
- Federal Supplemental Educational Opportunity Grant (FSEOG)
- Teacher Education Assistance for College and Higher Education (TEACH) Grant
- Iraq and Afghanistan Service Grant
- Academic Competitiveness Grant
- National Science and Mathematics Access to Retain Talent (SMART) Grant

Work-Study Earnings:

The federal work-study program provides part-time employment opportunities for students with financial need, allowing them to earn money to help pay educational expenses. Money is awarded by the school and eligibility is determined by the FAFSA.

What personal activities, skills or achievements do you think might lead to free financial aid for you?

²To find these, perform an Internet search for scholarships for computer programming; environment or green scholarships; scholarships for graphic arts or art history; and knitting scholarships.

2. Low-Cost Financial Aid

The federal government offers loans that have lower and fixed interest rates, generous repayment plans, no prepayment penalties and no credit checks (except for PLUS Loans). The amount you can borrow is determined by information provided on the FAFSA.

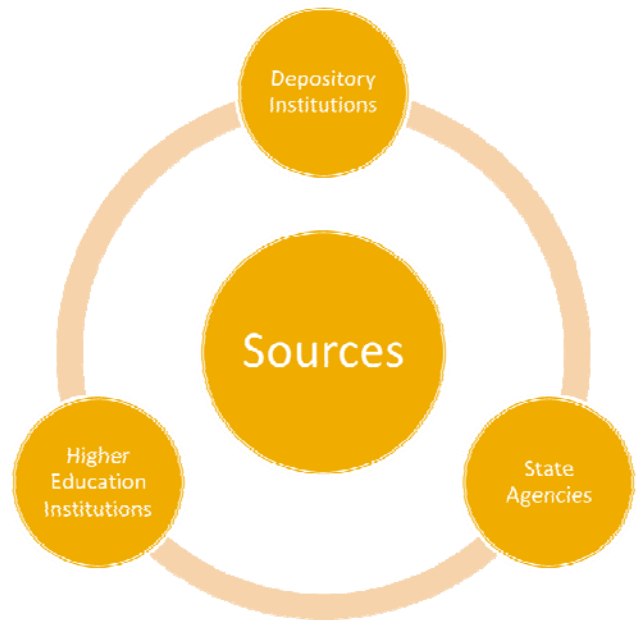
The following list of federal student loans (listed in order from lowest interest rate loan to highest interest rate).

- **Federal Perkins Loan:** A loan issued through your educational institution for undergraduate and graduate students who demonstrate financial need.
- **Direct Subsidized Stafford Loan:** A need-based loan from the federal government. The U.S. Department of Education pays the interest while the borrower is in school and during **grace period** (period of time after a borrower graduates, leaves school or drops below half-time enrollment where they are not required to make certain federal loan payments) and **deferment period** (postponement of payment on a loan allowed under certain conditions and during which interest does not accrue).
- **Direct Unsubsidized Stafford Loan:** Non-need-based loan from the federal government. The borrower is responsible for all interest costs.
- **PLUS Loan:** A low-cost loan offered to graduate students and parents of undergraduate students currently enrolled in post-secondary education. The loan is unsubsidized (you are responsible for paying all interest).

Loans used to pay for higher education are considered “good” debt. Do you agree?

3. High-Cost Consumer Loans

No and low-cost financial aid options may not cover all of your education, training, or related costs –such as housing, transportation, textbooks and educational materials. Therefore, private loans offered by lenders such as a bank, credit union, state agency, or higher educational institutions are available. You apply directly with the lender and pay 100% of the interest, which is often at a higher rate than a federal loan. Typically, these loans should only be considered after all no and low-cost scholarship, grant and federal loan options are considered.



You pay 100% of the interest – often a higher rate than a federal loan.

Confused? Who wouldn't be? For more information and tips regarding financial aid, check out the “You Can Afford College” video program, available online at <http://www.mpt.org/ycac>. Through this online program you meet financial aid counselors who explain how to navigate the labyrinth of government aid and paperwork, from public and private grants and scholarships to tax forms and loan applications.

Another excellent resource is the set of online Paying For College tools created by the federal Consumer Financial Protection Bureau at <http://www.consumerfinance.gov/payingforcollege>. Paying for College helps consumers with each stage in deciding how to pay for college, from college choices and weighing student loan options, through graduation and repayment of loans.

All About FAFSA!

The *Free Application for Federal Student Aid* (FAFSA) gives you access to the largest source of financial aid. The FAFSA determines how much your family can afford to contribute to your post-secondary education, whether it is for a four-year college, community college or a technical or trade program. It determines what types of financial aid you qualify for including loans, grants and work-study. Not only is the FAFSA used federally, but many states and post-secondary institutions also use it to determine aid. Everyone interested in financial aid should complete the FAFSA!

Determines how much your family can afford to contribute

Applies to a variety of types of postsecondary institutions

Determines what types of aid you qualify for

Also used by states and postsecondary institutions to determine aid

To receive federal student aid, you must...

- Be a U.S. citizen or documented legal resident
- Be a high school graduate (or have a GED, or pass an ability-to-benefit test)
- Be registered with the Selective Service if you are a male between the ages of 18 and 25. (If you are male but you're not registered, you can do this while completing the FAFSA)
- Be enrolled or accepted for enrollment in an eligible post-secondary program
- Sign certifying statements on the FAFSA confirming that you are not in default (failure to pay a loan according to the agreed upon terms) on a federal student loan and will use the loan only for educational purposes
- Have no drug convictions while receiving student aid
- Maintain satisfactory academic progress

Your age, race, and field of student do not affect your eligibility.

When do I fill out the FAFSA?

It is important that you are aware of all federal, state and post-secondary institution deadlines. You should complete the FAFSA as soon as it's available because there are some first-come, first-served aid programs. The federal student aid application process occurs January 1 – June 30 of each year. State and post-secondary aid is awarded using the FAFSA form but the deadlines will vary by state and institution. Learn about state deadlines from www.fafsa.ed.gov and institution deadlines by contacting the financial aid office.

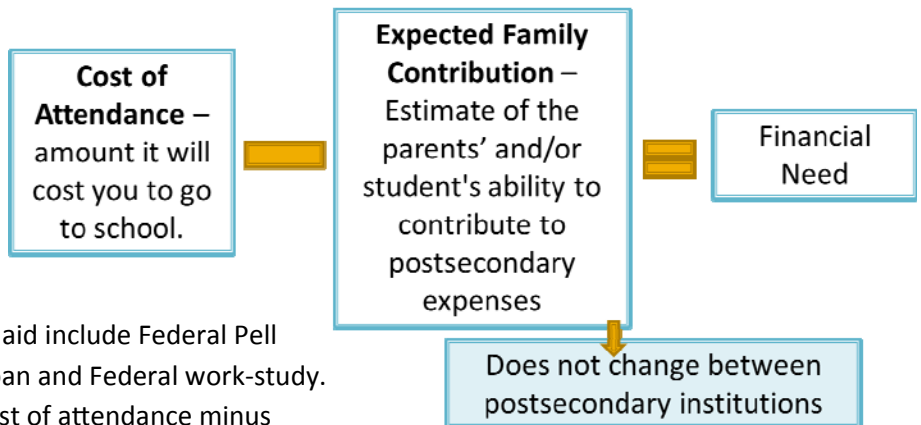
Who decides how much aid I will receive?

The amount awarded is determined by your post-secondary institution and depends on a variety of factors including:

- Your Expected Family Contribution
- Your year in school
- Your enrollment status
- The Cost of Attendance at your post-secondary institution

Need-based aid is financial aid that you receive if you have the financial need and have met other eligibility criteria. Examples of need-based aid include Federal Pell Grant, Direct Subsidized Loan, Federal Perkins Loan and Federal work-study. Non-need-based aid is available to cover your cost of attendance minus other financial aid awarded. Examples of non-need-based aid programs are Direct Unsubsidized Loans and the Federal Plus Loan.

The FAFSA form must be completed every academic year you are in school to stay eligible for financial aid.



The FAFSA Application Process:

- **Determine your dependency status** – It is important to know whose information must be reported. If you are a dependent you will report you and your parent(s)/guardian(s) information. This gives a consistent and full picture of your family’s financial strength but does not mean that your family is required to contribute to your education. If you are independent, you will report your own information and your spouses if you are married. The FAFSA website has a checklist to help you determine if you should be filing as a dependent or independent student.
- **Create a personal identification number (PIN)** – The PIN is a four digit number that is used in combination with your social security number, name, and date of birth to identify you on the FAFSA website and is your electronic signature. If you are dependent, both you and your parent/guardian will have to create a PIN. To create a PIN, go to www.pin.ed.gov.
- **Gather required documents** – If you are filing as a dependent, you will need the following documents for both you and your parents/guardians. Do not mail your records to Federal Student Aid. Keep these records in a safe place! You may need them again to verify your FAFSA application.³
 - **Identification documents** – Social Security Number, driver’s license number if you have one and Alien Registration Number if you are not a U.S. citizen.
 - **Federal tax information from the previous year** – including W2’s, Federal 1040 Forms, and Foreign tax return.
 - **Records of untaxed income from the previous year** – child support, interest income, veteran’s benefits, etc.
 - **Current asset information** – bank statements, investments, real estate, etc.
- **Complete the FAFSA** – Go online to www.fafsa.ed.gov to complete your FAFSA. Answer all questions accurately and completely. If you have not completed your taxes before you submit the FAFSA, estimate the amounts and then update the information later. When completing the FAFSA, you may list between one and ten schools. Schools you list will automatically receive your FAFSA information.
- **Sign and submit** – If filing as a dependent, both you and your parent/guardian will be required to sign and submit the FAFSA using your separate PIN’s. Your application has not been successfully submitted until a confirmation page appears.
- **Review your Student Aid Report (SAR)** – This is a summary of the FAFSA data you submitted including your EFC received 3 days to 3 weeks after submitting your FAFSA. It should be reviewed closely and any errors corrected immediately.
- **Determine Your Eligibility for Aid** - Once you successfully submit your FAFSA it will be distributed to the post-secondary institutions indicated on your application to determine your aid eligibility. If you are eligible and accepted to that school, they will send you an award letter outlining your aid package. The school may also ask for additional documentation during the award process. Be sure to respond by their deadlines.
- **Compare Aid Packages** - Carefully evaluate the types of aid being offered by each school to determine which school is the most affordable for you. To determine the **net price**, subtract the grant and scholarship amounts from the cost of attendance. Then, compare any student loan offers to understand what you are responsible for paying and by when. Only accept the amount of aid you really need!
- **Support is available for every step!** A variety of resources are available during every step of the process including:
 - a. Free Application for Federal Student Aid (FAFSA) (www.FAFSA.ed.gov)
 - b. Post-secondary institution financial aid office
 - c. Federal Student Aid (<http://studentaid.ed.gov/>)
 - d. College Goal Sunday (<http://www.collegegoalsundayusa.org/>)
 - e. KnowHow2Go (<http://www.knowhow2go.org/>)
 - f. MDgo4it, “Pay for College: Applying for Financial Aid”: (<http://www.mdgo4it.org/>)

Use the IRS Data Retrieval Tool to automatically transfer your tax information into the FAFSA Form.

What kind of help do you need to complete the FAFSA?

³<http://www.fafsa.ed.gov/help/before003.htm>

When it's not "free money"

Remember, federal student loans are real loans, just like car loans or mortgages. You must repay a student loan even if your financial circumstances become difficult. Your student loans can't be canceled because you didn't get the education or job you expected or because you didn't complete your education (unless you couldn't complete your education because your school closed).⁴

Depending on the types of financial aid you received, you may have multiple **loan servicers** (a company that collects payments on a loan). Each loan servicer will have its own payment process. Be sure that you fully understand the repayment terms when accepting the loan and your repayment and consolidation options. Choose a payment plan that is realistic for you both short and long-term while minimizing the total interest and fees paid.

Not paying your student loans back is serious business. If you **default** on your student loan:

- Your entire loan balance will be due in full, immediately.
- Collection fees can be added to your outstanding balance.
- Your wages may be garnished.
- Your Social Security, disability income, and state and federal tax refunds can be seized.
- You will lose eligibility for federal aid, including Pell grants, in the future.
- You will lose deferment or **forbearance** (ability to stop or reduce loan payments for up to 12 months while interest is accruing) options.
- Outstanding fees and unpaid interest can be capitalized (added) onto your principal balance.⁵

A defaulted student loan is also one of the worst entries that can appear on a credit report. It can mean that:

- You may be denied credit cards, car or home loans, or apartment leases.
- Your interest rate may rise on existing loans and credit cards.
- Banks may refuse to allow you to open a checking account.
- You may have to pay more for car or home insurance.
- You may be unable to obtain or renew a professional license.
- You may be denied a job due to poor credit.⁶

Be sure to check out the extensive chart that compares Federal loan repayment options at <http://studentaid.ed.gov/repay-loans/understand/plans>.

If you find yourself in trouble, don't panic! You still have a few options:

1. Defer: Many lenders will give you a grace period after you graduate from college before you have to start repaying your loan that you can extend if you need to. Just remember that the longer you put it off, the more you will pay in interest.

2. Consolidate: A consolidation loan is one loan you make with a lender who then literally pays off your other loans, the loans you couldn't afford to pay separately. Ideally, a consolidation loan comes packaged with a markedly lower monthly payment and possibly lower interest rate but a longer repayment term is almost a guarantee.

3. Renegotiate repayment terms: Sometimes you can choose from different repayment options such as graduated (you start off with lower payments that increase over time) or income-based (payment amount is calculated on a wage-based formula).

When considering how to pay for financial aid, remember that there are lots of resources available to help. Apply for as many scholarships and grants as possible! Be aware of deadlines and complete the FAFSA to be eligible for the maximum amount of aid. Remember that financial aid is not necessarily free money. Keep your financial reputation clean by keeping your loan amounts low and never borrow more than you can afford to pay back once you are working.

⁴"Repay Your Loans," Federal Student Aid, <http://studentaid.ed.gov/repay-loans>

⁵American Student Assistance, "Default Consequences," <http://www.asa.org/in-default/consequences/default.aspx>

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