College Preparation Toolkit

College Costs

There is no escaping the fact that college costs are rising. According to recently released reports, most students and their families can expect to pay, on average, from $112 to $1,190 more than last year for this year's tuition and fees, depending on the college.

Still, there is good news. There is more financial aid available than ever before—more than $135 billion. And, despite all of these college cost increases, a college education remains an affordable choice for most families. While financial aid does not always come in the form of grants and scholarships that do not need to be repaid, approaching college costs as an investment changes your outlook.

"Sticker Price" vs. Affordability

Although some of the college price tags you hear about can be discouraging—$30,000 or more for yearly tuition and fees—most colleges are more affordable than you might think. For example, did you know that about 60 percent of students attending four-year schools pay less than $6,000 for tuition and fees? After grants are taken into consideration, the net price paid by the average undergraduate for a college education is significantly lower than the published tuition and fees. And remember, financial aid may further reduce the amount your family will actually pay.

Financial Aid Makes College Affordable for You

Financial aid is intended to make up the difference between what your family can afford to pay and what college costs. More than half of the students currently enrolled in college receive some sort of financial aid to help pay college costs.

The financial aid system is based on the goal of equal access - that anyone should be able to attend college, regardless of financial circumstances. Here's how the system works: Students and their families are expected to contribute to the cost of college to the extent that they're able. If a family is unable to contribute the entire cost, financial aid is available to bridge the gap.

The EFC Works in Your Favor

The amount your family is able to contribute is frequently referred to as the Expected Family Contribution, or EFC. The figure is determined by whoever is awarding the aid - usually the federal government or individual colleges and universities.

The federal government and financial aid offices use "need formulas" that analyze your family's financial circumstances (things like income, assets and family size). Most families can't pay the EFC out of current income alone. But, not to worry - the formulas assume that families will meet their contribution through a combination of savings, current income and borrowing.

Don't Rule Out Colleges with Higher Costs

Say your EFC is $5,000. At a college with a total cost of $8,000, you'd be eligible for up to $3,000 in financial aid. At a college with a total cost of $25,000, you'd be eligible for up to $20,000 in aid. In other words, your family would be asked to contribute the same amount at both colleges. It helps to keep the value of a college education in mind. It's an investment in the future that can never be replaced.

Lots of Options

Financial aid is any type of assistance used to pay college costs that is based on financial need. The U.S. Department of Education's Federal Student Aid (FSA) programs are the largest source of student aid in America. These programs provide more than $80 billion a year in grants, loans and work-study assistance. Learn more about FSA and how to apply for this aid at www.federalstudentaid.ed.gov.

The first step in seeking financial aid for higher education is filling out the Free Application for Federal Student Aid (FAFSA). Fill out the FAFSA online at **www.fafsa.ed.gov.**

The National Association of Student Financial Aid Administrators offers a range of resources to help students and parents navigate the college aid process. For information, visit their Web site at **www.nasfaa.org.**

Three Main Types of Financial Aid:

1. Grants and Scholarships - Also called gift aid, grants don't have to be repaid and you don't need to work to earn them. Grant aid comes from federal and state governments and from individual colleges. Scholarships are usually awarded based on merit or other specific criteria. To search for scholarships, visit www.fastweb.com.

2. Work - Student employment and work-study aid helps students pay for education costs such as books, supplies and personal expenses. Work-study is a federal program that provides students with part-time employment to help meet their financial needs and give them work experience.

3. Loans - Most financial aid (54%) comes in the form of loans to students or parents. This is aid that must be repaid. Most loans that are awarded based on financial need are low-interest loans sponsored by the federal government. Some of these loans are subsidized by the government so no interest accrues until the student begins repayment after graduation. (Not all are qualified for no interest loans).

More About Loans

There are many different types of loans, both for students and for parents to secure on behalf of the student. Read on for the basics.

Parent Loans

1. Federal PLUS Loans - The PLUS Loan program is the largest source of parent loans. Parents can borrow up to the full cost of attendance minus any aid received. Repayment starts 60 days after money is paid to college.

2. Private Parent Loans - A number of lenders and other financial institutions offer private education loans for parents. These loans usually carry a higher interest rate than PLUS Loans. Some colleges allow payment plans over the course of the school year with little or no interest for regular on-time payments.

3. College-Sponsored Loans - A small number of colleges offer their own parent loans, usually at a better rate than PLUS. Check each college's aid materials to see if such loans are available.

Federal Student Loans

1. Perkins Loans - Perkins Loans are need-based loans awarded by the financial aid office to students with the highest need. The interest rate is very low - 5 percent - and you don't make any loan payments while in school.

2. Subsidized Stafford or Direct Loans - Subsidized Stafford Loans are need-based loans with interest rates in the 4-6 percent range. The federal government pays the yearly interest while you're in school. This is why they're called "subsidized" loans.

3. Unsubsidized Stafford or Direct Loans - Unsubsidized Stafford Loans aren't based on financial need and can be used to help pay the family's share of costs. You're responsible for paying interest on the loan while in school. You may choose to capitalize the interest. The advantage of doing this is that no interest payments are required. The disadvantage is that the interest is added to the loan, meaning that you will repay more money to the lender.

4. Grad PLUS Loans - This is a student loan for graduate students sponsored by the federal government that is unrelated to need. Generally, students can borrow Grad PLUS loans up to the total cost of education, minus any aid received. The advantage of this loan is that it allows for greater borrowing capacity. However, it is recommended that students consider lower-interest loans, such as the Subsidized Stafford or Unsubsidized loans prior to taking out a Grad PLUS loan.

Other Student Loan Options

1. Private Student Loans - A number of lenders and other financial institutions offer private education loans to students. These loans are not subsidized and usually carry a higher interest rate than the federal need-based loans. The College Board private loan program is an example of a private education loan for students.

2. Other Loans - Besides setting up scholarships, some private organizations and foundations have loan programs as well. Borrowing terms may be quite favorable. You can use search engines such as these to find more options: **Fastweb, CollegeAnswer, Michigan Scholarship Resources,** and many others.

One Last Note

Work closely with your college's Financial Aid Office to determine what resources you need. Loan packages offer amounts larger than what is needed. It is in your best interest not to overextend your credit. Loans, remember, have to be repaid after graduation. This repayment is strongly enforced.