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COLLEGE FINANCING

Most parents hope their children will graduate from high school at the top of the class, be admitted to the college of their choice and graduate in four years. But in reality, only about half of all college students receive degrees from the institutions where they began. Regardless, college educations are still considered essential for most young people, and can greatly affect the child's career and life choices, including, where they will live and who they may marry.

General College Considerations

Currently, private university tuition and room and board can be as much as \$20,000 to \$40,000 annually. But for students enrolled in community colleges or local state-supported institutions, the cost may be considerably less.

For some parents, the cost of their child's college education can exceed the cost of their home. In fact, the two investments have much in common. In today's society, both are a necessity. Both are long-term investments that are expected to pay off handsomely in the future. In addition, many of the features that influence homebuyers also should be examined when selecting a college. Size, location, cost and financing should be considered before college applications are completed.

Colleges, like houses, come in many different sizes. Some students seem to thrive on the hustle and bustle of a large, busy campus. Others are overwhelmed by the size and impersonal nature of a large university and prefer the intimate environment of a small school.

As with size, the location of the school should suit the individual student, too. College locations fall into three categories:

- Urban
- Rural
- Suburban

The urban college uses the city as an extension of its campus. It draws upon and offers the student the resources of the city. Easy access to museums, libraries, theaters and cultural and social events is a major asset for an urban campus. A student majoring in art or drama should find that these outside resources enhance classroom study, but they may distract others.

The rural campus offers different opportunities. Located away from a metropolitan area, it

eliminates some of the distractions of the city. The campus is far more self-sufficient, generating its own social, cultural and sports activities.

The suburban campus is in between. It offers convenience without isolation and access to city activities without the daily frustration and risks of city life.

However, the school selection will be based upon a number of factors in addition to location, such as curriculum or the scholarship and financial aid package.

One consideration seldom mentioned is safety. Safety is not discussed in college catalogs, and admissions counselors may be unlikely to bring up the subject. College students are likely to be active at all times of the day and night. A campus that is only safe during the day may not be safe at all. These safety considerations have become a higher priority since the September 2001 attacks. Many students are now favoring suburban and rural schools over those located in metropolitan areas.

Because college students need to visit home, the school's distance from home is also an important consideration. Proximity to modes of transportation, such as airports or rail lines, and the related transportation costs are also important considerations.

Again, like houses, college costs vary. State supported schools remain the least expensive, while the prestigious private institutions continue to be the most expensive. Small, private colleges fall between the two extremes. Location, reputation and uniqueness affect price. Schools located in the South and Southwest and those with regional rather than national reputations can be financially attractive.

Financial Aid Availability

Education financing alternatives must be carefully planned. Most colleges agree that the family should be the primary source of payment. However, financial assistance does exist. A search for financial assistance should include: federal, state and institutional aid; private sources such as trade unions, fraternal or service organizations, professional associations and religious groups; and scholarships based upon academic, athletic and other special talents.

Under present aid programs, while a parent need not be in a low-income bracket to receive financial assistance, most aid programs take into account the family's income and living expenses, the number of children in the family and how many children are in college.

"Financial Aid" is any grant, loan, scholarship or work-study plan offered to help a student meet educational needs. It is often based upon financial need. Financial need is defined as the fixed amount difference between the cost of attending college and the amount of the parent/child contribution.

The federal government administers six major financial assistance programs. Three of these programs are direct assistance programs; that is, the assistance goes directly to the student. The other three programs are administered through the educational institution, so that the funds are

sent directly to the institution, which in turn, disburses the aid to the student in accordance with the applicable program. (More specific information about the various loans and grants is available at www.salliemae.com.)

Keep in mind that the funds available for the financial aid and work-study programs described below are limited, so early application may be an advantage.

The Pell Grant

The Pell Grant, formerly the Basic Educational Opportunity Grant Program, was named for the senator who sponsored the enabling legislation. A Pell Grant is based solely on financial need. The amount of a student's award varies with annual Congressional appropriation and need. Recently, Pell Grant awards generally ranged from \$400 to \$4,050.

Because a prerequisite for many college and state aid programs is an application for a Pell Grant, it may be advisable to make that application even if the student believes he or she will not qualify.

The Stafford Student Loan

The Stafford Student Loan, formerly called the Guaranteed Student Loan, is a federal loan insurance program allowing students to borrow from private lenders at low interest rates. Families with high incomes are eligible for the program if certain need tests are satisfied. Either the federal government or a state agency insures the loan. Interest rates on these loans change every July 1 and as of July 2006 was 6.80%.

Undergraduate students may borrow up to certain limits each school year under the Stafford Student Loan program; freshmen may borrow up to \$2,625 per year; sophomores up to \$3,500; juniors, seniors and fifth year undergraduates up to \$5,500; and graduate students up to \$8,500, with an overall aggregate maximum of \$138,500.

The government pays the loan interest during the undergraduate and graduate school years and for six months after graduation. Thereafter, the student must pay the interest and repay then principal over a 5 to 10 year period, depending upon the amount of the debt.

Parent Loans for Undergraduate Students

Parent Loans for Undergraduate Students (PLUS) loans are available to parents of undergraduate students, graduate students and independent undergraduate students (those who are self-supporting). The interest rate on PLUS loans changes every July 1 and loans made after July 1, 2005 have an interest rate of 6.1%. PLUS loans are handled like the Stafford loans, through participating lenders.

Repayment of principal and payment of interest on a PLUS loan to a parent must begin 45-60 days after receipt of the final loan disbursement and is made over a 5 to 10 year schedule to be determined by the lender.

Repayment of principal on a PLUS loan to a full-time student is deferred until the student graduates or leaves the university.

Note: In January of 2002 the Illinois legislature passed a law establishing that effective as of July 2006 the rate for Stafford Student Loans and the PLUS loans will become fixed at 6.8% for students and 7.9% for parents. This apparently came about because of pressure from lenders who threatened to withdraw from the program because of the administrative difficulty of administering loans with constantly changing rates.

Supplemental Education Opportunity Grant

A Supplemental Education Opportunity Grant (SEOG) is a grant to a student with demonstrated financial need. This aid is administered by the institution, which receives the aid from the federal government and is then responsible for making awards to its students. This aid may be in addition to Pell Grants.

The Department of Education allocates a specific amount of money to each participating institution. Awards presently range from \$100 to \$4,000 per student per academic year. Applications are made through the academic institution's office of financial aid.

The College Work-Study Program

The College Work-Study Program is a program administered by each participating educational institution to provide employment for students who demonstrate financial need. The federal government grants funds to institutions for this purpose. Students normally obtain employment under this program as part of an overall financial aid package. They generally work 12 to 15 hours per week during school sessions, and up to 40 hours a week during vacation periods. Examples of college employment include library clerk, faculty aid, maintenance worker or cafeteria worker. The institutions determine the amount of a student's award and once a student has earned that amount, employment is terminated for that academic year.

Application is made to the institution financial aid office. Eligibility is based solely on financial need. Students must be enrolled at least half time in an accredited institution and maintain good academic standing while employed. These earnings will not be considered in determining the student's financial aid eligibility.

The Perkins Loan Program

Perkins Loans, formerly National Direct Student Loans, are administered by institutions that also act as lenders. Eligibility is based upon the student's need. The interest rate is currently 5% and is fixed for the life of the loan. An undergraduate student may borrow up to \$4,000 per year up to a maximum of \$20,000 and graduate students \$6,000 per year to a maximum of \$40,000. Repayment begins nine months after graduation and is made over a ten-year period.

Loan Defaults

One remedy for default on repayment of a federally funded loan is that the IRS may offset the deficiency against any income tax refund otherwise payable to the defaulting borrower. The government can also affect the defaulter's credit rating, possibly preventing further borrowing or credit extension.

Debt Consolidation

Students unable to satisfy their loan repayment obligations may qualify for a program permitting them to consolidate all loans into one and make the repayment over a longer period of time. The interest rate on the consolidated loan will be the greater of the weighted average of the consolidated loans or 9% presently.

State Programs

Many state governments also offer financial assistance programs. However, most state assistance is available only to residents of the state, while attending schools within the state. Some states do make exceptions, and permit assistance to residents attending out-of-state schools. A few states may even allow non-residents to receive assistance while attending a school within the state.

Many states have special programs for teachers and national guard enlistees. Others offer work-study programs and special academic supplements.

College Aid Programs

In addition to federal and state financial assistance programs, many institutions offer some aid through scholarships, loans, jobs, alternative payment plans and other programs. College provided assistance usually comes from tuition revenues or from alumni, foundations, corporations and other donors. Therefore, the resources at the disposal of institutions vary greatly.

Many Ivy League schools with large endowments offer substantial amounts of aid to supplement federal and state programs. A student should not overlook expensive schools simply because the tuition is high; these schools may be in a position to offer substantial financial assistance.

Some institutions discount tuition if more than one family member attends. Other schools discount tuition if the entire year's tuition is paid in full as opposed to being paid one semester at a time. A number of schools accept payment in one lump sum for all four years of college to protect against future tuition increases.

Co-Op Job Sharing

Under the Co-Op Job Sharing Program available at some institutions, two students are paired by the school, one of whom works in the chosen field full time, while the other attends classes full time. At the end of the quarter or semester, they switch places. This enables each student to receive hands on job experience and earn a substantial portion of their college costs.

Project EASI

Easy Access for Students and Institutions is a government project that combines all grant and loan information onto one computer network, accessible to students, parents and colleges. Students will be able to apply for financial aid as well as view loan history and learn about other aspects of admission and financial aid. You can access information via the Internet at <http://students.gov> or the Department of Education's main website at <http://www.ed.gov>.

Is College Worth The Cost?

The Chronicle of Higher Education has frequently reported that college costs have continued to escalate although inflation has slowed. Tuition increases will range between 7 and 10 percent and college administrators are not predicting a slowdown in those increases.

Considering the enormity of the investment, is a college education worth all the time, effort and money? During the last decade, college graduates have suffered less unemployment and have more job opportunities than non-graduates.

Various studies have established that generally the average college student earns \$300,000 more in a work life than a high school graduate does. Future projections place this figure at \$1.8 million in inflated dollars. Other studies have found college graduates to be more self-confident both intellectually and socially and that they, and their children, are less likely to commit or be the victims of violent crime.

But, it seems to us that the ultimate answer depends on what the student does to take advantage of the opportunity, both during school and afterward in the workplace.

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