

## **Financial Aid and the Graduate Student**

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### **APPLYING FOR FINANCIAL AID**

You may wish to begin the financial aid application process at the same time you submit your application for admission to a graduate program. Some graduate programs may establish their own deadline for applying for financial aid, which could be as many as eight months prior to the time you begin the program. However, since most financial aid for graduate programs comes in the form of student loans, you may be able to initiate the application process much closer to the time you begin your studies. If your program sets a deadline for applying for financial aid, you will want to make certain to meet that deadline. Typically, schools or programs that set earlier deadlines may have their own financial resources (scholarships or grants) to distribute to students. You will want to contact the financial aid office at each of the schools, to which you are applying, to make certain that you are aware of any relevant deadlines,

and to familiarize yourself with the documents they require in order to complete your financial aid application.

Many schools have their own financial aid application which they will expect you to submit in order for them to determine your eligibility for financial aid. Again, make certain you are aware of the requirements of your chosen school or program.

In addition to any institutional application form, every graduate student (who is a U.S. citizen or Permanent Resident) is required to complete a *Free Application for Federal Student Aid (FAFSA)* before they can be considered for a federal student loan or for Federal Work Study funds. The U. S. Department of Education offers graduate students aid through the Office of Student Financial Assistance (SFA). This aid includes Federal Stafford Loans, Federal Perkins Loans, and the Federal Work Study Program. Eligibility for each of those programs is determined by a school's financial aid office, only after the student has completed the FAFSA.

To be eligible for aid from SFA, graduate students must meet the following criteria:

- be enrolled at least half-time in a degree or certificate program
- be a U.S. citizen or eligible non-citizen
- have a valid Social Security Number
- have financial need (except for the Unsubsidized Federal Stafford Loan)
- make satisfactory academic progress
- certify that they will use federal student aid only for educational purposes, that they are not in default on any federal student, and that they do not owe money back on a federal student grant
- register with the Selective Service System (if required)

The FAFSA covers a twelve-month period from July 1 through June 30 of the following year. For a student planning to begin a graduate program in late August 2003, they would complete a 2003-2004 FAFSA any time after January 1, 2003. For students beginning a graduate program at a different time of year, it will be important to contact the financial aid office at your school so that you complete the appropriate FAFSA. You will need some information from your most recently completed tax return in order to complete the FAFSA. For the 2003-2004, the most recently completed tax return would be for 2002. If you do not have a copy of your tax return, you can contact the Internal Revenue Service at 1-800-829-1040 to request a transcript of your tax return. As a matter of policy, you should always keep a copy of your most recently submitted tax return. While IDAPP is not in a position to provide tax advice, you should retain copies of all documents submitted to the Internal Revenue Service for a period of at least three years. You should contact the IRS or your accountant for further information about your individual tax return. If you have not yet completed a tax return for the year needed on the FAFSA, you may provide estimated information to complete the FAFSA. If you will not be filing a tax return, simply follow the instructions on the FAFSA regarding your income for the year in question. You should NOT mail your tax return with your application, if you apply by mail.

You should make a copy of your original paper application, if you apply by mail, and you should print out a copy of your electronic application, if you apply via the Internet. Make certain that you get confirmation on the Internet that you have submitted your application electronically. Occasionally students print out a copy of their application and assume that they have finished the process, even though they never complete the final step of submitting it electronically.

Currently, more than one-half of the applications that the federal processor receives are submitted electronically. While you can pick up a paper copy of a FAFSA from your own undergraduate financial aid office or from the financial aid office of your prospective institution, your application will be processed

more quickly and more accurately if you submit it via the Internet ([www.fafsa.ed.gov](http://www.fafsa.ed.gov)). You should never, ever pay for an organization or individual to assist you in filling out a FAFSA; if you have questions about the application, call 1-800-4FEDAID (1-800-433-3243), or contact the financial aid office of your prospective school.

One of the significant advantages of filing your application electronically is the speed with which all transactions take place. Once you submit your application (whether on paper or electronically) you will receive a Personal Identification Number (PIN) from the Department of Education. If you have questions about a PIN, the website is [www.pin.ed.gov](http://www.pin.ed.gov). With your PIN, you will be able to access your SFA program records electronically. One of the most important records that you will need until you have paid your loans in full will be with the National Student Loan Data System (NSLDS), which has information about all the student loans you take. Your PIN will also allow you to make electronic corrections to your SAR, and to access and submit a Renewal FAFSA in subsequent years.

Your eligibility for state and federal grants and loans are determined by completing the FAFSA. Unfortunately, as a general rule there are very few state grants or loans for graduate students. This means that you can usually ignore any state deadlines that appear on the first page of the FAFSA, which apply almost exclusively to undergraduate students. As a graduate student, you are also ordinarily no longer eligible for any federal grants (such as the Pell grant or SEOG grant). Graduate students complete the FAFSA almost exclusively in order to have their eligibility determined for a federal student loan.

Within a few weeks after submitting the FAFSA, you will receive a Student Aid Report (SAR) from the federal processor. If you file electronically through FAFSA on the Web, your application will be processed within 72 hours. If you file electronically and provide an email address, you should receive a SAR with a matter of a few days. The SAR confirms information reported on your application and will provide you with an Expected Family Contribution (EFC), the amount you are expected to contribute towards your education. Bear in mind that "family" only means you (and your spouse, if you are married).

Once you receive your SAR, you should review it carefully to see if the information on the report accurately reflects the information you provided. There are several ways to make corrections on your SAR; follow the directions on the SAR you receive (either electronically or via the U.S. mail). However, as graduate students, you may wish to contact to your financial aid office before

making corrections. Often, your school will prefer to make any necessary corrections electronically.

It is possible that your SAR will indicate that you need to provide further information before your eligibility for financial assistance can be determined. Follow the directions on your SAR, and contact either your financial aid office or 1-800-4-FED-AID (1-800-433-3243) if you have further questions. If your application was selected for a process called verification, your financial aid office may request signed copies of your federal tax return or other necessary documents. No further action can be taken on your application for aid until you provide all the necessary documentation to your school, so you will want to respond as quickly as possible to any request from your school or program for further documentation. You should be aware that there are schools that routinely request a signed copy of the most recent federal tax return for every student who applies for financial aid.

Occasionally, students decide that they do not want to take the time to provide the information on the FAFSA, and they decide to pursue a private educational loan instead. While this may seem a more convenient way to obtain a student loan, you need to remember that the terms of a federal student loan are always going to be better than any other kind of commercial or private educational loan. Federal student loans are guaranteed by state agencies and the federal government, and the governmental support provided for these loan programs makes their terms most beneficial for students. They also have deferment provisions that are not ordinarily a part of commercial loans. You should plan to discuss this matter with your financial aid office before deciding not to pursue a federal student loan. While you will want to keep your student loan borrowing to a minimum, if you choose to borrow, you will want to take full advantage of federal student loans before considering any commercial, educational loans.

## **IMPORTANT FACTS ABOUT STUDENT LOANS**

### **Loan Terminology**

Listed below are the definitions of some basic loan terms that will help you to understand the loan summaries that are provided in this section.

- 1. Capitalization** - The practice by lenders of adding any accrued (accumulated) and unpaid interest to the principal of a borrower's loan, which increases the loan balance and causes the principal to grow significantly.

2. **Grace period** - A period of time when the borrower is not required to make payment on the loan (length of time is indicated to the terms of the promissory note).
3. **Subsidized loan** - Loans that have no interest cost to the borrower during school, the grace period, and any deferment periods for which the borrower might qualify.
4. **Unsubsidized loan** - Loans that begin to accrue interest immediately upon disbursement. The interest that has accrued and is unpaid is eventually capitalized.
5. **Deferment** - A period of time when the borrower is not required to make any payment on the loan (similar to a grace period); however, the borrower must apply annually for a deferment which can be loan specific (tied to the terms of the promissory note) or borrower specific (tied to the date that the borrower received the first disbursement of a Federal Stafford loan).
6. **Forbearance** - A period of time (six months to no more than one year at a time) when 1) a borrower is not required to make payment on the loan, or 2) the scheduled payment will be reduced. Interest accrues on all loans during forbearance.
7. **Delinquency** - Occurs when a borrower is late in making payments on a loan obligation and is reported to credit bureaus (such a report remains on the borrower's credit report for up to seven years).
8. **Default** - Usually occurs when a borrower is 180-270 days late in making a payment and is also reported to all credit bureaus (such a report remains on the borrower's credit report for up to seven years).
9. **Institutional loan** - Some schools offer their own institutional loans, either on an emergency/short-term basis, or over an extended period to assist students in financing their education.
10. **Private loan** - Usually an unsubsidized loan that is not insured and is used to supplement other less expensive loan programs (also referred to as an alternative loan).
11. **Loan fees** - Costs associated with the processing and collection of the loan that are usually deducted from the loan prior to disbursement and vary according to the type of loan.

12. **Fixed interest rate** - An interest rate that remains the same throughout the life of the loan.
13. **Variable interest rate** - An interest rate that changes periodically (i.e. annually, semi-annually) throughout the life of the loan.
14. **Interest cap** - A set limit on the interest rate (e.g. the interest rate cannot exceed 8.25% for the Federal Stafford loan).

## QUESTIONS TO ASK ABOUT YOUR LOANS

When comparing loan programs, you should ask the following questions:

- What is the interest rate and is it fixed or variable?
- Is the interest subsidized or unsubsidized?
- Is there a cap on the interest rate?
- Is repayment deferred until I complete my graduate education?
- Is there a "grace period" after I complete my graduate education and, if so, for what length of time?
- How long do I have to repay the loan?
- Are there deferment options and, if so, for what purpose (residency, military, etc.)?
- What is the maximum time that the loan can be deferred and what are the eligibility criteria?
- Are there any loan fees associated with the loan?
- What repayment plans are available?
- If the loan is unsubsidized, how often is interest capitalized? (The fewer times interest is capitalized, the more advantageous for the borrower.)
- Is the loan canceled upon death or will I need to purchase insurance to cover the loan?

- Are there any cancellation provisions for temporary or total disability?

## **FEDERAL STAFFORD LOANS**

The Federal Stafford Loan program offers two kinds of loans to graduate students, subsidized loans and unsubsidized loans. As a general rule, graduate students can receive up to \$18,500 per academic year in the Federal Stafford Loan program. Of this, up to \$8,500 can be a subsidized FSL, depending on financial need. The Federal Stafford Loan (subsidized) is awarded on the basis of financial need. No interest is charged while you are enrolled in school at least half time, and during authorized periods of deferment, including a six-month grace period once you cease to be enrolled as a half-time student. The unsubsidized Stafford is not awarded on the basis of need, and can be awarded up to the cost of attendance, or the annual maximum, whichever is less, minus any other aid. Interest is charged from the time the funds are disbursed, although no principal or interest payments are expected until the loan enters repayment. If you allow the interest to accumulate, it will be capitalized (added to the principal amount of your original loan). Once you enter repayment, there are for all intents and purposes no differences between the subsidized and unsubsidized loans. The federal government “subsidizes” the interest only while the student is in school and during the grace period.

You should note that while the annual maximum for the Stafford Loan program is \$18,500, in some instances graduate students may be eligible for a larger amount. Students pursuing graduate degrees in some health professions may be eligible for up to \$38,500 for a nine-month period, or \$45,167 for a twelve-month period. The aggregate maximum for all Federal Stafford Loans for students in the health professions is \$189,125.

## **SUBSIDIZED STAFFORD LOAN**

- X Interest is variable, with a cap of 8.25%
- X Interest is subsidized by the federal government during in-school, grace, and approved deferment periods
- X Maximum \$8,500/year; aggregate total (undergraduate and graduate) of \$65,500
- X Need-Based eligibility determined by the results of the Free Application for Federal Student Aid (FAFSA)
- X Student borrows from private lenders and guarantee agencies that participate in the Federal Family Education Loan Program (FFELP), such as the Illinois Designated Account Purchase Program (IDAPP).
- X An origination fee of up to 3% may be deducted from the loan proceeds before disbursement
- X Grace period of 6 months after enrollment ceases
- X Deferment and Forbearance options available.

## **UNSUBSIDIZED FEDERAL STAFFORD LOAN**

- X Interest is variable, with a cap of 8.25%
- X Interest is NOT subsidized by the federal government and begins accruing upon disbursement; borrower has the option to pay the interest during enrollment or allow it to accrue
- X Unpaid interest will be capitalized by the lender and added to the principal of the loan
- X Maximum annual loan of \$38,500 minus up to \$8,500 Federal Subsidized Loan (total subsidized and unsubsidized direct loans cannot exceed the Cost of Attendance); aggregate total (undergraduate and graduate) of \$138,500 including total subsidized Stafford received
- X Financial need not required
- X Student borrows directly from private lenders and guarantee agencies that participate in the Federal Family Education Loan Program (FFELP), such as the Illinois Designated Account Purchase Program (IDAPP).
- X An origination fee of up to 3% can be deducted from the loan proceeds before disbursement
- X Grace period of 6 months after enrollment ceases
- X Deferment and Forbearance options available
- X Standard 10-year repayment schedule; extended repayment schedule available to some borrowers with large debts; minimum \$50/month payment

## **FEDERAL PERKINS LOANS**

- X 5% fixed interest rate
- X Interest is subsidized during in-school, grace, and approved deferment periods
- X Maximum \$6000/year; aggregate limit of \$40,000, including the amount borrowed as an undergraduate student (actual loans will be dependent upon available funds)
- X Need-based eligibility determined by the results of FAFSA; priority given to students with exceptional financial need
- X Student borrows through the school
- X Grace period of 9 months after enrollment ceases
- X Deferment and Forbearance options available
- X Standard 10-year repayment schedule; minimum \$40/month payment

## **LOANS FOR HEALTH PROFESSIONS STUDENTS**

Students enrolled in programs in the health professions may be eligible for federal loans administered by the Department of Health and Human Services. Check with the financial aid office at your school to find out more information about these low-interest loans to students with high levels of need. You may be required to provide additional financial information, including financial information for your parents, to be considered for these loans.

## **OTHER LOAN PROGRAMS**

Private lenders, usually banks, offer a variety of loans (often referred to as “alternative” loans) to graduate students. Because graduate students are seen as good financial risks, banks are often willing to lend money for your educational expenses even though the federal government does not guarantee the loans. These are the most expensive loans available to graduate students. The Financial Aid Office must certify private alternative loans. The amount borrowed must fit within the cost of attendance established by the school.

Even though the terms and conditions of alternative loans will vary by program, the following information generally applies to all programs:

- X Interest is variable (no cap); can change quarterly
- X Interest is NOT subsidized and begins accruing upon disbursement; borrower has the option to pay the interest during enrollment or to allow it to accrue
- X Unpaid interest will be capitalized by the lender and added to the principal of the loan
- X Loan amount may be up to COA
- X Not need-based
- X Student borrows directly from a private lender
- X A loan fee of up to 8% may be deducted from the loan proceeds before disbursement.
- X Usually provides deferment for residency (approximately 3 to 4 years)
- X Dependent upon total borrowed, repayment may extend up to 25 years
- X Borrowers must be credit-worthy to be approved for these loans; lenders will not approve a loan if the borrower has a poor credit history or excessive consumer debt; the absence of a credit history is not viewed as negative