

# How Financial Aid Works

*For Parents and Students*

The subject of financial aid for college is a source of great anxiety for many families. This and the following article, “Financial Aid Basics,” comprise a simple explanation of how financial aid works, suggestions for applying and filling out the required forms, and a few hints on understanding financial aid awards. Here are three things to remember from the outset:

First of all, the time-honored rule still holds: unless you can comfortably afford a college education (which now costs \$50,000 a year or more at some schools) you should usually apply for financial aid! Awards are based on need, and need is not related merely to your gross annual income.

Second, don't avoid applying to private colleges simply because they are more expensive. While it is true that private colleges' tuitions are much higher than those of state institutions, it is also true in most cases that their financial aid programs are proportionately more extensive. Assuming you need financial aid, it may cost no more to send your son or daughter to a private college.

Third, it is important to understand the difference between a *scholarship* and *financial aid*. A scholarship is awarded to a student by a college or an outside organization because he or she meets certain predetermined criteria: excellent grades or exceptional athletic ability, for example. Financial aid is based purely on need. Here is a more detailed explanation:

## **FINANCIAL AID**

Financial aid is “need-based” as opposed to “merit-based.” In other words, you receive it because you cannot afford to pay all the expenses yourself. Your academic record usually has nothing to do with eligibility for financial aid, though grades are now taken into account at some colleges. Financial aid funds come from the federal government, the college itself, and, in some cases, from state programs. Aid is awarded in a “**package**” comprised of **grant** (which you do not pay back), **student loan**, and **work**, in varying proportions. Loans are often the largest component, and you, the student, must pay these back starting a few months after graduation. The average student on financial aid can expect to graduate with at least \$20,000 in loan debt, to be paid back over about ten years. These loans may be forgiven, in whole or in part, if the student enters certain professions after college.

## **INSTITUTIONAL SCHOLARSHIPS (AWARDED BY COLLEGES)**

An institutional scholarship, often called a “merit scholarship”, is awarded to a student by a college because he or she meets certain predetermined criteria, such as excellent grades, exceptional athletic ability, or artistic talent. (Not all “merit” scholarships are based on grades; some are awarded for categories as vague as “leadership” or, in one recent case at a Midwestern college, having a “New England heritage.”)

Financial need is usually not a requirement for merit scholarships. They are either simply awarded to an applicant, or the student is invited to apply for them. Given by colleges as a means of attracting desirable students, they basically amount to tuition discounts. Individual colleges have offered Lawrence students as much as \$20,000 per year in merit scholarship in recent years, though the amount is usually less. If colleges do not mention merit scholarships in their literature, ask about them when you visit, or speak with representatives when they come to visit Lawrence.

## **CORPORATE AND ORGANIZATIONAL SCHOLARSHIPS**

Groups such as the Lions and the Rotarians offer scholarships as well. Generally, you should be wary of private scholarships like these *if you have financial need*. We have found over the years that for parents who need financial aid, searching for private scholarship money is more trouble than it is worth unless their child is very bright or has some particular talent. There have been exceptions, so a bit of legwork on your part may be worthwhile. However, it is important to understand that no college will award you more money than the system says you need. In other words, if you win a \$5,000 scholarship from the Ancient and Benevolent Order of Raccoons, most colleges will deduct that amount from the money they have awarded you. Some schools will deduct it from the loan portion of your package; often, unfortunately, it is taken off your grant award. Check with each college.

## **ATHLETIC SCHOLARSHIPS**

A *very* few athletes each year win a “full ride” from a Division I college (occasionally Division II, *never* Division III). These awards are given for athletic ability regardless of need. Families do not apply for athletic scholarships; coaches will identify potential candidates. (See the article entitled “The Athlete.”)

More information on financial aid is available at the following websites:

[WWW.FINAID.ORG](http://WWW.FINAID.ORG)

[WWW.COLLEGEBOARD.COM](http://WWW.COLLEGEBOARD.COM)

[WWW.FAFSA.ED.GOV](http://WWW.FAFSA.ED.GOV)

[WWW.MEFACOUNSELOR.ORG](http://WWW.MEFACOUNSELOR.ORG)