

Maneuvering the College Funding Maze



If you have not planned for college costs, now is the time to begin planning.

| BY DR. RALPH G. PERRINO AND DR. FRED SIEGMUND |

Most federal financial aid is need-based. A small percentage (3%) of financial aid comes in the form of scholarships. Eligibility requires completion of the Free Application for Federal Student Aid (FAFSA) form. The Student Aid Report, sent by the Department of Education, indicates the amount of money you can pay. Many people gasp when they see this figure because it does not consider the regional cost-of-living nor does it reflect their family's financial status.

The government uses the Effective Family Contribution (EFC) formula to evaluate family income and assets. This formula determines the amount of need-based aid for which a family is eligible. When compared with the Cost of Attendance (COA), this figure is the sum of money the government expects a family to contribute. Once this figure is established, a family must sift through the myriad of grants and loans.

Grants

Pell Grants make up the heart of federal grants-in-aid. These grants are available to undergraduate students based on financial need. During 2006-2007 academic year, the maximum grant was \$4,050. There are also Federal Supplemental Educational Opportunity Grants and two new grant programs—Academic Competitiveness Grants and National Science and Mathematics Access to Retain Talent (SMART) Grants. Federal Supplemental Educational Opportunity Grants are available to students with financial need, and the maximum grant is \$4,000. In addition to financial need, Academic Competitiveness Grants and Pell Grants are available to undergraduate students based on high academic performance. SMART grants, which cap at \$4,000, are available to Pell Grant recipients who are juniors and seniors. Unlike loans, grants do not have to be repaid. Grants are always an advantage and a subsidy to students. They are

also less plentiful and more selective than loans and work-study opportunities.

Loans

Unlike grants, all loan programs include an obligation to repay the loan. Subsidy comes from a lower interest rate and from payment deferrals until graduation. Some federal loan programs require financial need. Perkins Loans, the most commonly known loans, cap at \$4,000 per year with a \$20,000 maximum and are currently available with a 5% interest rate. These loans defer interest payments until after graduation and payment terms are usually 10 years.

Two other loan programs are the Stafford Federal Student Loan and the Federal Family Education Loan (FFEL) Program. Stafford Loans are direct loans because the lender is the U.S. Department of Education. FFEL lenders are private banks. These loans are offered as subsidized and unsubsidized loans. Subsidized loans up to 25 years have a need-based requirement. Subsidized Stafford Loans currently carry an interest rate of 6%

Parents with dependant students should consider Plus Loans; these loans are not need-based. Current rates are 8.5% for loans made through a private lender and 7.9% made as a direct loan through the Department of Education. There is no grace period and payment begins within 60 days. From July 1, 2002 until June 30, 2003 interest rate for Stafford Loans was published as 4.06%. This signals a significant reduction in loan attractiveness. Similarly, the rate for Plus Loans has risen from 4.86% to 8.5% since 2003.

Adding to this dilemma, Jane Bryant Quinn reported in the Sunday, May 25th The Washington Post that “70 private and nonprofit lenders—including one-third of the top 100—have quit offering government-insured loans through the FFEL.” According to Quinn, the

lenders “can’t raise all the money they need to keep their programs going at a profit because of the turmoil in credit markets.” There are efforts to fill in the gap left by lenders who have exited the student loan business, but if students have poor credit scores or are new borrowers, they may have to wait in line. Likewise, according to Quinn, students who attend schools with high default rates (two-year for-profit colleges, online schools, or community colleges that serve lower-income people) may also have increased difficulty obtaining a loan. Parents with bad credit scores jeopardize their children's chances of obtaining a loan.

A Final Thought

Another option available to a wide range of students is work-study programs administered by colleges. In addition to being an effective way to defray costs, work-study programs can instill a sense of self-worth as well as a base of knowledge that will fare well when graduation day arrives.

The college funding process can seem onerous. If you are like many who did not set aside a regular amount for the future or do not have large amounts of equity in your home, then loans, grants, and work-study paths are your best options. The good news is that even in today's economy, the options for college funding remain plentiful. Parents just need to know how to work the process.

Dr. Perrino is Owner and Director of Northern Virginia Tutoring Service (NVTS), LLC and an Associate Professor of Sociology at Northern Virginia Community College. Dr. Siegmund, a former Professor of Economics, works closely with Dr. Perrino in developing programs and policy at NVTS. They can be reached by phone at (703) 534-5779, by e-mail at DrPerrino@nvtutoring.com, or through the NVTS website at www.nvtutoring.com.