

# Frequently Asked Questions

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*Information listed below is excerpted from [www.finaid.org](http://www.finaid.org)*

## **General Questions about Eligibility and Applying**

*1. I probably don't qualify for aid. Should I apply for aid anyway?*

Yes. Many families mistakenly think they don't qualify for aid and prevent themselves from receiving financial aid by failing to apply for it. In addition, there are a few sources of aid such as unsubsidized Stafford and PLUS loans that are available regardless of need. The FAFSA form is free. There is no good excuse for not applying.

*2. Do I need to be admitted before I can apply for financial aid at a particular university?*

No. You can apply for financial aid any time after January 1. To actually receive funds, however, you must be admitted and enrolled at the university.

*3. Why can't I submit my financial aid application before January 1?*

The need analysis process for financial aid uses the family's income and tax information from the most recent tax year (the base year) to judge your eligibility for need-based financial aid during the upcoming academic year (the award year). Since the base year ends December 31, you cannot submit a financial aid application until January 1. After all, your parents might earn a year-end bonus or realize capital gains from selling stocks on December 31. If you submit the financial aid application before January 1, it will be rejected.

*4. Do I have to reapply for financial aid every year?*

Yes. Most financial aid offices require that you apply for financial aid every year. If your financial circumstances change, you may get more or less aid. After your first year you will receive a "Renewal Application" which contains preprinted information from the previous year's FAFSA. Note that your eligibility for financial aid may change significantly, especially if you have a different number of family members in college. Renewal of your financial aid package also depends on your making satisfactory academic progress toward a degree, such as earning a minimum number of credits and achieving a minimum GPA.

*5. How do I apply for a Pell Grant and other types of need-based aid?*

Submit a FAFSA. To indicate interest in student employment, student loans and parent loans, you should check the appropriate boxes. Checking these boxes does not commit you to accepting these types of aid. You will have the opportunity to accept or decline each part of your aid package later. Leaving these boxes unchecked will not increase the amount of grants you receive.

*6. Are my parents responsible for my educational loans?*

No. Parents are, however, responsible for the Federal PLUS loans. Parents will only be responsible for your educational loans if you are under 18 and they co-sign your loan. In general you and you alone are responsible for repaying your educational loans.

On the other hand, if your parents (or grandparents) want to help pay off your loan, you can have your billing statements sent to their address. Likewise, if your lender or loan servicer provides an electronic payment service, where the monthly payments are automatically deducted from a bank account, your parents can agree to have the payments deducted from their account. But your parents are under no obligation to repay your loans. If they forget to pay the bill on time or decide to cancel the electronic payment agreement, you will be held responsible for the payments, not them.

*7. Why is the family contribution listed on the SAR different from the family contribution expected by the university?*

The federal formula for computing the expected family contribution is different from those used by many universities. In particular, the federal formula does not consider home equity as part of the assets.

*8. I got an outside scholarship. Should I report it to the financial aid office?*

Yes. If you are receiving any kind of financial aid from university or government sources, you must report the scholarship to the financial aid office.

Unfortunately, the university will adjust your financial aid package to compensate. Nevertheless, the outside scholarship will have some beneficial effects. At some universities outside scholarships are used to reduce the self-help level. For example, at MIT the outside scholarship is first applied to reducing the self-help level, and only when the scholarship exceeds self-help does it replace institutional grants. At other universities outside scholarships are used to replace loans instead of grants.

*9. Where can I get information about Federal student financial aid?*

Call the Federal Student Aid Information Center (FSAIC) at 1-800-4-FED-AID (1-800-433-3243) or 1-800-730-8913 (if hearing impaired) and ask for a free copy of *The Student Guide: Financial Aid from the US Department of Education*. This toll free hotline is run by the US Department of Education and can answer questions about federal and state student aid programs and applications. You can also write to

Federal Student Aid Information Center  
PO Box 84  
Washington, DC 20044

*10. Is it legal for a 17-year-old student to sign a promissory note for a student loan, even though the student has not yet reached the age of majority?*

Normally, a minor cannot be held liable for a contract that they sign. However, in 1992 the Higher Education Act was amended to permit eligible students, defined as per Title IV regulations, to sign promissory notes for their own Federal student loans. As such, student loans represent one of the few exceptions to the so-called "defense of infancy". The specific citation is section 484A(b)(2) of the Higher Education Act of 1965 (20 USC 1091a(b)(2)), and applies to Stafford, PLUS and Consolidation Loans. It does not appear to apply to Perkins and Direct Loans, although it was clearly the intent of Congress that it should.

Several states have also passed similar laws that consider minors to be competent to enter into a contract for an education loan. This extends similar protection to private and non-federal loans. All private education loans require a cosigner when the student is under the age of majority, just to be safe.

### **FAFSA Questions**

*1. Where can I get a copy of the FAFSA?*

You can ask your guidance counselor for a copy. You can also get the FAFSA from the financial aid office at a local college, your local public library, or by calling 1-800-4-FED-AID. The online version of the form is available at <http://www.fafsa.ed.gov>.

*2. Are photocopies of the FAFSA acceptable?*

No. Only the original FAFSA form produced by the US Department of Education is acceptable. Photocopies, reproductions, facsimiles and electronic versions are all not acceptable. (See DCL GEN-95-21.)

*3. How soon after January 1 should the FAFSA form be sent in? Is it better to wait until the income tax forms have been completed?*

Send in the form as soon as possible after January 1. Do not wait until your taxes are done. Although it is better to do your taxes early, it is ok to use estimates of your income, so long as they aren't very far off from the actual values. You will have an opportunity to correct any errors later. If you wait too long, you might miss the deadline for state aid. Most states require the FAFSA to be submitted by March 1, and some even as early as early or mid-February.

*4. I sent in my FAFSA over four weeks ago but haven't heard anything. What should I do?*

If you haven't received a Student Aid Report (SAR), call the Federal Student Aid Information Center at 1-800-4-FED-AID (toll free) or 1-319-337-5665. You must provide them with your Social Security number and date of birth as verification.

You can also write to

Federal Student Aid Programs  
PO Box 4038  
Washington, DC 52243-4038

to find out whether your FAFSA has been processed or to request a duplicate copy of your SAR.

6. What do those acronyms on the Student Aid Report (SAR) mean?

The acronyms on the bottom of the SAR represent intermediate results in the need analysis. To fully understand their meaning, you will need to be familiar with the federal need analysis methodology, such as is used by the **EFC Estimator**. The meanings of the acronyms are as follows:

EFC Expected Family Contribution

TI Total Income

ATI Allowances Against Total Income

STX State and Other Tax Allowance

EA Employment Allowance

IPA Income Protection Allowance

AI

CAI Contribution from Available Income (Independent Student)

DNW Discretionary Net Worth

APA Education Savings and Asset Protection Allowance

PCA Parents' Contribution from Assets

AAI Adjusted Available Income

TPC Total Parents' Contribution

TSC Total Student's Contribution

PC Parents' Contribution

SIC Dependent Student's Income Contribution

SCA Dependent Student's Contribution from Assets

If an asterisk appears next to the EFC figure, the student has been selected for verification. The asterisk is followed by a code that explains the reason why the student was selected for verification. The letter explains the reason for selection, and the number indicates the priority, with code 1 the highest priority and code 25 the lowest priority (although there are higher codes).

## Divorce and Financial Aid

This page answers common questions about the relationship between divorce and financial aid. It discusses which parent is responsible for completing the FAFSA, the obligations of non-custodial parents to pay for college, college support agreements, the obligations of stepparents, and the ability of non-custodial parents to take advantage of the various tax benefits for education.

### Completing the FAFSA

If your parents are separated or divorced, the custodial parent is responsible for filling out the **Free Application for Federal Student Aid (FAFSA)**. The custodial parent is the parent with whom you lived the most during the past 12 months. (The twelve month period is the twelve month period ending on the FAFSA application date, not the previous calendar year.) Note that this is not necessarily the same as the parent who has legal custody. If you did not live with one parent more than the other, the parent who provided you with the most financial support during the past twelve months should fill out the FAFSA. This is probably the parent who claimed you as a dependent on their tax return. If you have not received any support from either parent during the past 12 months, use the most recent calendar year for which you received some support from a parent.

Note, however, that any child support and/or alimony received from the non-custodial parent must be included on the FAFSA.

Financial aid applications can be somewhat confusing because there are several different criteria applied for different kinds of parenthood:

1. The parent with whom the child lived the most during the past 12 months.
2. The parent who provided the most financial support to the child during the past 12 months.
3. The parent who provided more than half the child's support (and will continue to do so).
4. The parent who has legal custody.
5. The parent who claimed the child as a dependent on their tax return.

As noted above, criteria 1 and 2 are used for determining the custodial parent, with the first criteria being primary.

For determining household size (the number of family members), criteria 3 is the most important. However, the student's custodial parent gets to list him or her even if the custodial parent does not provide more than half of the student's support. This leads to the anomalous situation where a student can be counted as belonging to two different households. For example, suppose the non-custodial parent remarries and has college-aged children of his own. If the non-custodial parent provides more than half of the student's support, he gets to list the student as a member of his household even though the custodial parent has also listed the student as a member of her household. (The IRS tax return instructions prevent this kind of double dipping on tax returns, but the FAFSA instructions apparently don't.)

Criteria 3 is also used to determine whether the student has one or more dependents, in the rules for specifying whether the student is an independent student with dependents.

Criteria 4 and 5 are not used in the financial aid formulas, but are sometimes used to give an indication of the right choice when the other criteria are insufficient. Criteria 5 is also sometimes used to substantiate claims made under criteria 3. For example, a financial aid administrator may ask a parent for a copy of

their tax return, to see whether they claimed the child as a dependent. Criteria 5 usually implies criteria 3, because the IRS definition of a dependent includes a 50% support test. There IRS definition includes a few exceptions where the parent isn't required to provide more than half the child's support in order to claim the child as a dependent, but in almost every case, if the parent could not claim the child as a dependent (criteria 5), they did not provide more than half the child's support (criteria 3).

### **Obligation to Help Pay for College**

*Is the non-custodial parent required to help pay for college?*

The Federal government does not consider the income and assets of the non-custodial parent in determining a student's financial need. However, it does consider child support received by the custodial parent.

Many private colleges do consider the non-custodial parent as a potential source of support, and require a supplemental financial aid form from the non-custodial parent. This affects the awarding of the school's own aid, but not Federal and state aid.

Whether divorced parents have a legal obligation to pay for their children's education depends on the state in which the divorce occurred. Several states have laws or case law that allow courts to order the non-custodial parent to help pay for college. These states include Alabama, Arizona, Colorado, Connecticut, District of Columbia, Florida, Georgia, Hawaii, Illinois, Indiana, Iowa, Maryland, Massachusetts, Michigan, Mississippi, Missouri, Montana, New Jersey, New York, North Dakota, Oregon, Rhode Island, South Carolina, South Dakota, Utah, Washington and West Virginia. States which prohibit the courts from ordering college support (except for enforcing a previous agreement between the parents) include Alaska, Nebraska, and New Hampshire. (As of 2/2/2004, **New Hampshire** judges no longer have the discretion to order college support for adult children.)

Depending on the state, the college support may include more than just educational expenses, such as tuition and books, but also extracurricular expenses and a monthly cash allowance. The courts will generally order the ex-spouse to pay half of the college costs regardless of the institution chosen by the child. Even in states where the courts do not have the power to compel the non-custodial parent to pay college expenses, the court may consider college expenses when deciding whether to award alimony.

The basis for these laws is a 1998 study that showed that children of divorced parents are less likely to matriculate in college and receive less financial support than children of intact marriages. The study (Judith S. Wallerstein and Julia M. Lewis, "The Unexpected Legacy of Divorce: A 25 Year Landmark Study", Hyperion Press, 2001) found that 29 percent of children with divorced parents get parental support for college expenses, compared with 88 percent of children from intact families.

Others argue that these laws are unfair, since there is no similar requirement on parents who are not divorced, nor is there a similar requirement on the custodial parent. Also the law, although gender neutral, is disproportionately applied to fathers. The Pennsylvania state Supreme Court overturned Pennsylvania's statute in 1995 (Curtis v. Kline, 666 A.2d 265, 1995), ruling that there was no basis for distinguishing divorced parents from non-divorced parents.

## Account Ownership: In Whose Name to Save?

The financial aid formulas used by the federal government and the schools assess a portion of the family's assets when computing eligibility for financial aid. Under current financial aid formulas, there are significant benefits to **saving the money in the parent's name**, despite the (meager) **tax savings** of the child's lower tax bracket. Some of the more important reasons include the following:

- Child assets are assessed at a rate of 35%. Parent assets are assessed on a bracketed system, with a top rate of 5.64%. This represents a difference in financial aid eligibility equal to 29.46% of the asset. These rates are assessed on the total value of the asset, including both principal and accumulated interest. In contrast, the tax savings due to the child's lower tax bracket is typically 13%, and then only on the earnings, not on the principal.
- Many parent assets are sheltered from the need analysis process. The need analysis formulas include an asset protection allowance based on the age of the older parent which shelters a portion of the family's investments. For the typical parents of college age children (age 45), this asset protection allowance amounts to approximately \$45,000. In addition, money in qualified retirement plans, such as an IRA or 401(k), is disregarded by the need analysis formulas. Also, the Federal formula (but not the formulas used by many schools) ignores the value of the family's primary residence. There are no asset protection allowances for money in the child's name.
- Money in the child's name is legally the property of the child, so the child could spend it on whatever they want when they reach the age of majority. If the parents set up a trust to restrict the use of the money to educational expenses, it can negatively impact need assessments, since the full remaining value of the trust gets counted as a child asset each year.

Thus using the Uniform Gift to Minors Act to transfer money into the child's name is generally a mistake for most families. It is almost always better to save for college in the parent's name.