

What is College Financial Aid?

by Stacy Holguin

Much like buying a car, each college has a sticker price which is a combination of institutional fees and tuition (costs of running the institution passed on to each student), housing, meal plans, books, class supplies, and incidental expenses such as travel, health insurance, or personal expenses. These expenses, added up, are referred to as the Cost of Attendance (COA). Sometimes the COA, like a car's sticker price can be shocking.

Financial aid is money in the form of scholarships, grants, loans, or work-study provided to students and families to help pay for college expenses. Colleges use the Expected Family Contribution (EFC) and the COA to determine how much financial aid a family would need to make the college affordable. The difference between COA and EFC is called the financial gap. The college will offer a financial aid package to help fill the gap. The financial aid offer is based on how much money the college has available, student characteristics (e.g., grades, extracurriculars, family background), and the EFC.

The EFC is the amount of money the family is expected to be able to pay on their own. The EFC is specific to each family and stays the same across campuses, based on how that campus formulates the EFC. There are two main practices in calculating the EFC. These are the FAFSA and the CSS Profile. FAFSA is the Free Application for Federal Student Aid and CSS Profile stands for College Scholarship Service Profile. There is no charge for filling out either of these forms and they are easily accessible on the internet. Both forms usually become available October 1st for the following Fall semester. The earlier you fill these out, the better financial aid options your family will have. Each form asks a series of questions about the family's financial profile and determines the amount they should be able to afford for college – the expected family contribution or EFC. Generally, the FAFSA is used by more schools and the CSS is mainly for private schools. The CSS asks more in-depth financial questions and may lead to more financial aid as private schools often have more resources.

Some families will ask if they should bother to fill out the FAFSA if they don't think they will get federal aid. My answer is an emphatic 'yes' for three reasons: many colleges use FAFSA information to calculate their grant aid, so your student could get a merit award (not based on need) just by filling out the FAFSA; filling out the FAFSA makes federally funded loans accessible to the family; and finally, other campus programs may use FAFSA information for eligibility (e.g., SNAP food program).

Colleges may offer grants. This is the best kind of money because you do not have to pay it back, but few colleges provide enough money in grants to fill the entire gap. These grants can be from institutional funds or state/federal funds such as the Pell grant - which is common for lower income families. Other free money includes scholarships offered by private sources, such as a local community agency or an employer. These may be awarded based on FAFSA information or require a separate application.

Then comes loans. Loans can be subsidized, unsubsidized, or private, and they can be made to the student or to the family. The best option for loans is federally subsidized loans to the student because these have the lowest interest rate, interest and payments are deferred until after college graduation, there are multiple repayments plans, some loans can be forgiven if the student works in certain public sector or government jobs (such as teachers or nurses), and they help the student build their credit. Unsubsidized loans are the next best option because students and parents qualify through the FAFSA application, and they have a lower interest rate than loans from private lenders. Finally, there are private lender loans which families can apply for through banks and credit unions. The terms of these loans are negotiated by the lenders and applicants must qualify for the loans with the lender outside the financial aid process.

Lastly, you may see a line on the financial aid offer letter that says "work-study." This is a federal program where your student gets an on-campus job and earns money. This money is paid directly to the student and is expected to be used to cover college expenses (e.g., rent, books, food). The benefit of this program is that student has priority for some on-campus jobs.

Financial aid can be complicated and, like shopping for a car, there are many variables to weigh. We here at Presidio Group Education Planning are here to help you find the right-fit colleges for your student that match your family's affordability needs.