

# Funding Your Education--An Overview

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by Jerry Sharf

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*Financial considerations are an important part of any decision to continue education. Here's a guide to navigating the many financial aid options available for postsecondary education.*

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College and training programs can be expensive, and for the most part, students take the responsibility of paying these costs. In many cases, the process begins with planning—i.e., evaluating future income potential and the choice of suitable schools as well as current and future financial resources. This process can help determine the affordability of higher education.

The cost of education can vary widely, depending on the type of school, the program of study, and the region of the country in which the school is located. Similarly, funding can vary according to the choice of schools.

## What Is Financial Aid?

In many cases, federally funded assistance can open the doors to higher education for many who could not otherwise afford the costs.<sup>1</sup> Financial aid has been defined as "any assistance obtained to make up the difference between what a student and his or her family can afford to pay and the total cost of higher education."<sup>2</sup> Specifically, financial aid is any grant, scholarship, loan, or work program that helps meet the expenses of higher education. The system was designed to make college education affordable for everyone.

Frequently, this funding helps in meeting college costs such as tuition, books, related institutional fees, and other personal living expenses such as food, housing, clothing, and transportation. Aid is usually awarded based on demonstrated financial need or the difference between the cost of college and the dollars the student is expected to contribute from personal resources. Thus, "need equals college costs minus family contribution."

The family contribution is determined by a uniform complex formula that has been developed by federal legislation. Factors such as family income and assets are included in the calculation of financial need. A few organizations have created Web sites that can estimate the family contribution online. These include College Board Online, at <http://www.collegeboard.org/>, and a page sponsored by the National Association of Student Financial Aid Administrators at <http://www.finaid.org/>.

## Financial Aid for Undergraduate and Graduate Students

### Grants

The US Department of Education sponsors several large-scale programs that help undergraduate students meet educational expenses. To be eligible for federal financial aid programs, US citizenship or permanent residency is necessary, along with documentation of registration for Selective Service, if required. Students must also have a valid social security number and make academic progress as defined by the university. Full-time attendance is not necessary to receive federal funding. Many students enrolled in college attend on a part-time basis. These individuals are usually employed full time or are taking classes for personal enrichment. Many states also fund individuals who attend less than full time.

A basic grant for students who demonstrate extreme need is the Pell grant, a major federal grant. The program takes into account factors such as family size, number of family members in college, and household income. Pell grants are considered entitlements; they are based entirely on need, not academic achievement. This means the less the student and family can contribute to educational costs, the greater the Pell grant the student may receive. Thus, the neediest students will receive the maximum Pell funding. The grant can be used at any postsecondary institution, including colleges and universities, technical

institutes, and vocational schools. Since Pell grants are based on need, students attending more expensive schools will receive more money. Most colleges require all students seeking any type of financial aid to apply for a Pell grant before awarding any additional funds.

Another federal grant program based on family need is called the Federal Supplemental Educational Opportunity Grant (FSEOG). This grant is used to complement or supplement Pell grants. The FSEOG is called a "campus-based program" because the funds are awarded directly to the college, which in turn disburses money according to students' need. Therefore, the FSEOG is not an entitlement but a grant that is given to the student at the discretion of the financial aid professional. These awards are flexible, and they permit other student and family expenses to be included. All individuals receiving FSEOGs must meet eligibility requirements similar to those mentioned above. Generally, schools will match these funds with other available funds, with priority given to Pell recipients.

Financial aid programs also exist at the state level and represent a considerable part of the funding students receive to attend the school of their choice. All 50 states have such programs, but the specific funding varies from state to state.<sup>3</sup> Interested students should contact the office of higher education in their state for specific eligibility requirements. Usually, a student must attend a college in the state he or she resides in. Some states, however, have reciprocal agreements with others so that students may take a state grant to a school in another state.

## Loans

For individuals who do not qualify for grants or "gift aid" and must finance training by some other means, loans become the major source of educational funding. They can even supplement grants and scholarships if necessary. Loans are to be considered financial aid of the last resort, but there are benefits associated with them as well. As need-based grant aid becomes more difficult to obtain, student loans are becoming more convenient and are increasing in popularity. In many cases, they have become an essential part of family financial planning and college financial aid packaging. For these reasons, loans today are widely used to help meet educational expenses. They are usually given to students at a low rate of interest, and repayment is not required until shortly after graduation or enrollment ceases. In some cases, the government will repay the loan in exchange for service in economically disadvantaged areas. Working with the handicapped, working in public health, or teaching in special education can result in forgiveness of all or part of the loan debt.

Since loans are not gifts and must be repaid, it is important to understand the terms and conditions of the specific program before the funds are accepted. Defaulting on a student loan is a serious matter and can result in grave consequences.

One very popular campus-based student loan program is the federal Perkins loan program. The Perkins loan program offers low-interest, long-term loans through institutional financial aid offices to help needy undergraduate and graduate students pay educational costs. This program is financed entirely by the federal government. This loan does not accrue interest while students are in school and offers a low interest rate (5 percent) with a 10-year repayment window after graduation. Eligibility requirements include application for a Pell grant, high school diploma, Selective Service registration if required, and US citizenship or permanent residency.

Additionally, the Health Professions Student Loan Program (HPSL) and the Nursing Student Loan (NSL) offer assistance to students seeking careers in the professional allied health field. Individuals interested in undergraduate, graduate, and professional degrees in areas such as medicine, dentistry, osteopathy, optometry, pharmacy, nursing, and other health profession disciplines would qualify for this low-interest, long-term loan. The HPSL and NSL operate in a manner comparable to the Perkins loan fund. Each is a revolving fund, with at least one institutional dollar for every nine federal dollars. Schools are responsible for determining eligible students, making loans, and collecting from borrowers. Interest rates are currently 5 percent and are fixed for the life of the loan. Eligibility for this loan is the same as that for the Perkins loan.

Another source of funding for students is the Stafford loan program. The Stafford program is the federal government's largest educational loan program, allowing a borrower to receive a maximum of \$18,500 per academic year. There are two types of Stafford loans: subsidized and non-subsidized. Subsidized Stafford loans require the recipient to demonstrate need. Nonsubsidized Stafford loans do not require borrowers to demonstrate financial need; however, students must complete the required financial aid applications for this loan. The difference between these loans is in the federal government subsidy. With a subsidized loan, the federal government pays the interest on the loan as long as the borrower is enrolled at least half time in

an approved college or university. The government continues to pay the interest during a grace period that starts after a student leaves the school or enrolls less than half time. ("Half time" is usually defined as six to 11 credits per semester.)

Non-subsidized Stafford loans are not subsidized by the federal government. This means the recipient must pay the interest while attending college, or it will be accrued by the lender and capitalized at repayment. Currently the interest rate on these loans is variable and tied to the interest rate of 91-day Treasury bills. Some Web sites provide estimates of the monthly payments required for these loans. These include <http://www.finaid.org/> and the Student Loan Marketing Association's page, <http://www.salliemae.com/>.

Many groups, organizations, and civic associations offer grants, scholarships, or loans to individuals for various reasons. These are usually given in recognition of need or special achievement.<sup>4</sup> Examples of such groups are employers, churches and other religious establishments, and public or private foundations. These sources must, in many cases, be researched. Since many have application deadlines, they must also be contacted well in advance. The public library is a good source of information regarding scholarship information. Scholarship locators and search engines are also located on the World Wide Web, at sites such as <http://www.fastweb.com/>, an Internet-based scholarship search engine, and Yahoo!'s service at <http://www.yahoo.com/Education/FinancialAid/>.

In addition, many schools, both public and private, offer payment plans that allow students to spread tuition payments over the course of each semester or term. Some plans can even be extended over the entire academic year and are interest and penalty free. Since banks and financial institutions have become active in educational financing, home equity loans also have become a very popular method of scholastic funding.<sup>5</sup> They usually carry a very low fixed interest rate and may offer tax advantages to the borrower.

## How to Apply

To apply for financial aid, most colleges and universities require the filing of the Free Application for Federal Student Aid (FAFSA). This document is used for all state, federal, and institutional financial aid programs. The form will allow information to be sent to as many as six colleges at the same time. After submitting the FAFSA to the federal processor, a Student Aid Report (SAR) is returned to the filer. The SAR is signed and sent to the school of choice. This procedure allows the financial aid office to consider the student for all federal and campus-based programs.

The financial aid office will then "package" a combination of grants, scholarships, loans, and possibly part-time work that meets the student's need. This financial aid package comes directly from the college or university as an official "award letter" processed exclusively by the financial aid office. The award letter will include any combination of Pell grants, Perkins loans, state or local grants, and aid directly from the school itself. It will also list any outside or private scholarships or grants the student has received or applied for. Any payment plans or tuition prepayments may also be listed in the letter.

Financial aid processing is a very complex process that each school treats differently. Students must ask questions regarding the entire procedure if any aspects of the process are not understood. Normally, unless an error was made, no college will make a major change to its aid offer. However, the student must make sure the financial aid office has based its award on accurate data. If additional information was overlooked, it can be submitted for consideration. For this reason, an important tip to remember is to communicate with the school and provide all relevant information. This will benefit the student and provide the financial aid office with material to produce an award letter that reflects a true evaluation of the student's needs. Individuals seeking financial aid assistance must apply for this support every year. The application deadlines vary according to each college. Students should complete the required financial aid applications between January and March of each year for the following academic year. Federal and state program deadlines may not coincide with those of the colleges. They generally occur in mid to late May of each year. Additional facts concerning the FAFSA and other application information are available on the Web at the US Department of Education's site, <http://www.ed.gov/>.

## The Last Word

Financial aid offices are established to make college education a reality for individuals who could not otherwise attain a degree beyond high school. These offices should be used because they offer a source of help and excellent counsel. Asking for help by fully explaining all aspects of a specific financial situation will encourage the aid office to review the original application

more carefully. As a result of any reevaluation, an effort will be made to increase the award and tailor the package to better fit the applicant's needs. An education is rarely free of charge. However, the object of education is not simply to begin, but to finish. Time spent setting realistic expectations and minimizing disappointments will lead eventually to a successful completion of previously set goals. This is surely a worthwhile investment, for, as one writer puts it: "An education will never become obsolete."<sup>6</sup>

## Notes

1. U.S. Government Printing Office. *The Student Guide: Five Federal Financial Aid Programs* 1977-1998. Washington, DC: GPO, 1997.
2. Corrigan, Arnold, and Phyllis C. Kaufman. *How to Finance Your Child's College Education Without Going Broke*. Stamford, CT: Longmeadow Press, 1986, p. 7.
3. Rudzitis, Inese, ed. *How to Put Your Child Through College Without Going Broke*. New York: The Research Institute of America, Inc., 1986, p. 9.
4. Corrigan, p. 9.
5. Bamford, Janet. "Degrees of Debt." *Forbes*, vol. 137 (April 7, 1986): 122.
6. James Barron, "Michigan Plan Guarantees College Tuition," *The New York Times*, 30 December 1986, p. C10.

## For More Information

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