

Financial Aid Defined

General Aid Types

Federal Aid: Aid that comes from the U.S. government. Usually disbursed through your college.

Gift Aid: Financial aid that does not need to be paid back:
- *Grants:* Typically based on financial need.
- *Scholarships:* Typically based on achievement or talent.

Loans: Funds that must be paid back later, with interest. A loan can be from a private lender (such as a bank) or your college (federal loans are guaranteed by the government).

Private Aid: Financial aid that comes from non-government sources.

Work-Study: Provides students with part-time employment. More under "Federal Work-Study."

Federal Aid Programs

Pell Grant: Gift aid that is given based on financial need. How much aid you will be eligible to receive is based on your FAFSA results. Current max/yr is \$4,050.

Federal Work-Study: Provides jobs for students with financial need, allowing them to earn money to help defray college expenses. Jobs are available both on and off campus.

Perkins Loan: Fixed low interest (5 percent) loan through your college. You must demonstrate financial need. Current max/yr for undergrads is \$4,000 (max. total: \$20,000).

Stafford Loan: Variable interest rate loan. Stafford loans may be obtained from a private lender or your college. They can either be subsidized (no interest accrues while in school) or unsubsidized (interest accrues while in school).

Loan Terms

Annual percentage rate (APR): Amount of interest (fee for borrowing money) associated with a loan. It can change or remain the same during the year and term of the loan. If the interest rate is *variable*, the rate can change; if it is *fixed*, the rate will not change.

Consolidation loan: Loan that allows borrowers to lower their monthly payments by combining their original federal loans into a single loan. You may only consolidate once. Contact your financial aid office for more information. Check out www.loanconsolidation.ed.gov.

Co-signer: A person besides the borrower who signs a credit agreement and is legally obligated to repay the loan if the borrower does not make payments.

Default: Failure to repay your loan; it may lead to legal action to recover the money and can affect your credit rating.

Delinquent: When at least one loan payment is late or missed. Serious delinquency may result in default.

Disbursement: Release of funds by a lender to the borrower.

Grace period: The time between when you leave school and before repayment begins.

Principal: The full amount borrowed. During repayment, it refers to the portion of the original amount still owed (not including interest).

Promissory note: A contract between the borrower and lender that reflects the terms and conditions under which the borrower promises to repay the loan.

Financial Aid Terms

Dependency Status: If you are considered a dependent student, colleges will consider parent income, assets and circumstances when awarding financial aid.

FAFSA: Free Application for Federal Student Aid. The form used to determine the amount of federal and state aid for which you are eligible.

Financial Need: The difference between your educational costs and the EFC (Expected Family Contribution: amount your family is expected to pay).

Financial Aid Package: The total financial aid you are offered, including scholarships, grants, work-study and loans. This information is typically summarized in an award letter. You may choose which aid you would like to accept.

Professional Judgment: Financial aid administrators may adjust your aid package and contribution when extenuating circumstances exist (e.g., loss of a parent, unemployment, unpaid medical expenses, etc.).

Verification: Review process in which the financial aid office requests documentation to verify the accuracy of FAFSA data (on average, about 1/3 of all applications are selected).

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Credit Cards: Use Wisely!

The Question: Do you need a credit card?

Pros:

- They can make expensive emergency situations, such as car breakdowns, easier to handle.
- Making your monthly payments on time allows you to establish a good credit record, critical for future large purchases.

Cons:

- If you can't pay off your monthly bills in full, you will end up paying more for your purchases over time.
- You might be tempted to spend more than your budget will allow. The result could be that your money will go to the credit card company (to cover payments and interest) instead of to your budget.
- Avoid bankruptcy at all costs! Bankruptcy stays on your credit history for up to **10 years** after you file.

Be Smart: Tips to Control Credit

- Select a card that does not charge an annual fee.
- Look for low annual percentage rates (APR). The higher the interest, the more you will have to pay later.
- Ask about additional fees like late payment, charging over your limit and maintaining a balance.
- Remember that the rates for cash advances are usually higher than your interest rate on regular purchases.
- Watch out for introductory offers. Interest rates usually go up considerably after only three or six months.
- Have only one card with a low credit limit. A card with a limit of only \$500 to \$1,000 will help you control your spending.

Recognize Risky Credit Card Behavior

You may have a problem with debt if you:

- ...use a credit card to pay off debt on another credit card.
- ...are at or near your credit limit on many credit cards.
- ...can only afford to make the minimum payment.
- ...ignore collection agency calls about unpaid bills.
- ...hide purchases or lie about your finances to your family and friends.
- ...have been declined from making a purchase because of insufficient credit.

If these statements sound familiar, strongly consider **getting help:**

Contact your credit card company. Ask if they can lower your interest rate or set up a more affordable payment plan.

Rethink your spending. Set up a budget. Be realistic about your spending and financial needs.

Get help from a local consumer credit counseling center. Avoid credit groups that charge fees. For more information, contact the National Foundation for Credit Counseling at www.nfcc.org.

Understanding Interest

Paying only the minimum monthly balance over a long period of time will have costly consequences. The chart below shows how credit card interest can pile up:

On a balance of \$1,000, this is the interest you'll pay, based on paying the same amount per month (at an interest rate of 18 percent):

Monthly Payment	Interest	# Months to pay off	Total You Pay
\$1,000	\$0.00	0	\$1,000.00
200	47.53	6	1,047.53
100	91.62	11	1,091.62
50	197.83	24	1,197.83
30	396.72	47	1,396.72
25	538.62	62	1,538.62
20	862.24	94	1,862.24

A more extreme example: you make a purchase of \$1,000 and decide to only make the minimum payment (2 percent of the remaining principal) each month. If you don't make another purchase on the card, here's what it will cost you:

Initial purchase: \$1,000
 Amt. of time to pay off: 232 months (19 years!)
 Total paid, with interest: \$2,931.33

That's a total of **\$1,931.33 in interest on your original \$1,000 purchase!**

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Fast Tip: Credit card debt can make it harder for you to get private student loans or purchase a larger item like a car or home.