



A GUIDE TO FINANCING HIGHER EDUCATION



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CONGRESSMAN MICHAEL H. MICHAUD HAS PREPARED THIS GUIDE TO FINANCING HIGHER EDUCATION FOR INFORMATION PURPOSES ONLY. BEFORE MAKING ANY EDUCATIONAL FINANCING DECISIONS, YOU SHOULD CONSULT WITH YOUR HIGH SCHOOL GUIDANCE COUNSELOR, THE FINANCIAL AID OFFICE AT THE INSTITUTION(S) OF HIGHER EDUCATION WHERE YOU ARE APPLYING, OR WITH OTHER ACCREDITED LENDERS, TO CRAFT A PLAN TO MEET YOUR NEEDS.

INTRODUCTION

Education remains the best investment we can make in our future of our State, and always will be an extremely important issue to me. I am working hard in Congress to improve and expand higher education access to all Mainers.

However, the challenges to making that post-secondary education a reality for all our students remain daunting. According to the 2000 U.S. Census, only about 24 percent of Maine's citizens have earned a 4-year degree. And of those who enroll in college, nearly half are leaving our state to go to other institutions. Yet, Maine ranks first in the nation in the percentage of our 18 to 25 year-olds statewide who have earned a high school diploma.

We all recognize that higher levels of educational attainment can lead to greater economic self-sufficiency and increased prosperity for our region. As a matter of principle, every student deserves the right to pursue his or her educational goals. However, a lack of financial resources continues to prevent too many highly qualified students in our state from attending college.

Although the interest in pursuing post-secondary education has never been greater, the costs associated with higher education are, for some, out of reach.

Many Maine families look at these considerable costs and conclude that they simply cannot afford to attend college on their own.

Recognizing that these costs are insurmountable for most families without additional assistance, the federal government, state governments, and other public and private institutions have established programs for students to receive funding for their higher education. These programs assist students of different backgrounds and socioeconomic status.

Although the challenge of financing a post-secondary education can seem overwhelming, it is manageable with some planning. It is my hope that the resources that I have outlined in this guide will help make the process easier to understand and more approachable to aspiring students and their families who seek federal, state, and private aid. After reviewing these materials, please feel free to contact me if you have any questions, comments, or concerns.

I will continue to work to expand access to education so our students in Maine have the skills they need to compete in this ever-changing economy.

Sincerely,

Michael H. Michaud
Member of Congress

GETTING STARTED

The College Search Process

The Finance Authority of Maine (FAME) has established a separate website for Maine students and their families as they plan for college and apply for financial aid: www.famemaine.com. The FAME website includes links to career planning, financial planning, special web services, and financing a college education, along with answers to commonly asked questions. It also provides easy access to financial aid information for all Maine schools, both public and private. The FAME website, www.famemaine.com, includes information on all federal and Maine state financial aid opportunities.

You should also visit <http://www.wiredscholar.com/index.jsp>, a website administered by Sallie Mae, for additional information on the college planning process. This website contains comprehensive information on preparing for college.

Additional General Information on Student Financial Aid

The United States Department of Education has published *The Student Guide*, which has complete, detailed information about federal aid and a number of other sources to consult for receiving money for college. The guide is enclosed and is also available online at: http://studentaid.ed.gov/students/publications/student_guide/index.html.

FEDERAL AID

The United States Department of Education designed the federal student aid system to help students and their families finance secondary education. This federal aid comes in the forms of grants, loans, and work-study.

Determining Your Eligibility

Eligibility for federal student aid is determined by financial need and several other factors. To be considered eligible, students must:

- ✧ have a high school diploma or General Education Development (GED) certificate, or pass a test approved by the US Department of Education
- ✧ be working towards a degree or certificate
- ✧ be enrolled in an eligible program
- ✧ be a US citizen or eligible non-citizen
- ✧ have a valid Social Security number
- ✧ register with the Selective Service if required
- ✧ maintain satisfactory academic progress once in school

Completing the **Free Application for Federal Student Aid (FAFSA)** is the first step in the student loan application process. *Students and their families apply for all types of federal aid through the FAFSA.* The application is free and all students and their families are encouraged to apply, whether or not they believe they meet the criteria for need. A copy of this form is available online at www.fafsa.ed.gov or at any college's financial aid office. This form must be completed between January 1 and June 30 of the year money will be needed.

After completing the FAFSA, applicants will be sent a **Student Aid Report (SAR)**, which summarizes all information reported on the FAFSA as well as the **Expected Family Contribution (EFC)**, calculated by a formula, approved by law. The EFC is the amount of money that families are expected to put towards their child's education. A copy of the SAR is sent to all schools listed by the applicant on the FAFSA. These schools use the EFC to determine the student's financial need by subtracting that amount from the estimated cost of attendance. Cost of attendance is determined by schools based on a number of factors, including actual tuition and fees, cost of room and board (or living expenses for students who do not contract with the school for room and board), cost of books, supplies, and miscellaneous expenses (including a reasonable amount for a personal computer).

Several websites offer calculators that provide estimates of Expected Family Contribution and amounts for the different types of federal aid that

could be received. While these calculations are only estimates, they may provide help for families beginning the application process. To access several of these calculators, consult www.finaid.org/calculators.

Once appropriate need is established, the individual schools will create a financial aid package that is then sent back to the student in the form of an award letter. This package includes information on any and all types of federal student financial aid. This aid may come in the form of grants, loans, or through the federal work-study program. You and your family may choose whether or not to accept this aid by checking the appropriate boxes on the award letter. The letter then must be returned to the school to complete the aid process.

Grants, loans, and work-study are all components of the financial aid package, but are offered through different programs. The following pages provide a description of the various types of federal financial aid.

Federal Grants

Federal grants, offered primarily to undergraduate students, are a type of financial aid that does not have to be repaid. The amount of federal grant offered to students *in their financial aid package* is based on financial need and enrollment status. The Federal Government offers two types of grants, **Federal Pell** and **Federal Supplemental Educational Opportunity Grants (FSEOGs)**.

Federal Pell Grants are awarded to students who demonstrate significant need. Unlike a loan, Pell Grants do not need to be repaid. The amount awarded ranges from \$400-\$4000 (adjusted yearly) and will depend on financial need, the costs to attend school, status as a full or part time student, and plans to attend school for a full academic year or less. Individual academic institutions use this grant to apply to school costs, or may pay the student's family directly (usually by check). The school is required to notify the recipient in writing how much the award is for and payment dates (schools must disburse funds at least once a term). Pell Grants are considered a foundation of federal financial aid, to which aid from other federal and nonfederal sources might be added.

Federal Supplemental Educational Opportunity Grants (FSEOGs) are awarded to students with excessive financial need after Pell Grants have been distributed. Recipients of Federal Pell Grants with the lowest EFCS will be awarded FSEOGs first. Just like Pell Grants, FSEOGs don't have to be paid back. The amount awarded ranges between \$100-\$4000 depending on time of application, financial need, and amount of funding available from the school. For FSEOGs and other "campus-based" types of aid, the individual academic institutions act as lenders to distribute a set amount of funds provided by the federal government. Not every school

accepts FSEOGs; students should check with their school's financial aid office to see if they participate in this program. Payment for FSEOGs works in the same way as Federal Pell Grants.

Federal Loans

Loans are another type of federal aid that serves both parents and students who need additional aid beyond grants. Students may be eligible for **Stafford** or **Perkins Loans** while parents may apply for the **Parent Loan for Undergraduate Students (PLUS)**. Unlike grants, loans must be repaid.

Student loans, taken out in the student's name and considered the responsibility of the student, are divided into two categories: **Stafford** and **Perkins** Loans. These loans are either considered to be **Federal Family Education Loan Programs (FFELP)**, loans provided by private lenders, or **Direct Programs**, loans provided by the government. The Federal Government also offers a loan to parents, known as the **Parent Loan for Undergraduate Students (PLUS)**, to meet student education costs not covered by the student's financial aid package.

The following pages review loans for both students and parents in greater detail. Amounts approved are the same regardless of the source of loans. In accepting these loans, students agree to both required entrance and exit counseling sessions, which are designed to help students understand their responsibilities and rights as a borrower, along with repayment planning.

Loans for Students

Stafford Loans may be provided to students in two forms: **subsidized** and **unsubsidized**. Subsidized loans are offered to students who demonstrate financial need. The amount of the loan is calculated based on information from the FAFSA form. For subsidized loans, the government pays all interest accrued while the student is in school, for the first six months after school, and when students qualify to have their payments deferred.

Additional money may be supplied in the form of unsubsidized loans, which are available to all students. Unsubsidized loans require that students pay all interest (although interest may be deferred until graduation). Many students combine both of these loans to borrow the maximum amount permitted each year. The maximum amount that can be borrowed in the form of both subsidized and unsubsidized loans is regulated depending on the student's progress in school. The amounts are as follows:

- ✧ \$2625 for a first year academic student enrolled in a program of study that is at least a full year
- ✧ \$3500 for a second year academic student if the remainder of the academic program is at least a full academic year
- ✧ \$5500 if two years of study have been completed and the remainder of the program is at least a full academic year

Students may, however, borrow only enough to meet their determined financial need up to these maximum limits. Determined financial need is determined by subtracting all other financial aid from the cost of attendance. Students who demonstrate need exceeding these limits may only borrow the amount specified for each year.

You will be paid through your school in at least two installments for both the FFEL and the Direct Loan programs. Unlike the Perkins loan (see below) you will be charged a fee of up to 4% of the loan that is deducted proportionately from each loan disbursement. This fee goes to the government and/or state agency to help reduce the cost of loans.

Stafford Loans have variable interest rates (adjusted annually on July 1), but capped at 8.25%. Information about repayment will be sent to students following graduation, withdrawal from school, or half-time enrollment, along with notification of the first payment due date.

Perkins Loans are low interest loans for both undergraduate and graduate students who demonstrate exceptional financial need. Like FSEOGs, Perkins Loans are campus-based and may not be available at all schools. Consult specific institutions to see if they participate. A Perkins

Loan is a subsidized loan with a set interest rate of 5%, which is paid by the Federal Government while the student is in school and for nine months afterwards (with repayment due in 10 years). The school is the lender, and repayment is made to the school.

The amount offered through a Perkins Loan *in the financial aid package* is determined by the school's financial office and may not exceed \$4000 per year (the total you can borrow as an undergraduate is \$20,000). The school will apply this amount to school charges or will pay the student directly in at least two payments during the academic year.

There are no other charges associated with this type of loan. However, if a student skips or is late on any payments, he or she might have to pay a late charge plus collection costs. If a student attends school at least part time, he or she will have nine months after graduation before being required to start to repay this loan. This period is called the "grace period." For further questions about repayment, the student should contact his or her school.

Loans for Parents

The **Parent Loan for Undergraduate Students (PLUS)** is available to parents to meet student education costs not covered by the student's financial aid package. PLUS Loans, like student Stafford Loans, are either considered FFELP or Direct, depending on the source of the funds.

To be eligible for a PLUS Loan, parents must fill out a PLUS Loan application, available from the financial aid office at their child's institution. This application generally requires a credit check; however, a parent cannot be turned down for having no credit history and the loan may be provided even if a parent's credit history does not pass. A friend or relative must be willing to endorse the loan or parents must demonstrate extenuating circumstances.

The maximum amount for these loans is equal to the cost of attendance for the specific institution minus any other financial aid received. For example, if the cost of attendance is \$6,000, and a student receives \$4,000 in other financial aid, the parents can borrow up to \$2,000. The school will receive this money in at least two installments and will then apply the money to tuition and fees, room and board, and other school charges. If any loan money remains, it will be sent to parents by check or cash, unless it is authorized to be sent to students. All remaining money must be used for education expenses.

The interest rate for PLUS Loans is variable (adjusted annually on July 1), but is capped at 9%. The first payment of the loan is due within 60 days after the final loan disbursement for the year. Payment for both

principle and interest begins while student is in school and continues for up to 10 years (or until full amount is repaid).

The responsibility for the PLUS Loan belongs to the parents. While students may agree to make payments on the loan, failure to make payments on time will be the responsibility of the parents. For more information on loan discharge or repayment, please contact the Direct Loan Servicing Center at 1-800-848-0979, or go to www.dl.ed.gov.

Work Study

Federal Work Study (FWS) is also provided to students through part-time jobs, allowing students to earn money to help pay educational expenses while they are in school. This program encourages community service work and work related to the student’s field of study. The amount earned by students at these jobs may not exceed the total FWS award, determined in the financial aid package. Your total Federal Work-Study award depends on when you apply, your financial need, and the funding level at your school. Hourly rates must be at least equal to the federal minimum wage, but may be higher based on required skills or experience. Students are paid directly at least once a month.

Campus-Based Aid Programs Summary

Federal Student Aid Program	Types of Aid	Other Information	Annual Award Limits	Disbursements
Federal Pell Grant	Grant: does not have to be repaid	Available to undergraduates only	Up to \$4,000 for 2002-2003	School acts as the U.S. Department of Education’s agent
Federal Supplemental Educational Opportunity Grant (FSEOG)	Grant: does not have to be repaid	Not all schools participate in all Campus-Based Programs; for undergraduates only	Up to \$4,000	School disburses funds to students
Federal Work-Study	Money is earned; does not have to be repaid	Not all schools participate in all Campus-Based Programs; for undergraduate and graduate students	No annual maximum	School disburses earned funds to students
Federal Perkins Loan	Loan: must be repaid	Not all schools participate in all Campus-Based Programs; for undergraduate and graduate students	\$4,000 for undergraduate students; \$6,000 for graduate students	School disburses funds to students

Direct Loan and FFEL Programs

Federal Student Aid Program	Types of Aid	Other Information	Annual Award Limits	Disbursements
Subsidized Stafford Loan	Loan: must be repaid	The Department of Education pays interest while the student is in school and during grace & deferment periods	\$2,625 to \$18,500, depending on grade level	Direct Loans: The federal government provides funds to schools to disburse to students; FFEL: Private lenders provide funds to schools to disburse to students
Unsubsidized Stafford Loan	Loan: must be repaid	The borrower is responsible for interest during the life of the loan	\$2,625 to \$18,500, depending on grade level	Same as above
PLUS Loan	Loan: must be repaid	Available to parents of dependent undergraduate students	Cost of attendance minus any other financial aid received	Same as above

Found at www.studentaid.ed.gov

More Information

There are many sources, both online and print, to help students and their parents learn more about federal aid resources. Here are two Federal sources to get you started with your search:

<http://www.fafsa.ed.gov>

This site provides the online FAFSA application and more detailed information about the form and the process of receiving aid.

<http://www.studentaid.ed.gov>

This site provides detailed information about eligibility, the application process, and descriptions of the various types of federal aid.

TAX BENEFITS

Tax Credits

There are two federal income tax credits that reduce the amount of income tax owed to the government for students and their parents and families. The Taxpayer Relief Act of 1997 created the Hope Credit and the Lifetime Learning Credit to help families handle the cost of higher education.

The Hope Scholarship was introduced to help ensure that students have access to the first two years of undergraduate post-secondary education. The Lifetime Learning credit provides support for students in any year of study in undergraduate and graduate programs.

The Hope Credit

The Hope Credit applies only for the first two years of post-secondary education, such as college or vocational school, and it can be worth up to \$1,500 per eligible student, per year. It does not apply to graduate and professional-level programs. The Hope Credit allows 100% of the first \$1,000 of qualified tuition and related fees paid during the tax year, plus 50% of the next \$1,000 of qualified tuition. Each student must be enrolled at least half time.

The Lifetime Learning Credit

The Lifetime Learning Credit applies to undergraduate, graduate and professional degree courses, including instruction to acquire or improve job skills. If you qualify, your credit equals 20 percent of the first \$10,000 of post-secondary tuition and fees you pay during the year for all eligible students, for a maximum credit of \$2,000.

Comparison of Education Credits

Hope Credit	Lifetime Learning Credit
Up to \$1,500 credit per eligible student	Up to \$2,000 credit per return
Available ONLY until the first 2 years of post- secondary education are completed	Available for all years of postsecondary education and for courses to acquire or improve job skills
Available ONLY for 2 years per eligible student	Available for an unlimited number of years

Student must be pursuing an undergraduate degree or other recognized education credential	Student does not need to be pursuing a degree or other recognized educational credential
Student must be enrolled at least half time for at least one academic period beginning during the year	Available for one or more courses
No felony drug conviction on student's record	Felony drug conviction rule does not apply

Table 1-1 from IRS Publication 970

The Hope and Lifetime Learning Credits cannot be claimed for the same student in the same year.

To qualify for either credit, the individual must pay post-secondary tuition and fees for themselves, their spouse, or their dependents. The credit may be claimed by the parent or the student, but not by both. However, if the student was claimed as a dependent, the student cannot claim the credit.

- Use Form 8863 to claim either the Hope or Lifetime Learning Credit.

Other Tax Benefits

There are other benefits that are available to aid in financing secondary education.

Deduction for Student Loan Interest

Interest on any student loans for higher education may be deducted on the tax return. The interest may be deducted whenever paid and regardless of the age of the loan.

Student Loan Interest Deduction	
Feature	Description
Maximum benefit	You can decrease your income up to \$2,500.
Loan qualifications	Your student loan
	· must have been taken out solely to pay qualified education expenses, and
	· cannot be from a related person or made under a qualified employer plan.

Student qualifications	The student must be
	<ul style="list-style-type: none"> · you, your spouse, or your dependent, and · enrolled at least half-time in a degree program.
Time limit on deduction	Beginning with payments made in 2002, you can deduct interest paid during the remaining period of your student loan.
Phase-out	The amount of your deduction depends on your income level.

Table 3-1 from IRS Publication 970

The student loan interest deduction is an adjustment to income. To claim the deduction, enter the allowable amount on line 25 of Form 1040, or line 18 of Form 1040A. To figure the amounts of the deduction see IRS Publication 970.

Deduction for tuition and fees for higher education

The tuition and fees deduction can reduce the amount of an individual’s income subject to tax by up to \$3,000. This deduction is taken as an adjustment to income. This deduction may be beneficial to taxpayers who cannot take either of the education credits because their income is too high.

Education Savings Accounts for Children

The tax code allows you to establish and contribute to a Coverdell education savings account (ESA), which features tax-free earnings. These accounts allow taxpayers to make an after-tax contribution of up to \$2,000 per year for each child under the age of 18 in a savings account similar to an IRA. The principal and interest can then be withdrawn tax free from the account to help pay for a child’s college or graduate education at the appropriate time.

IRA Withdrawals

To help with the cost of higher education, a student can make early withdrawals from any type of individual retirement arrangement (IRA) for education costs without paying the 10% additional tax. Generally, if you make withdrawals from your IRA before you reach age 59½, you must pay a 10% additional tax on the early withdrawal. This applies to any IRA you own, whether it is a traditional IRA (including a SEP-IRA), a Roth IRA, or a SIMPLE IRA. You will owe income tax on at least part of the amount

withdrawn, but you will not have to pay the 10% additional tax on early withdrawals

Savings Bonds

Families are able to cash in savings bonds for education costs without having to pay tax on the interest. Generally, you must pay tax on the interest earned on U.S. savings bonds. If you do not include the interest in income in the years it is earned, you must include it in your income in the year in which you cash in the bonds. However, when you cash in certain savings bonds under an education savings bond program, you may be able to exclude interest from income.

Employer Educational Benefits

You may be eligible to receive tax-free educational benefits from your employer to help finance the cost of secondary education. Your employer may be able to provide you, tax free, up to \$5,250 of education benefits each year. This means that you may not have to pay tax on amounts your employer pays for your education including payments for tuition, fees and similar expenses, books, supplies, and equipment. The payments do not have to be for work-related courses.

For more information, download Publication 970, Tax Benefits for Higher Education, or order by calling the IRS toll free at 1-800-TAX-FORM (1-800-829-3676).

STATE AID

Before you apply for aid, make sure you know as much as possible about the school(s) you are interested in attending. You can find out about colleges in Maine by visiting www.famemaine.com. For colleges in other parts of the country, visit <http://www.mapping-your-future.org/>. Get information on the costs of attendance and try to calculate your school expenses.

Maine State Grant Program is Maine's largest grant program. This need-based state grant is available to undergraduate students who are Maine residents. **To be eligible for an award under this program, the Federal Processing Center must have received your FAFSA by May 1.** A limited number of awards are available so meeting the deadline is critical. The awards are as follows:

- In-State Public Institutions **\$1,000 (for full-time study)**
- Out-of-State Public Institutions **\$500 (for full-time study)**
- In-State Private Institutions **\$1,250 (for full-time study)**
- Out-of-State Private Institutions **\$1,000 (for full-time study)**

Other Maine State Programs

Name of Program	Description of Program
Maine State Grant Program (Formerly MSISP)	Need-based grant program for full-time students that provides grants of up to \$1,250/year
Medical Education Program	Designed to help Maine students' access and pay for medical education. FAME pays a fee of \$5,000 per student, per year to provide access to students who are likely to practice primary care in underserved areas of Maine. The \$5,000 fee is retained by the medical school to cover the costs of the program and to assure that Maine applicants will receive preferred access
Dental Education Program	Intended to increase access to dental care to underserved populations in Maine by providing repayment of dental education loans for dental services providers
Robert C. Byrd Honors Scholarships	Up to \$1,500 in federal scholarship money for academically talented high school students
Educators for Maine	A merit-based forgivable loan program for Maine residents pursuing careers in education. Recipients are eligible for up to \$3,000/year
Tuition Waiver Program	The Tuition Waiver Program provides tuition waivers for children and spouses of firefighters, law enforcement officers and emergency medical services personnel who have been killed in the line of duty, or died as a result of injuries received during the performance of their duties
Quality Child Care Program	Scholarship provides funding to support childcare professionals pursuing professional development at the postsecondary level

Found at www.famemaine.com

OTHER SOURCES OF AID & SUPPORT

Private and public organizations, as well as individual academic institutions provide more help for students seeking aid, both on the basis of need and independent of a student's financial situation.

Scholarships

Scholarships, in contrast to grants, are offered based on merit or other qualifications-- independent of need. Academic, athletic, and background-based awards provide students the opportunity to receive money for school based on their achievements or personal status. Public, private, and individual academic institutions offer these types of awards. Eligibility, deadlines, and amount awarded vary for each scholarship.

Before applying for any scholarship, it is important to be aware of the various scams circulating the Internet and e-mail. A list of helpful guidelines about avoiding these scams can be found at <http://www.finaid.org/scholarships/scams.phtml>.

There are many helpful search engines and websites designed to help students in their search for scholarships. Both www.fastweb.com and www.srnexpress.com provide free detailed searches and information about thousands of scholarships offered around the country. These scholarships may be awarded on the basis of family background, interests, community service, or interest in an area of study.

The military and its branches also award scholarships for students interested in serving during or following their college education. A list of these programs and other military aid-related resources can be found at <http://www.finaid.org/military/recruiting.phtml>.

The Maine State Department of Education and the Finance Authority of Maine offer several awards and scholarship programs for Maine state residents. An extensive list of the various scholarships can be found at <http://www.famemaine.com/html/education/detail.asp?LetterToView=A>

Additional information concerning other student financial aid programs can be obtained from high school counselors, college financial aid officers, and/or the Finance Authority of Maine, 5 Community Drive, P.O. Box 949, Augusta, ME 04332-0949 (email: info@famemaine.com, phone: 800-228-3734).

Countless other public and private institutions offer scholarships to eligible students. Religious organizations, foundations, corporations,

community organizations, and civic groups provide scholarships and other sources of need. While the above search engines locate thousands of these, there are many others available through organization-specific searches. Consult local resources for more information.

Individual academic institutions may offer scholarships based on a variety of factors. Applications separate from the admissions application and deadlines independent of admissions deadlines may exist. For more information, contact the school's financial aid office or its admissions program.

Private Loan Sources

In addition to, or separately from, federal or state loans, students and their families may decide to take out private loans for various reasons. The most common private loan alternatives are home equity loans or lines of credit. The tradeoffs associated with these options include interest tax deduction, in-school deferments, and different interest rates. While some families may also decide to borrow from their retirement fund, this option is not generally recommended.

Sallie Mae offers a **Signature Student Loan Program** that offers high approval rates, tiered interest rates based on credit, and no payments while in school to undergraduate, graduate, and professional students. Sallie Mae recommends that this program become an option only after federal aid resources have been exhausted. For more information, consult <http://www.salliemae.com/apply/borrowing/signature.html>.

GATE Loan offers a similar loan program for students attending certain schools across the country. This outsourced loan works similarly to a Stafford or Perkins loan, and offers many of the same benefits including deferred payment, flexible interest rates, and a 13-year repayment period. For more information and a list of participating institutions, consult www.gateloan.com.

E-StudentLoan is an online search engine that provides students and their families' access to thousands of alternative loan options based on their own personal criteria. To use the Loan Finder search guide, consult www.estudentloan.com.

The sources mentioned here represent only a fraction of the available providers of private student loans. You should consult your guidance counselor or the financial aid office at your institution of higher education for more information on private lenders.

Terminology

The terminology surrounding financial aid can be confusing and complicated. Fin Aid, a financial aid website provides a helpful list of terms that can be found at: <http://www.finaid.org/questions/glossary.phtml>

AFTER SCHOOL

While payment on loan principal and some interest can be deferred while a student is in school, the burden of beginning a repayment plan following graduation or departure from school can be considerable. For this reason, federal, state, and other aid organizations offer repayment programs, consolidation loans, deferment/forbearance options, and loan forgiveness programs.

Direct Federal Loan Repayment

To help students effectively repay their Direct Loans while maintaining a comfortable financial situation, four repayment plans are available through the federal aid system: **Standard, Extended, Graduated, and Income Contingent Repayment (ICR) Plans.**

Students who select a **Standard Repayment Plan** pay a fixed monthly amount of at least \$50 until their loans are repaid in full. The maximum repayment period is 10 years. This option allows students who are able to make a higher monthly payment to repay their loans in the shortest amount of time and, consequently, with the lowest amount of interest.

Students who select an **Extended Repayment Plan** must still pay a fixed monthly amount of at least \$50, but are able to repay their full loan in 12-30 years as opposed to 10. This plan allows students to make smaller monthly payments, but consequently oblige that students pay more interest over the longer repayment period.

Students may also select a **Graduated Repayment Plan**, under which their monthly payments increase over the repayment period, generally every two years. Initial payments must at least cover the amount of interest that accumulates on the loan from month to month or half the amount the student would pay under the Standard Repayment Plan, whichever amount is greater. However, monthly amounts will never increase to more than 1.5 times the amount the student would pay under the standard plan. This loan may be most beneficial to students who anticipate their income to increase over their repayment period.

The final repayment plan, the **Income Contingent Repayment (ICR) Plan**, is designed to help students who may be faced with financial hardship repay their loans. Each year, monthly payment amounts will be calculated based on the students **Adjusted Gross Income (AGI)**, family size, and the total amount of the loan. To participate in this plan, the student must allow the Internal Revenue Service to report income information to the Department of Education in order to calculate the amount of monthly payments. For more information about how the ICR Plan, consult: <http://www.ed.gov/DirectLoan/pubs/repabook/icr2.html>.

Locating Student Loans

Students should be aware that their original lender may have contracted with a servicer or sold their loan to a secondary market. A servicer is a company that a lender hires to perform account services, such as payment processing, customer relations, or accounting. A lender still holds (owns) the loan, and there is no extra cost to the student. A secondary market company, on the other hand, actually buys student loans; the largest of these is the Student Loan Marketing Association (Sallie Mae). To locate a student loan, a student can use the [Student Loan Locator](#).

With either type of company, students still have the same rights and responsibilities as with the original lender and they must be notified in writing of the change. When the student gets the notice, he or she should check their records to make sure all the information is correct, especially the outstanding balance and monthly payment.

Questions or problems with servicer or secondary markets should be directed to the institution that currently services the loan. A student should keep a record of contacts with that institution.

Loan Consolidation

Consolidation loans combine multiple outstanding loans into one large loan from a single lender. This lender assumes responsibility to repay the individual collectors, and the new, single loan is repaid in monthly installments over a longer period of time and often with a lower interest rate.

American Educational Services (AES), offers a **Network Consolidation Loan Program** that allows students or their families to consolidate all federal and state loans. To be eligible for this program, students must be out of school or enrolled less than half time and their loans must be in the grace or repayment periods. Parents may consolidate their loans at any time regardless of their student's enrollment status.

The interest rate on a Network Consolidation Loan is calculated by

using the weighted average of the loans to be consolidated, rounded upward to the nearest 1/8 of a percent, not to exceed 8.25%. This rate is fixed for the duration of the repayment period, which may be as long as 30 years depending on the total amount of the consolidated loans. Benefits of a Network Consolidation Loan include no additional fees to borrowers, an extended and flexible repayment schedule, zero penalties for prepayment, and a retained subsidy status on all subsidized loans (interest payments that were subsidized by the government do not become the responsibility of the borrower).

It is important to remember that Network Consolidation Loans and other such consolidation programs may decrease the amount of monthly payment and extend the repayment period, but will result in the borrower paying more interest than they would without consolidating. Students and their families should weigh the immediate benefit of a reduced payment versus paying more interest in the long run. Also, borrowers who decide to consolidate must forgo any grace period on their loans and begin consolidation repayment immediately. The decision to consolidate loans, while convenient and usually beneficial in the short run, may not always be the best for long term financial planning. Customer service representatives for Network Consolidation Loans can help students and their families decide whether or not consolidation is the right option. Borrowers may apply over the phone at 1-800-338-5000. For more information about the Network Consolidation Loan Program and to apply online, consult: <http://www.aessuccess.org/apply/consolidation.shtml>

Several other independent organizations offer loan consolidation programs. Unlike the Network Consolidation Loan Program, these organizations may have different rules and charge additional fees.

Sallie Mae also has consolidation options. Interested borrowers should visit Sallie Mae's website at <http://www.salliemae.com> for more information.

Deferment Options

In some circumstances, it is possible to defer payment on a federal loan. Continuing education, extended unemployment, economic hardship, certain teaching positions, or other situations may allow students to temporarily postpone their loan payments. For subsidized loans, students will not be charged interest during the deferment period. For unsubsidized loans, students must continue to make interest payments throughout the deferment period, but will not have to make payments on the principal. Students with Direct Loans may contact Borrower Services at 1-800-4-FEDAID or can find more information online at <http://studentaid.ed.gov>.

Students with FFELP Loans should contact their individual lender for deferment options.

For more extreme cases such as disability or severe health problems, students may forbear their Direct Loans with an additional interest charge to be repaid once the forbearance period ends. Length of the forbearance period will depend on the student's circumstances, and must be evaluated by the student's Direct Loan Service Center. Forbearance options for students with FFELP Loans will depend on the individual lender.

Loan Forgiveness

For some professions, including early childcare, teaching, and the military, the federal government offers loan forgiveness programs in which all or parts of an employee's loans are cancelled. For more information about these programs and the amounts of loan forgiveness offered, consult: <http://www.finaid.org/loans/forgiveness.phtml> or www.famemaine.com.

If you are confused about loan repayment, FAME loan advocates can help you navigate the many options available. Advocates work with lenders and schools to find the answers to any questions you might have, and will help during the repayment process by providing solutions to keep students and parents on the right track to paying back loans. FAME education staff may be reached at 1-800-228-3734 or by E-mail anner@famemaine.com.