based grants or scholarships if the institution provides them, may decrease loans in the aid package and increase grants even at an institution that offers only need-based aid, or may decide to award aid even though they didn't in the first place. If you receive significant financial awards based on merit or need from one or more colleges, consider contacting a college that admitted you but did not offer aid to see if it will be willing to provide financial assistance.

COMPONENTS OF AID PACKAGES: WHAT TO EXPECT

There are four main elements you might find in a financial aid package: grants, scholarships, work-study awards, and loans. Grants and scholarships are best. You don't need to pay them back. You have to pay back loans, but the terms of the loans can vary significantly. Federal Work-Study (FWS) awards present you with preferential employment opportunities on and around campus, for which you earn money, while the federal government reimburses your employer, which is often the university itself.

Grants Grants are usually need-based awards provided by the federal and state governments and colleges and universities. They are typically renewable each year and are not repayable. The larger the portion of grants in your aid package, the better. They will directly lower the costs of tuition, fees, room and board, books and supplies, travel, and other personal expenses. The most common grants are the Federal Pell Grant, the Federal Supplemental Educational Opportunity Grant (FSEOG), and state-based grants that mirror these programs. Check with the institutions to which you have been admitted and your state education department for more information on nonfederal grants, especially those associated with public colleges and universities. The federal government provides some

$67 billion of aid annually, about 70 percent of all aid to students.

Federal Pell Grants The Pell Grant is the main source of need-based federal aid and is usually only awarded to students seeking their first bachelor's degree. The maximum award in 2003–4 was $4,050, for full-time, full-year undergraduates with sufficient college costs to qualify for that much assistance. Pell Grants are distributed directly to colleges, which will inform you in your financial aid package how much assistance you are getting and whether the money will be applied directly to college costs such as tuition or disbursed to you in a check.

Federal Supplemental Educational Opportunity Grants (FSEOGs) Along with Federal Work-Study awards and Perkins Loans, FSEOGs are considered campus-based aid programs, administered directly by participating colleges and universities. While Pell Grants are awarded to all students demonstrating need, funding for the campus-based aid programs is more limited. Funds are distributed to participating institutions according to complicated formulas. Once the colleges use up their allocated money, they are not able to award additional funds to students that year. FSEOGs are typically awarded to the neediest students qualifying for Pell Grants and range in size from $100 to $4,000 per year. Money is disbursed in the same way as Pell Grants and need not be repaid.

State-based Grants Some states offer need-based grant programs that mirror the federal programs, a state SEOG program for example. Other states have their own particular grant programs for eligible students. Some of these grants may show up in your financial aid package as additional reductions in the amount you will need to pay.

Nonfederal Grants Many colleges and universities allocate need-based grants to supplement federal and state awards. These should be detailed in your award letter. Remember: grants do not need to be repaid, so they are the key foundation to any award package.

Scholarships Scholarships also represent money for college you do not need to pay back, so the more you receive in scholarship assistance the better. In your financial aid package, as an additional letter from the admission office, or as part of your original admission offer you may receive notice of special scholarships, either from the state or from the college. You may have applied for some of these directly, or they may be tied to participation in athletics, music, or another special program. In addition, you will receive notification separately from outside scholarship programs to which you applied. Beside the Pell Grant, your overall aid package from a college will be affected by additional state or private grants you receive, and you will need to let the financial aid office know about additional money you have received toward your college education.

Programs such as the state HOPE Scholarship programs and other merit-based aid programs typically lay out very clear criteria for receiving the scholarship and what the scholarship covers. You should receive notification of the receipt of state scholarships like these prior to enrolling in a college. Occasionally, after you have been offered admission by a college, you will be asked to apply for special merit-based scholarships. These entail an additional essay or two and possibly an on-campus interview. You may have been admitted, but don't give up now. Some of these awards are very generous and worth pursuing.

Discounting refers to colleges knocking a certain amount off the price of your college education right off the top. Some refer to this practice as non-need-based aid. Colleges will often name the discounts, referring to them as "University Merit Awards," "Presidential Leadership Scholarships," or "Memorial so-and-so Funds." Basically, these are ways to lower overall costs of the college for you and to make the institution a more attractive prospect as you consider the overall costs of your different college choices.

Federal Work-Study (FWS) Awards The second element of the federal government's campus-based programs, allocates a certain number of work-study hours to students based on need and overall college costs. FWS allows you to work up to a certain number of hours in order to earn an hourly wage that helps to support you and pay for college. You can work on-campus, usually for the college, or off-campus, typically for a public agency or nonprofit organization that serves the public interest. Community service work is encouraged. You may also work for private for-profit companies that are related to your course of study. You will earn at least minimum wage and will be paid directly by your employer.

Studies show that some regular work during college is often helpful to students and is related to good academic performance. Too much work can decrease academic performance and the likelihood of graduating. According to the American Council on Education, 68 percent of students at public four-year institutions who worked fewer than fifteen hours per week or who did not work at all finished their degree within six years. Only 39 percent of students who worked more than thirty-five hours per week during their first year of attendance did so ("Student Success: Understanding Graduation and Persistence Rates," August 2003). Given the known effects of too much work on academic performance and limited funds, FWS hours are limited. You can work with an academic adviser and the financial aid office on-campus to set the appropriate number of hours for you to work.

Most students desire or need to work outside, non-work-study jobs during college in order to pay the bills and have some spending money in their pockets. We caution students to do their best to balance their commitments and to avoid working too many weekly hours on top of the class schedule. How much work is too much? Only you can tell, but half-time employment or less, ten to twenty hours per week, seems to be a tolerable amount for many students. Trying to maintain a full-time job and full-time academic enrollment is very difficult. It will add a lot of stress to your life and be hard to maintain for four or more years of college. If financial stresses are that great on you, you should first talk with your financial aid office about other options and consider dropping to part-time enrollment academically. It may take you longer to finish college, but you may be more successful in the end. However, securing a portion of additional loan money and doing better academically during the several years it takes to finish your degree may be a wiser long-term choice.

Summer work and savings may constitute another significant portion of a student's financial aid package. Many institutions will suggest or require that students work during the summer, including the summer prior to enrollment, to save money to contribute to their college costs. The institutions will likely set a figure of $1,000 to $3,000 as an expected amount of savings from summer work and include that expectation in your financial aid package as part of a student's contribution, which is part of the overall EFC. Many students can save more than that during the summer, especially if they live with their parents. Summertime, when you are not in classes full-time, is the preferred time to work outside jobs to try to put some money away.

You can work almost anywhere—a gas station, a mall, the beach, an internship at an investment bank. Any job that pays well and regularly is fine. We recommend you work with the university financial aid office during the winter of your freshman year and contact the office on-campus that coordinates internships, graduate study, and alumni networking. If you start early, you may be able to open up a more interesting job opportunity, one that fits with your academic or other interests. Some FWS jobs on-campus remain open during the summer, offering you the opportunity to conduct research for a faculty member or help teaching a class or grading papers. Other career opportunities are found with alumni contacts, who love to have part-time interns from their alma mater working in the office during the summer. There are also paid internship opportunities at nonprofits across the country and with the federal or state government.

Loans These days, most students take out loans, about 70 percent of students in 2000, compared to 46 percent in 1990, according to the National Center for Education Statistics. The following are the most common loan programs utilized by students and parents. As we have noted, average student loan debt has increased in recent years, to about $17,100 for students graduating from public institutions and $21,200 for those earning their degrees from private institutions, but the default rate on student loans is at a record low of about 5.4 percent.

Federal Perkins Loans The third element of the federal government's campus-based programs, Perkins Loans, offer students with demonstrated financial need low-interest (5 percent) loans. Colleges and universities, backed in part by the federal government, offer these loans directly to students, who must repay the money to the college. Loan availability will depend on your college's allocation from the government and your level of need. At most, undergraduates can borrow up to $4,000 per year of study for a total of $20,000 during their undergraduate career. There are no fees associated with taking out a Perkins Loan, for which you will need to sign a promissory note with the college in order to receive the funds, either in a check or deposited to your college account. Perkins Loans do not need to be repaid during college, and you will have a grace period of about nine months once you graduate or leave school to begin repaying them, typically done over a ten-year period. You may be able to deduct interest paid on Perkins Loans and some other educational loans from your federal taxes, up to a maximum of $2,500 per year.

What does it look like to repay loans after you graduate from college? If you accumulate $5,000 of Perkins Loans, with a 5 percent interest rate, during your time in college, you will be expected to make 120 payments of about $50 each over ten years in order to repay your college the original $5,000 plus about $1,300 in interest. If you have $15,000 in Perkins Loans, your payment will increase to about $150 per month and you will pay about $4,000 in interest. There are a number of ways to have your Perkins Loans canceled once you graduate, and you will need to check with the college that lends you the money to find out under which circumstances they will forgive the loan and how much they will reduce the loan amount. For example, if you work full-time as a nurse, law-enforcement officer, Head Start employee, teacher, or social services worker, you may have up to 100 percent of your loan forgiven.

Federal Family Education Loan (FFEL) and Ford Federal Direct Loan Programs The FFEL and Direct Loan programs consist of the Stafford Loans to undergraduate (or graduate) students and PLUS Loans for parents of dependent undergraduates. The difference between FFEL and Direct Loans is that while both are administered by the Department of Education, FFEL Loans are made to students by banks, credit unions, and other third-party lenders and you must repay them the loan amount plus interest. Direct Loans are made directly to you by the government through your college, and you repay the Department of

Education. Usually colleges participate in one or the other of these programs, though sometimes they participate in both. You may take out loans through the FFEL and Direct Loan programs, but not simultaneously to cover your college costs at the same school for the same time period.

Stafford Loans have variable interest rates and may be *subsidized* or *unsubsidized.* Subsidized loans are awarded based on financial need, and the government subsidizes the interest on the loans while you are enrolled in college. After a six-month grace period, once you leave school, your loans will begin accruing interest and you will begin repaying them. Unsubsidized loans are non-need-based and begin accumulating interest from the time they are disbursed. If you do not pay the interest on these loans while you are in school, the interest will be capitalized, or added to the principal amount of your loan, making for a larger overall loan repayment. Both subsidized and unsubsidized loan offers are made to you on the basis of your FAFSA. You will need to sign a promissory note from your lender in the case of an FFEL program or from your school in the case of a Direct Loan program. Remember that for loan offers you receive, you do not need to accept the maximum loan amount. You may choose to borrow less.

Limits to your overall borrowing ability for Stafford Loans will be determined by your dependency status as an undergraduate (basically, whether your parents support you and claim you as a dependent for tax purposes) and what year you are in college. If you are not a dependent student and are in later years of college, you will be able to borrow more. The following table lists overall limits on subsidized and unsubsidized loans. There is a great deal of discussion about raising these limits to account for increases in college costs in recent years, but these are the numbers you will need to work with for the foreseeable future. The Department of Education publishes updated figures for all their loan programs annually.

ANNUAL STAFFORD LOAN LIMITS (2004–5)

	Student Status	
Year in College	Dependent Undergraduate	Independent Undergraduate
First Year	$2,625	$6,625 (a maximum of $2,625 may be subsidized loans)
Second Year	$3,500	$7,500 (a maximum of $3,500 may be subsidized loans)
Third or Fourth Year	$5,500	$10,500 (a maximum of $5,500 may be subsidized loans)
Maximum Stafford Loan Total	$23,000	$46,000 (a maximum of $23,000 may be subsidized loans)

The interest rate on Stafford Loans is variable, meaning it can change each year up to a cap (maximum) of 8.25 percent. As of June 30, 2004, the interest rate on loans in repayment was 3.42 percent. Fees of up to 4 percent are charged against each loan disbursal. There are numerous repayment options for these loans, including a fixed monthly payment for ten years, extended repayment periods up to thirty years, graduated payment plans that increase your monthly payment over time, and payment amounts tied to your income level. To give an example, if you borrow a low amount, say $5,000, you will likely pay between $40 and $50 per month and, depending on your circumstances and the repayment plan you choose, that $5,000 may end up costing you between $7,000 and $10,000 if the interest rate is at the maximum of 8.25 percent (remember they are a lot lower than that today). If you borrow a lot, say $30,000, you will likely pay between $200 and $300 per month, for a total loan cost of $40,000 to $70,000 once you pay all that interest. You may receive the same tax deduction on Stafford Loans as on Perkins Loans but will have more limited opportunities to have your loans forgiven based on your choice of employment than you will with Perkins Loans.

PLUS Loans are unsubsidized loans made to credit-worthy parents to help pay the college costs of dependent undergraduates. It is not required that a dependent undergraduate file a FAFSA, but it is a good idea to do so prior to having one's parents file for a PLUS Loan with the government or another lender. PLUS Loan funds are often not included in an award package. Many parents will want to apply for a PLUS Loan after an aid award is made and they know if the loan is necessary. You can get an application for a Direct PLUS Loan from your college and an FFEL PLUS Loan from the college, a private lender, or a state guaranty agency. The maximum PLUS Loan amount is determined by the overall cost of attendance of your college, minus any financial aid you have received.

As with Stafford Loans, the college usually receives loan disbursements first and may ask for an endorsement of those funds. They may return excess money to you to be used for educational expenses. There is a maximum 4 percent fee on disbursements and interest rates are slightly higher on PLUS Loans. The cap is 9 percent, and as of June 30, 2004, the interest rate on loans in repayment was 4.22 percent. As with Staffords, that rate is adjusted annually. Repayment options are similar to those for Stafford Loans, though an income-based plan is not available for Direct PLUS Loans.

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