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How Financial Aid Works And How It Makes College Affordable for You

Financial aid is intended to make up the difference between what your family can afford to pay and what college costs. Over half of the students currently enrolled in college receive some sort of financial aid to help pay college costs.

In a Nutshell

The financial aid system is based on the goal of equal access -- that anyone should be able to attend college, regardless of financial circumstances. Here's how the system works:

- Students and their families are expected to contribute to the cost of college to the extent that they're able.
- If a family is unable to contribute the entire cost, financial aid is available to bridge the gap.

Who Decides How Much My Family Is Able to Contribute?

The amount your family is able to contribute is frequently referred to as the Expected Family Contribution, or EFC. The figure is determined by whomever is awarding the aid -- usually the federal government or individual colleges and universities. The federal government and financial aid offices use "need formulas" that analyze your family's financial circumstances (things like income, assets, and family size) and compare them proportionally with other families' financial circumstances.

What the EFC Figure Means for Most Families

First, most families can't just pay the EFC out of current income alone. But, not to worry -- the formulas assume that families will meet their contribution through a combination of savings, current income, and borrowing.

Second, financial aid is limited. The formulas therefore measure a particular family's ability to pay against other families' ability to pay.

Three Main Types of Financial Aid

Financial aid is any type of assistance used to pay college costs that is based on financial need.

Grants and Scholarships

Also called gift aid, grants don't have to be repaid and your child doesn't need to work to earn them. Grant aid comes from federal and state governments and from individual colleges. Scholarships are usually awarded based on merit.

Loans

Most financial aid comes in the form of loans, aid that must be repaid. Most loans that are awarded based on financial need are low-interest loans sponsored by the federal government. These loans are subsidized by the government so no interest accrues until your child begins repayment after he graduates.

Work

Student employment and work-study aid helps students pay for education costs such as books, supplies, and personal expenses. Work-study is a federal program which provides students with part-time employment to help meet their financial needs and gives them work experience while serving their campuses and surrounding communities.

Don't Rule Out Colleges with Higher Costs

Say your child's EFC is \$5,000. At a college with a total cost of \$8,000, she'd be eligible for up to \$3,000 in financial aid. At a college with a total cost of \$25,000, she'd be eligible for up to \$20,000 in aid. In other words, your family would be asked to contribute the same amount at both colleges.