

CHAPTER 2

OPTIONS

Understanding Financial Aid Options

For many students, financial aid is an important source of income during their college years. Typically, financial aid comes in three forms:

1. scholarships and grants
2. work-study programs
3. loans

Another option that may be considered to help pay for college is a Reserve Officers' Training Corps (better known as ROTC) scholarship (see page 30). The following sections detail the various types of financial aid and scholarships available.

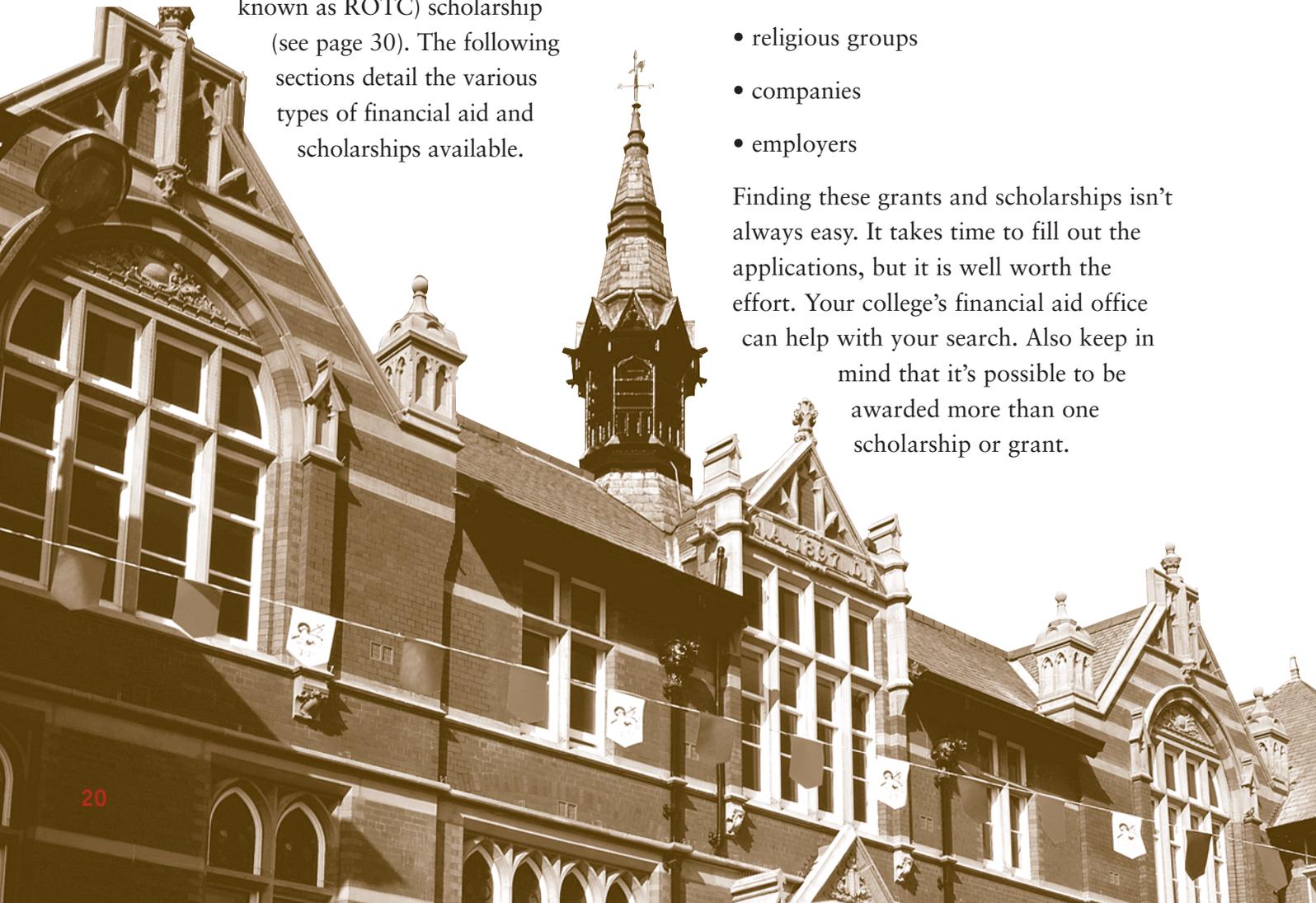
Scholarships and grants

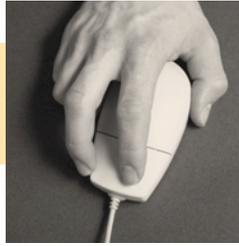
The great thing about scholarships and grants is that they do not have to be repaid. The U.S. government funds two of the largest grant programs: the Federal Pell Grant and the Federal Supplemental Educational Opportunity Grant. Some states also offer grant programs.

Most grants and scholarships come from colleges or private sources, including:

- service groups
- religious groups
- companies
- employers

Finding these grants and scholarships isn't always easy. It takes time to fill out the applications, but it is well worth the effort. Your college's financial aid office can help with your search. Also keep in mind that it's possible to be awarded more than one scholarship or grant.





So how do you get started on your scholarship hunt? As with many things, an initial on-line search uncovers any number of opportunities. Best of all, the information is free and current. Make special note of application due dates and requirements. Here are a few great places to start:

- College Board (www.collegeboard.com)
- FastWEB (www.fastweb.com)
- FinAid (www.finaid.org)
- Scholarship Resource Network Express (www.srnexpress.com)
- National Association of Student Financial Aid Administrators (www.NASFAA.org)
- Sallie Mae, scholarship service (www.salliemae.com/planning/scholarships.html)
- U.S. Department of Education, Office of Postsecondary Education (www.ed.gov/offices/OPE or www.students.gov)



SCAMS

Avoid scholarship scams

Thousands of Americans are conned out of millions of dollars each year while searching for scholarships (Source: National Association of Student Financial Aid Administrators). Consider these guidelines:

- Never pay a fee for scholarship money or application information.
- Never give out your credit card or bank account numbers.
- Don't fall for "guarantees" or other claims.

The truth is that real scholarships never charge fees, and the information about applying is available to everyone.





Work-study programs

If you want to work during college, there is a place to indicate this on your Free Application for Federal Student Aid form (FAFSA form). (See page 26.) Or, check with your college's financial aid office. They should have a complete list of what's available. You also can call 1-800-4FED-AID and request information on work-study programs.

Work-study programs offer jobs both on campus and in nonprofit groups and public agencies. In general, work-study jobs pay at or slightly above the minimum wage. The government provides these funds to employers to pay work-study salaries.

Loans

Graduating from college debt free is a good goal, but this may not be possible. You may need one or more loans to pay for college. The federal government and private lenders offer loan programs. Start by exploring federal student loans. (See the chart on page 24.)

When accepting a loan, you will sign a promissory note. This legal document shows your pledge to repay the debt.

In a few situations, the federal government “forgives” loans. This means you don't have to repay part of or your entire loan. For example, if you have a Federal Perkins Loan, you can go into law enforcement or teach in a federally designated, low-income area. If you do so, you will not have to repay the loan if you stay in that job for at least five years. If you leave the job before five years, part of the loan will be forgiven.

Also, AmeriCorps, a domestic version of the Peace Corps, currently provides participants with an education award of approximately \$4,725.

Check with your financial aid officer for information about these special programs.

Warning: More and more private loans are being marketed to college students. Review a loan's provisions carefully before you accept it. Make sure you understand what you will have to repay and when. Most important, do not borrow more than you need.

EXPLORE

Your Loan Possibilities

The chart on this page shows the types of student loans that may be available to you.

Loan Type	Loan Facts	Loan Limits	Disbursement
Federal Perkins Loan A campus-based aid program	Not all schools participate in this program Student must show financial need	\$3,000 to \$4,000 for undergraduate students \$5,000 to \$6,000 for graduate students	The school disburses funds to students
Stafford Subsidized Loans Includes Federal Family Loan Program (FFELP) and Federal Direct Student Loan Program (FDSLPL)	Student must show financial need. Government pays interest while student is in school and during the grace period	\$2,625 to \$18,500, depending on college grade level	Family loan program: government provides funds to schools to disburse Education to students Direct loans: government disburses directly to students
Stafford Unsubsidized Loans Includes Federal Family Education Loan Program (FFELP) and Federal Direct Student Loan Program (FDSLPL)	Student does not need to show financial need Student responsible for paying all the interest during the life of the loan	\$2,625 to \$18,500, depending on college grade level	FFELP: government provides funds to schools to disburse to students Federal Direct: government disburses directly to students
Federal Parent Loan for Undergraduate, Students known as PLUS Loan	Lets parents borrow money to cover any covered by student's financial aid package Available to parents of dependent undergraduate students PLUS loans are the financial responsibility of the parents	Up to the full cost of attendance or to the school to disburse to the student	Funds can be disbursed directly to the student
Private Loans Sources include bank or credit union loans, life insurance policy loans, home equity loans	Borrower must qualify for a private loan. Qualifying will depend on credit history	The lending institution will set the limit	Funds are disbursed directly to the borrower

Calculating the cost of loans

Try to think of student loans this way: They are an investment in your future, but they also will put you in debt. Many students spend 10 or 20 years repaying their college loans. If you have to pay interest on the loan, the debt can quickly mount up.

For example, consider the following chart:

Borrowed Amount	Interest Rate	Monthly Payment	Loan Duration	Total Payment with Interest
\$23,000 Federal Stafford Loan	8.25% Annual Percentage Rate	\$282	10 years 120 Payments	\$33,840

Private lending sources will cost you even more!





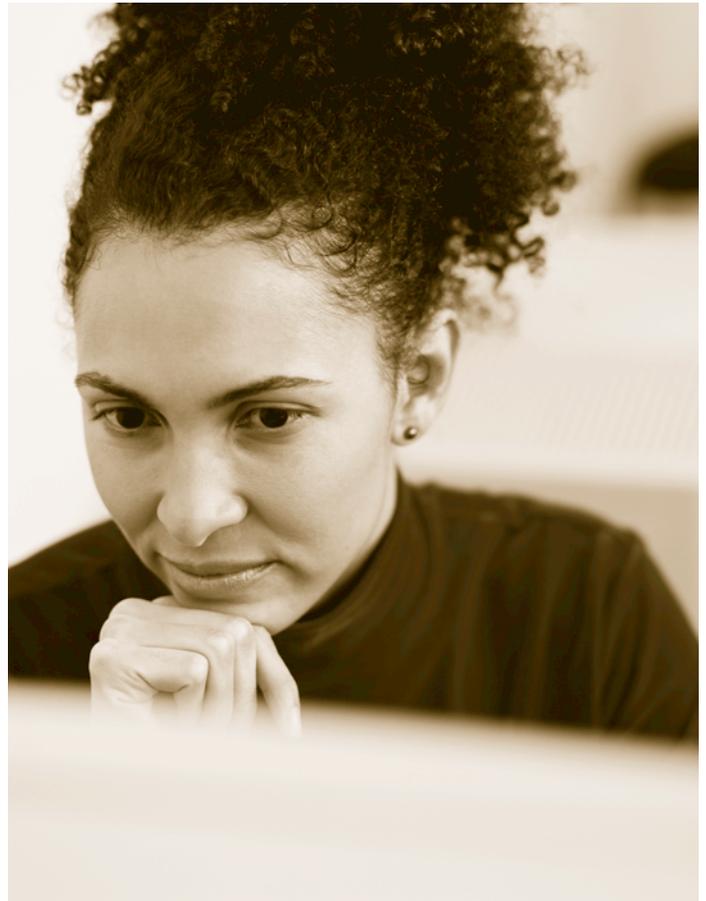
Financial aid forms

Applying for financial aid starts by filling out the “Free Application for Federal Student Aid” (FAFSA) form. College-bound students all across the country use this form.

You can get a copy of the FAFSA form by calling 1-800-4FED-AID or you can apply on-line at www.fafsa.ed.gov. Keep the following points in mind when completing your FAFSA form:

- **Read the instructions carefully.** Terms like “household” or “parent” have a specific meaning when it comes to financial aid. To answer the questions correctly, follow the instructions.
- **Apply early.** Apply for financial aid as soon as you can after January 1 of the year in which you will be attending college. The earlier you get started in your financial search, the better your chances are of finding the money you need.
- **You don’t need to file your tax return before you submit your FAFSA form.** Filling out your tax return first will make completing the FAFSA easier, but you do not need to submit your tax return to the IRS before you submit your FAFSA. You can update your FAFSA later if the numbers on your income tax return end up being different from what you expect.

- **Apply on-line if possible.** The fastest way to apply for financial aid is to fill out and submit a FAFSA over the Internet (at www.fafsa.ed.gov). On-line applications have an additional advantage: your application will be reviewed before it is submitted. This reduces the chances of your application being rejected because of an error.
- **Keep your paperwork.** Save everything you used to complete the FAFSA form, such as tax records, driver's license, and so on. Also, make a copy of your completed FAFSA form and keep it in your records.
- **The FAFSA form is good for one school year only.** You must complete and submit a FAFSA each year you are in school.
- **Don't miss deadlines.** The FAFSA form should be submitted as soon as possible after January 1 of the year you will be attending school. (If you submit the form before January 1, it won't be processed.) In most states, the FAFSA must be submitted by March 1; a few states have an earlier deadline. If you miss the filing deadline, you'll have to wait until January 1 of the next year to apply again. Also, if you must correct your FAFSA, know the deadline that corrections must be submitted.
- **Know the Title IV Institution Code for each college or university to which you are applying.** You will need this code to complete the FAFSA form. To get the code, call the school's financial aid office or use the search form on www.fafsa.org.



Student Aid Report

About four weeks after you send in the FAFSA form, you will receive the Student Aid Report (SAR). Make sure it is complete and accurate. If you find an error or you need to make changes, talk with your college's financial aid office before mailing in corrections.

The report also lists your "Expected Family Contribution" (EFC). This is the amount the government and colleges expect your family to pay. The difference between your EFC and the cost of college is the amount of aid you need.

The school you plan to attend will get a copy of your SAR along with the rest of your information. The school, then, will use this information to prepare a financial aid package.

In general, the financial aid you are eligible to receive goes directly to the school on your behalf. Typically, your school first uses the aid to pay tuition, fees, and room and board (if provided by the school). You receive any remaining aid for your other expenses, such as books, lab fees, and so on.





RULES

Family Tax and Contribution Rules

Some college students get financial help from their families. If you do, here are a few things to keep in mind:

- Your parents may claim you as a dependent on their income taxes. If so, they will receive a tax deduction. In this case, you may not take a deduction for yourself on your own tax return.
- You may be independent of your family for tax purposes. However, the federal government may still expect your parents to help pay for college. This can affect the amount of financial aid you are eligible to receive.
- For financial aid, college students are considered dependents of their parents until the student:
 1. earns his or her first undergraduate degree

2. reaches age 24 (possible exceptions are military veterans, wards of the court, married students, single parents, or students with other special situations)

- Schools expect students to contribute a bigger chunk of their income and savings than parents.
- While a student (attending college at least half time), you or your family may qualify for certain tax breaks. These may include the Hope Scholarship Credit, the Lifetime Learning Credit, and education loans interest deductions. For more information, call the IRS at 1-800-829-1040, visit www.ed.gov/inits/hope, or talk with a tax specialist.



ROTC scholarships

The Reserve Officers' Training Corps (better known as ROTC) offers scholarships to some qualified college-bound or current college students. In general, if you receive an ROTC scholarship, the military branch that awarded the scholarship will pay the cost of your tuition and other education fees. You also will receive a subsistence allowance of around \$1,500 a year.

In addition to the four-year scholarship program, there are a limited number of two- and three-year scholarships available to students already in college.

However, an ROTC scholarship differs significantly from other college scholarships: If you accept the scholarship, you agree to join the military for a number of years after graduation. The length of your military service will vary depending on the branch of service and field of specialty; however, a four-year active duty commitment is common.

Because accepting a ROTC scholarship means accepting a term of duty in the military, think this scholarship over carefully before signing any papers.

To learn more about the ROTC scholarship program, its eligibility requirements, and application deadlines, visit an on-campus ROTC office or the Web sites for the military branches:

- U.S. Army at www.army.mil
- U.S. Air Force at www.af.mil
- U.S. Navy (which also includes information about the Marine Corps) at www.navy.mil



Michael Herrera, School Psychologist

PROFILE

Michael Herrera, 35, is the youngest of six children. His family emigrated from Mexico just before Michael was born. He worked in cherry orchards and tomato fields before and after school.

Michael never considered going to college until a high school counselor suggested it. His family did not support his decision at first. "My dad thought I wanted to get away from the family and mess around," he says.

Michael attended the University of Hawaii before finishing his degree in 1988 at Fresno State University in California. He went on to earn a master's degree in school psychology in 1991. Thanks to financial aid, scholarships, working odd jobs, and help from family, Michael paid for college.

"After a while, they saw that I was serious," he says. "They saw that I was going to college for a big purpose." Plus, family friends began telling Michael's parents how great it was that he was going to college. "That's how they first began to think that college was a good thing," he says.

Michael takes his work as a school psychologist seriously. He wears a tie everyday, even though his colleagues do not. "I wear that tie and portray that level of professionalism for the Latino youth," he says.

In addition, he is a role model and confidant in his family. When anyone needs help, they turn to Michael. The pressure can be tough at times, but Michael talks enthusiastically about his nieces and nephews who are following in his footsteps to college.

