

Notes From the Guidance Financial Aid Night  
November 5, 2008

The evening opened with an update from Dr. Weintraub regarding a new policy on student drinking. Due to ongoing concerns and the responsibility to keep students safe a much stricter policy is being enacted. There has been a great deal of concern about the increase in student drinking, with larger numbers of students coming drunk to school events, particularly last year's Powder Puff Football game (between 11<sup>th</sup> and 12<sup>th</sup> grade girls). Last year students were drinking before the game and were kicked out of the game. This year working with the Brookline Police and the BHS administration a new plan was developed. Teams of Brookline police officers and BHS administrators will supervise the field. Any student suspected of drinking will be taken to a police car and given a breathalyzer test. If a student fails the breathalyzer test, he or she will be suspended from school and will not be able to attend the junior semi-formal dance, senior prom or after the prom party. Further violations, will prevent a student from attending their graduation ceremony (for seniors). Dr. Weintraub has been telling students the new policy and also telling them that they have a responsibility to help their friends.

For further information see Dr. Weintraub's column in News and Views <http://www.bhs-pto.org/pdf/News&Views11-08.pdf>

Jacqueline Browne, coordinator of pupil support services for BHS opened the evening's topic. A set of hand-outs had been prepared for the evening. Additional sets of the hand-outs will be available in guidance offices for students to pick up. Remind your child if you need a packet.

Ms. Browne stated that according to the College Board, tuition, room and board had increased 6 percent in 2007-8. Average tuition at a private college or university was \$32,000. Instate tuition at a state university averaged \$13,000 and out of state tuition averaged \$24,000. Financial aid is not keeping pace with these increases. For the average student, financial aid from all sources totaled \$7396. To help parents understand the financial aid process Ms. Browne had invited two expert speakers to address the issues.

Duane Quinn, Special Assistant to the President of American Student Assistance was a financial aid officer at Lesley, Clark and Brandeis. American Student Assistance (ASA) is a processor of student loans and assists in the repayment of student loans. ASA does not provide financial aid.

Connie Fitzgerald is the manager of the Brookline Branch of Sovereign Bank.

Mr. Quinn stated that there are two types of financial aid, merit aid and need based aid. Merit aid is given by the colleges to a student for something special about that student; it recognizes merit. Merit aid is not a significant component of financial aid. The most competitive colleges do not grant merit aid. Additionally there may be scholarships that

your student can qualify for and apply to that are also not need based. Students should do a web search to find appropriate scholarships.

### Forms of Financial Aid

Need based aid is the major component of financial aid. Almost all need based aid given by the federal and state governments is based on your family profile.

Most financial aid officers subscribe to the theory that it is the parents' responsibility to pay for the student's education. We don't have free higher education, although the closest thing to it is the community college system. Parents are expected to take responsibility for the education costs up to their ability to do so. Financial aid is seen as a bridge between the parents' ability to pay and the dollar amount needed, which includes loans and scholarships.

The second theory that is commonly accepted is that students are required to contribute to the cost of higher education. Students can help finance their education through borrowing, working, and savings. (Federal programs for student aid and student employment started in 1965.) Financial aid officers start with the assumption that a student has saved \$1900 and that is the first amount that is deducted from their higher education costs (when figuring need).

A student's eligibility for need is computed by taking the cost of the institution minus the family contribution (or assessment), which leaves the amount needed in financial aid. The cost of the institution is not just tuition, room and board. Added into the figure are living expenses, personal expenses, books and supplies, transportation or commuter costs, and other special costs (e.g. if a computer is needed). All are added into the cost of attending the institution.

### Family Contribution

The family contribution is the ability of the family to absorb the educational expenses over time. This is the ability not the willingness, to absorb not necessarily to pay the expenses.

The family contribution consists of three parts:

1. A look at the past – the accumulation of assets (savings, investments, second home) excluding 401K, IRAs or pensions and also excluding the value of the primary residence.
2. Current income flow (from your tax return). Financial aid officers ask with true sacrifice what can you afford to give?
3. A look at the future – based on your age, how much more can a financial aid officer get from you and not jeopardize your retirement. What is your future ability to borrow?

In simple terms, financial aid officers look at savings, income and future income.

## Financial Aid Process

### Free Application for Student Aid (FAFSA)

An application is required. Parents need to fill out a Free Application for Student Aid (FAFSA). It can be done on the web or in paper format. ([www.fafsa.ed.gov](http://www.fafsa.ed.gov)) Mr. Quinn warned parents not to Google FAFSA because a paid site will come up which will charge \$50 for this free application.

In order to complete the application, families need to register for a pin number, 1 parent and 1 child. It takes 72 hours to receive a pin number and it is a life long number. Don't leave this to the last minute.

On the FAFSA site there are many options, one is "estimate my eligibility." This can give you an idea of the family contribution you will be expected to provide without processing your application. If you have a low number, your student will have high eligibility for financial aid and if you have a high number, your student will not receive much aid and you should seek other options.

After January 1, 2009 (for seniors) you can complete the FAFSA and it should be done by February 2, 2009, even though the state deadline is later. Many colleges have earlier deadlines for financial aid. The FAFSA requires your tax information (either completed or estimated). If you provide estimated tax information, you can update the form after your taxes are done.

After you complete your FAFSA, it will go to a federal processor. The processor only checks that you qualify as "eligible" to receive financial aid. You must be a citizen or permanent resident of the United States and have no student loan defaults. If you have a male student, he must be registered with the Selective Service. The federal processor will take the information which you supply and send it off to up to 5 schools that you have listed. The schools then take the information and determine eligibility and create a financial aid package to offer to the student.

### Acknowledgement

Within 72 hours of sending in your FAFSA you should receive a Student Aid Report. It is critical to get this back, so you can review all the information on your application. The Student Aid Report will tell you if the form has been processed or notify you of omissions. If there are omissions, you need to respond, because your form is in limbo until it has been processed. The Student Aid Report will go to whichever e-mail address you enter on the FAFSA. If your student's e-mail is on the form, it will go to them. Mr. Quinn strongly urged parents to put their own e-mail address on the FAFSA or one that they have access to. Parents need to see the Student Aid Report in a timely manner. Later the e-mail address can be changed to the student's.

## College Scholarship Profile (CSS)

This is an additional form used by some colleges as a supplement to FAFSA – never in place of FAFSA. High priced colleges use the CSS to learn more about you. The CSS profile asks for additional information including equity in your home. In the FAFSA form there is a strict definition of parent (either a natural, adoptive or step-parent with whom the student lives). FAFSA asks for no information on the non-custodial parent. Many high priced private colleges don't like this and want information on non-custodial parents.

Also since FAFSA is done in January, some colleges use CSS in the early decision process, so they can provide a financial aid decision early. The CSS profile can be filed as early as mid-October.

## Financial Aid Amount

The amount of financial aid that a student is eligible for is based on the cost of the institution minus the family contribution. However, the maximum amount a student can receive is determined by the overall price of the institution they wish to attend. If a college costs \$24,000 and the family can contribute \$8,000 then the maximum aid will be \$16,000. However if the same student is looking at a school that costs \$12,000 the family contribution is still considered to be \$8,000, leaving the maximum amount of financial aid \$4,000 that the student is eligible for. At this school the student can receive no more than \$4,000, because of the lower costs. In an ideal world, every school would “meet full need” of every student. In reality, only the richest schools can do so. If a school states that it “meets full financial need” in its literature, it must do so.

In the real world a student trying going to a college which charges \$24,000 will have an expected family contribution of \$8,000(which is typical today) and may receive a grant of \$8,000, a loan of \$2,000 and be expected to earn \$2,000 in student employment. Financial aid officers figure that students can work 10 hours a week and make between \$8-\$12 an hour. In many colleges, financial aid officers can't give all the funds that a student is eligible for and this leaves an unmet need or “gap.” In this case, the family would have to come up with \$11,000, not \$8,000.

## Student Loans and Student Employment

Students would then need to apply to outside scholarships or borrow more money. The FAFSA has information on Grants (loans) available to students including Stafford and Pell Grants, state grants and the Federal Supplemental Educational Opportunity Grant (FSEOG). There are other scholarships and grants that may apply to a specific student, but those a student must find on their own.

Qualifying for student employment, only means that the student has an opportunity to get a job on campus. It is the student's responsibility to find that job. Also parents should

note that student work/study employment earnings can not be subtracted from their college bills. Financial aid officers assume that a freshman can earn between \$2,000 - \$3,000 and that upper classmen can typically earn between \$3,000-\$4,000 a year.

There are maximum student loan amounts through the Federal student loan program. A maximum of \$5,500 can be borrowed in freshman year. A maximum of \$6,500 can be borrowed in the second year and a maximum of \$7,500 in years 3, 4 and 5. These federal loans are available to all students who file a FAFSA and are not based on income. What is based on income is whether the loan is subsidized or unsubsidized. In a subsidized loan the federal government pays the interest on the loan while the student is still in school. In an unsubsidized loan, the interest accrues immediately. Currently interest rates on a Stafford loan are 6% for subsidized loans and 6.8% for unsubsidized loans.

### Parent Loan Program

The PLUS loan (Parent Loan to Undergraduate Students) is available to parents. Parents can't be denied this loan if they are eligible. Parents must be an American citizen or permanent resident with no defaults on student loans. Parents must not have an adverse credit history. One downside of the PLUS loan is that you do not have to have a credit history or a job to get this loan. If you can't handle this loan, you will never be able to get another one. PLUS loans are not subsidized. There is a new law going into effect that will allow parents to defer principal payments until after the student graduates. Mr. Quinn had no information on how this law will work.

Other loans are available from the Massachusetts Educational Financing Authority (MEFA) which can be found online at [www.MEFA.org](http://www.MEFA.org) Parents can also ask financial aid officers about other sources. Financial aid officers can give the names of sources but cannot by law direct you to a specific source.

### Alternative Student Loans

Mr. Quinn warned against taking an alternative student loan. They are pricey, unsecured and have bad terms. Beware if your student is taking loans beyond the maximum federal loan, it means the student cannot afford this school. A student taking the maximum federal loan for 4 years will typically have \$20,000-\$25,000 in loans which will result in a monthly payment of \$325 for ten years. The loans should represent no more than 8 percent of the student's take home pay (their debt to income ratio). Given the starting salary that they can expect upon graduation, this loan is manageable. Higher loans will need an unrealistic starting salary to allow a student to repay them.

### Home Equity Loans and Line of Credit

At this point in the meeting Connie Fitzgerald of Sovereign Bank took over to explain home equity loans and lines of credit. Ms. Fitzgerald explained that these are types of loans that are secured by mortgage on your house. These loans can be used to fill the "gap" in the financial aid package.

In order to determine eligibility for these loans, a bank will look at your equity in your home, your income and debt (debt to income ratio), and your credit history. Most banks will allow you to borrow 80 percent of the equity in your home. The interest is usually tax deductible. Ms. Fitzgerald reassured parents that the banks are still lending and that the drop in home equity has been smaller here than in other places.

### Home Equity Loans

Ms. Fitzgerald stated that a home equity loan is not the best option when borrowing to pay college costs. A home equity loan gives you one lump sum and you must immediately start paying it back. A home equity loan has a fixed rate and a fixed monthly payment which can run from 5 to 30 years. Currently the interest rates are 7-8 percent. Parents don't need the whole sum for tuition at one time, so this loan is not recommended for tuition.

### Line of Credit

In a line of credit, you borrow the money as needed. You can pay back the interest or the interest and principal, but for 15 years borrowers have the option to only pay the interest. Line of credit interest rates are variable and are tied to the prime rate. Currently the interest rates are prime plus  $\frac{1}{2}$  a percent to  $1\frac{1}{2}$  percent. The prime rate is at 4 percent. If you borrow \$100,000 at 5.24 % the interest will be \$432 a month.

A line of credit is flexible and interest is paid only on what you borrow. It also has flexible payment options. While you are only paying interest, you can still pay down the principal at any time. Interest on the line of credit may be tax deductible. Rates are generally lower than other types of loans and there are typically no closing costs. A line of credit can allow parents to leave their investments as they are. You apply once for a line of credit and can have the money accessible for unexpected expenses. Borrowers access funds by writing a check or transferring money online.

There are some concerns about home equity loans and lines of credit. It does use the equity in your home and can decrease profit on your house if it is sold. There is a mortgage on your home and it can be foreclosed, in the case of nonpayment, the fixed rate can be higher than a Stafford or PLUS loan. Payments and interest rates can and will change with a line of credit. Ms. Fitzgerald suggested looking for a "rate lock feature." A rate lock will allow you to lock in what you owe at a current interest rate. Talk to your local banker about it.

### Getting a Home Equity Loan/Line of Credit

It is easier if your income stream is simple, if you receive salary from a company. If you are self-employed or have multiple sources find out who in the bank has experience dealing with these areas. You are looking for the best rate, low interest and best loan to value (typically 80% of your equity, but possible 90 % or 100%).

To apply for these loans get an application from the bank you will be using. The bank will require 2 years of federal tax returns with all the schedules, 2 years of pay stubs and if the property is held in trust, the trust documents. Next the bank will arrange for an appraisal. The bank will also do a title search and a credit review. If all is good, then the bank will underwrite the loan. It takes about 2 to 4 weeks to do it.

More information on scholarships is on the Guidance website. Additionally there are BHS scholarships available.

## Questions

Should parents get rid of assets before doing the FAFSA?

No the system is very income driven; reducing assets will have little impact on the financial aid process. However student assets have more impact. For every \$1,000 a student has in assets their eligibility is reduced by \$250. Don't put assets that you control under the student's social security number.

Does the CSS ask about retirement assets?

No, but schools can customize questions. Mostly the schools are looking for very large numbers that aren't brought out on the FAFSA.

Do private scholarships affect a student's financial package?

Yes, a school must reduce the student's financial package if all the student's financial needs were met. Typically schools do this by reducing loans or work. By law, a school must tell you what it will do in this circumstance, in the letter describing the financial aid package.

What if you can't afford a school with binding early decision?

Early decision is not binding, if all the student's financial needs are not met. You can always back out if you can't afford it.

What is MEFA?

Massachusetts Educational Financing Authority

Can the federal loans be used at a foreign school?

Yes, for Canada. Some foreign schools qualify for Stafford and Pell grants.

What does FAFSA mean by cash?

Cash: savings and investments. This includes trust funds, even if you don't have access to the funds.

If you don't apply for financial aid in the first or second year are you at a disadvantage?

Not for federal aid, but yes for private colleges. Private colleges are suspicious. Why are you applying now? (Unless you have lost your job) Your student will be last in receiving funding, because the college has already allocated the money for this class.

Schools don't want to see a sudden need; they'd want to see a big change in family status. The schools don't like to be blindsided and need to find a large amount of money late. They don't like to see you spend all your money in the first two years and then apply for financial aid.

Are student assets listed on the FAFSA and CSS?

Yes.

What do you do about assets held in multiple kids' names?

FAFSA is only interested in the assets tied to your social security number. The name is not important; they will look at the social security number. On the CSS profile, they will ask about siblings' assets.

Is there any differentiation between home owner and renters?

FAFSA treats home owners and renters the same. This is why the private schools dislike it, they feel that renters should get more (aid).

How does FAFSA treat families with multiple kids?

The federal system doesn't account for them. (unless they are in college at the same time)

What about your debt on FAFSA?

FAFSA doesn't ask for your debt, it uses a national average debt number.

Do you have to report business assets on FAFSA?

Only if you have 100 employees.

Should you do the CSS profile before FAFSA?

There is no advantage, unless your student is applying for early decision.

What is the federal definition of income?

Adjusted gross income on your 1040, line number 31 for 2008.

Mr. Quinn stated that he would happy to answer questions by e-mail. Please put Brookline High School in the subject line.

[Quinn@AMSA.com](mailto:Quinn@AMSA.com)

Another recommended website is: [www.mappingyourfuture.org](http://www.mappingyourfuture.org)