



VERITAS PREP

Presents:

**The Guide to
Graduate School Financial Aid**



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An Introduction

The financial aid process at any top graduate school starts and ends with the student. Nearly every program, in any area of study, requires completion of the FAFSA (*Free Application for Federal Student Aid*). This application is submitted to the U.S. government and creates a report that allows schools to evaluate the level of “need” for an individual student. Many times, this document is augmented by a separate, unique financial aid application for the institution in question.

Once a student completes the necessary financial aid documents, the process shifts to the school in question, where financial assistance awards are created for that program’s admitted students. In almost every instance, this process is automatic for admitted students who have completed the necessary paperwork. Likewise, schools will not create financial aid awards for students who have not been admitted. In the case of scholarships, it depends on the institution whether those are generated automatically (*common in graduate school*) or can be applied for via a separate process.

Financial aid packages consist of a variety of award types including:

- Merit-based scholarships or fellowships
- Need-based grants (*can also be called fellowships in certain instances*)
- Federal, subsidized loans
- Federal, unsubsidized loans
- Private loans

Each of these award types will be discussed in this guide, but it is important for admitted students to contact the financial assistance office of the institution in question, as the award package can be discussed in greater detail. The first rule of financing an education is to understand each and every piece of the puzzle. While admission to a top graduate school is often the final step in a long process that can leave students feeling like a dream just came true, the decision to enroll is still, at its core, a cost-benefit analysis that looks at the true cost of attending versus the expected return on the educational investment.

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Types Of Financial Assistance

The following descriptions will help students understand the various types of financial aid awards:

Scholarships – Almost always merit-based, scholarships are “free money” awards that are generally awarded with no strings attached. Some scholarships will carry a performance condition that requires a minimum academic standing, but that is somewhat rare in the graduate school arena. Scholarships are open to all students, regardless of need, and are often used both altruistically (*to help students pay for school, which is often the intent of the original donor*) and strategically (*to woo – through incentives and flattery alike – top admitted students*).

Fellowships – Often just another name for scholarships, fellowships are more likely to carry with them an obligation to belong to certain organizations or to pursue particular career paths. Furthermore, fellowships can often be applicable only to a narrow group of admitted students who meet specific criteria as it relates to experience, geography, or demographic information.

Grants – Grants are also “free money” in the sense that they do not need to be repaid; however, grants are typically awarded based on level of need and not based on merit. A grant is truly a gift from schools to students so that individuals who otherwise cannot pay for their education through their own contributions and standard federal loans will still be afforded the same opportunities as those who can pay for it. Grants are often the most strategic point of an award package, where schools calculate the necessary award to induce enrollment and often restructure packages upon appeal from the students.

Subsidized Loans – The federal government provides two kinds of loans to graduate students: subsidized and unsubsidized. Subsidized loans are the most preferable because the government pays the interest on the principal amount until a period (*typically six to nine months*) following the student’s graduation date. The two most common subsidized loans are:

- **The Federal Stafford Loan** – Up to \$8,500 of the total loan (which has a maximum of \$20,500) may be subsidized. Subsidized amounts are determined by unmet student need, while any student can apply for up to the full \$20,500 of unsubsidized loan money. The loan carries a capped interest rate of 8.25% and a maximum repayment period of 10 years.
- **The Federal Perkins Loan** – Up to \$6,000 per year of subsidized loan money, determined by both student need and the allotment from the Perkins loan to the school in question (*some institutions receive a larger allocation than others*). The Perkins loan is often used in financial aid packages for students with a very high level of unmet need (*known as “exceptional need”*). The loan features a 5% interest rate and must be paid back to the school in question over a maximum repayment period of 10 years.

Subsidized loans are available to qualified students who are U.S. citizens or permanent residents.

Unsubsidized Loans – Unsubsidized federal loans are often confused with private loans. They are still federal loans, but unlike subsidized loans, the interest begins to accrue even while the student is in school. Payment is still delayed until after graduation, but the principal amount will already be greater than what was initially borrowed when that day comes, given the interest. (*Unless, of course, the student pays off the interest while still in school. This is recommended in theory, but rarely achieved in practice.*)

Private Loans – Private educational loans work in the same fashion as any other private loan such as a mortgage or a car payment in that the student borrows money from a private lender at a fixed interest rate. The interest rate varies depending on the year and current lending climate but is often more competitive than other types of private loans. Most elite graduate schools are part of larger universities with their own lending relationships, which makes the process easier and can often lead to slightly better rates than one could get on the open market. Private loans are often used to cover any “gaps” in a financial aid award and also to cover the student’s expected contribution.

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The Financial Aid Process

As discussed above, the financial aid process is basically a hand-off from the prospective student to the institution and then back to the student. Therefore, we will present the information in the same manner.

Student Process, Part I

For graduate school students, the process of applying for financial aid can seem overwhelming, but it is actually fairly simple and straight forward (*understanding the award and making the right decisions is the tough part*). Part of the reason for the intimidation is certainly the sticker price of the various programs, but another factor is that most grad students are filling out a FAFSA for the first time, as their parents had to jump through those hoops prior to college. It is easiest to think of the financial aid process as separate from admissions, but concurrent and equally important. Deadlines should be placed on the calendar and prioritized the same way an admissions deadline would be, and checklists can be very valuable in keeping everything organized. Consider the following recommended steps:

Step 1 – Research important deadlines. Most candidates feel compelled to immediately fill out a FAFSA, but the best place to start is actually with the deadlines at various schools. It will guide the timeline and also provide key pieces of information, such as which schools have separate “in house” applications and where it might be necessary to apply for scholarships.

Step 2 – Fill out the FAFSA. Applying for federal aid is a mandatory part of the process. Not only will schools use any federal aid as the foundation for an admitted student’s award (*this is for a fairly obvious reason that we will state anyway: it’s not their money*), but as mentioned above, they will also use FAFSA data to establish “need” as it pertains to a student’s ability to pay for a graduate school education. Note that while it may seem unfair, the FAFSA will sometimes take into account parental income and potential support regardless of whether a student’s parents will indeed be helping to foot the bill. That said, it is not a completely arbitrary process and students can actually find out where they stand by filling out a “Dependency Worksheet” on the FAFSA website. Some of the factors that will lead to a verdict of “independent status” (*which means that parental data does not need to be included, nor will it be factored in*) include: age, married status, graduate work, and military experience.

From there, students simply fill out the FAFSA online and sign it electronically with a government-issued Personal Identification Number (PIN). The website has become very easy to use over the years and allows students to check their status, print signature pages, make corrections, and add and delete school codes.

Step 3 – Fill out institutional applications. Fill out any institutional financial aid applications and scholarship applications. This data should be available from the deadline research previously conducted, which is another reason for doing one’s homework on the front end.

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Institution Process

Once the FAFSA and any corresponding applications are submitted to the schools in question, the process is out of the student's hands until receipt of the award "letter" (which can often be an email or a link to an online system). The institution's part of the financial aid process follows these steps:

Step 1 – Determine the level of need. Once the school is in receipt of the FAFSA report and any supplemental applications, the office of financial assistance will determine the level of "need" for the student by first arriving at the student's "estimated family contribution" (often called an EFC). The EFC rarely looks realistic to a student, but is the accepted baseline for an award package. Important: the EFC will always be the first building block in determining who will pay for the education. Merit scholarships aside, no loan or grant will ever be added to an award package before the student's own contribution is accounted for. Again – and we can't stress this enough – loans and grants are layered on top of the EFC (see Figure 1.1).

Step 2 – Package federal loans. Once the school determines an EFC, they will begin building an award package to meet need by pooling any federal loans that a student qualifies for. Please note that when it comes to need-based financial aid, schools will always use federal loans as the first layer (after the expected student contribution, of course). Again, the graph serves as a visual aid, but it bears repeating: the EFC is always the first layer in the game of "who pays," and a federal loan package will always be the first piece of the resulting award package that tries to meet the need level.

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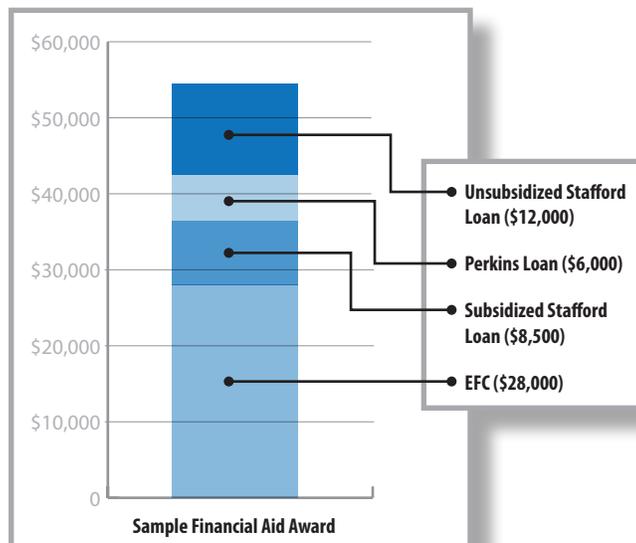


Fig. 1.1

Step 3 – Awarding of merit scholarships. This part of the timeline varies depending on the school, but at some point in creating the award package, the school will fold in the merit piece, if applicable. Merit awards are often determined by the admissions office either via separate application or – more likely – by identifying the elite members of the admitted class. Once the merit scholarships have been decided (both the recipients and the amounts), a list will be sent over to the financial aid office so that the amounts can be added to the financial aid award packages for the students in question.

Scholarships are the wild card when it comes to the financial aid award. Some schools will use the merit scholarship as the base of the award package, allowing it to offset or cut into the EFC. Others will keep the building blocks of the package (the EFC and the loans) in place and swap scholarships in for need-based grants. Obviously, the former outcome is far preferable to the latter, so students should read their award letters very carefully. (For everything that should be included in an award letter, see Figure 2.)



Step 4 – Awarding of need-based grants. The entire idea behind the financial aid process is for schools to discover how much need a student has so that they can meet this need. In theory, that is what happens. By taking the cost of attendance (COA) and subtracting the EFC, the school determines need (*see Step 1*). The first step taken toward meeting that need is to layer in all federal loans. The remaining amount is what the school can choose to cover through internal need-based grants. In many cases, at top schools, this is exactly what happens.

However, it is important to understand how this process works in practice. Most programs do not meet 100% of the need level for each student, so it becomes a one-sided negotiation within the institution’s enrollment management office. “How much need do we need to cover to get students to enroll?” That is the guiding question in higher education. Some schools decide they either can or must cover all of it. Most build in a “gap” in coverage – a set dollar amount that students must cover above and beyond their EFC. So if Veritas Business School sets a policy that every award will include a \$3,000 gap, the grant money allocated will bridge the difference between the “basics” (*EFC plus loans*) and the COA. Many graduate schools feature shockingly large gaps and in some cases, they simply do not award need-based grants, instead requiring students who do not receive scholarships to use private loans to cover the difference.

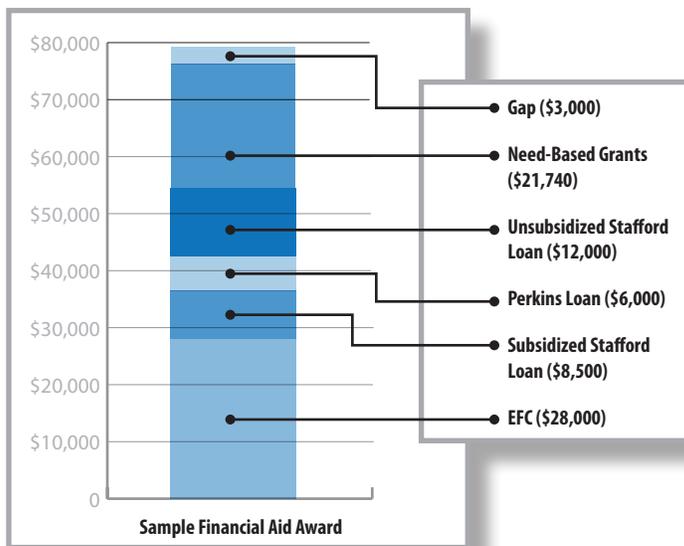


Fig. 1.2

Step 5 – Sending out the award letter. Once the various pieces are in place and the student is awarded some combination of scholarships (*if applicable*), loans, and grants, the school will send out an award letter informing the student of the financial aid available. Recently, more schools have moved to a secure online system within which students can access their award packages by using a password. Whatever the method of delivery, students can view all of the pieces that make up the loan package. Unlike colleges, most graduate schools will leave the gap and the EFC simply listed as an expected student contribution and will send additional information about private loans available at that institution. An automatic allocation of institutional loans is rare (*as is work study*) at the graduate level.

Fig. 2 What should be on your award letter:

- Cost of attendance (*including tuition, room and board, and other expenses*)
- EFC
- Need amount (*simply COA minus EFC*)
- Percentage of need met
- Nature of any grants or scholarships and where the “free” money is allocated
- Contact information for appeal letters seeking a reconsideration of the award

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Student Process, Part II

Step 1 – Understand the letter. Students are often so wrapped up in the euphoria of gaining admission to a top grad school – and so tired from the process – that they let down their guards when it comes to the financial aid package. Every student owes it to their future selves to ensure that the award letter is the best it can be and that it is understood properly. We will go into making sound economic decisions in a later section, but suffice it to say that a missed concept here or there can lead to tens of thousands of dollars of unexpected debt.

For everything that should be included in your award letter, see the table on the previous page. Once you are sure that everything has been done correctly and you understand exactly where various award types have been slotted into the package, you can move forward to the next step.

Step 2 – Engage the institution. It is our experience that applicants to elite grad schools will try to move mountains in an attempt to forge a relationship with a member of the admissions committee – and for good reason, as those individuals hold the key to your enrollment dreams. However, what is shocking is how rarely those same students reach out to the far more accessible counterparts in the financial aid office. The officers who prepare an aid package can be contacted either by phone or email, and in almost every case, a student will be assigned to a particular staff member to facilitate communication. While common courtesy and professionalism is always called for, students do not have to impress or “win over” the member of the financial aid staff ... they’ve already been accepted to the school! Financial aid officers can better explain an award package, help navigate tricky private loan applications, and even be a resource when attempting to restructure the award letter.

Step 3 – Learn the rules. If students are applying for outside scholarships, it is imperative to understand how such awards will be added to the overall package. Will they replace institutional merit awards or grants? Or will outside scholarships replace loans? Obviously, the latter is preferable, but every school is different. Furthermore, are there any stipulations or conditions on scholarships and fellowships? In some cases, a fellowship might require performance of a certain nature while in school (*involvement in a particular group, maintaining a minimum GPA, and so on*). Finally, students should find out how their award will progress in subsequent years. If there is one thing that is guaranteed about a multi-year graduate school experience, it is that tuition and costs will go up. Will the award go up as well?

Step 4 – Negotiate (*but never call it that*). There is no rule that says students must accept the award that they initially receive. While the word “negotiate” is frowned upon in the hallowed halls of academia, the principal of negotiation is alive and well. In some cases, financial assistance officers have the latitude to add a few dollars of grant money here or there and will be happy to do so for “their” assigned students. In other cases, the admissions office will take an active role in managing their enrollment, or “yield,” process by working with students who are on the fence and might need a more attractive financial aid package in order to pull the trigger.

The reasons rarely matter when it comes to seeking reconsideration of an award letter. Whether it is because another school offered a better package or simply because of one’s life situation, the guiding factors in whether the package is improved will largely be internal and specific to the school in question. Schools that build in a certain leeway and schools that are antsy about that year’s yield (*not to mention schools with huge endowments*) are the most likely to restructure the package.

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Tips and Suggestions

As mentioned above, students owe it to themselves to consider the true cost and the true reward of the educational opportunity before them. It has been said that borrowing money to pay for school is an “investment” and not debt, but try telling that to the loan services when they send out the monthly bill. Not only that, but the analysis is rarely about going back to school or not going, but rather about making the best possible choice. It may very well be the case that attending one’s dream school without the aid of scholarships or grants is the best decision, but it might also be true that a secondary opportunity starts to look a lot better when the calculator comes out.

In order to help students make the best possible choice, adhere to the following tips:

- Understand the true cost of the education. Pay very close attention to not only the current COA, but also the inflation rate at that school. Some universities are seeing tuition go up more rapidly than others, so it makes sense to project the cost for the following year (*or years*) as well as simply looking at the tuition and cost for the first year.
- Carefully calculate the ultimate balance on unsubsidized and private loans. \$100,000 in loans is a lot of money, but it is really a lot of money when the interest kicks in immediately and keeps accumulating for the life of a 10-year loan period. Students should make sure to work with the financial aid officers to figure out how much they will ultimately shell out by the time they finish making payments. Any differences in “free money” between school A and B will only become more exaggerated over time.
- Be willing to briefly consider the enrollment decision in purely financial terms. It sounds overly rigid to advise this, but considering how romantically and emotionally most students make their decisions, it will help balance things out to take a short period of time to consider this the way an accountant would.
- Avoid falling victim to the “drop in the bucket” mentality. Most grad students find the sticker price of graduate school so shockingly high that they sort of give up before they even get started. Not only does this lead to less-than-careful review of the award letter, lack of effort in contacting the financial aid officer, and a failure to appeal for reconsideration (*all points included above*), it can also lead to careless spending. A bigger or nicer apartment, a car payment, and a brand new (but probably unnecessary) laptop are all very common expenditures for grad students, and while the extra five or ten thousand dollars doesn’t seem like much next to a \$140,000 education, that extra spending will absolutely be paid for by the loans with the worst terms and highest interest rates. Those “drop in the bucket” items will ultimately cost the student twice as much down the road.
- Doggedly search for outside funding. More common among high school students with parents who see their life savings dwindling away, searching for outside scholarships is often something that slips past graduate school applicants. This is a mistake, as there are a variety of unique scholarships, fellowships, and writing competitions available for graduate students of all stripes. Most top grad programs feature a list of such resources on their websites and there are also both free and pay sites that collate these opportunities.
- Carefully review the financial aid opportunities at every school of interest. This sounds incredibly obvious, but most applicants do not perform a thorough search of each and every scholarship and fellowship offered at the schools to which they are applying. The reason this is so important is that students may actually qualify for something they aren’t even aware of. Whether it is something fairly well known like Teach For America arrangements or something more unique, students need to perform this simple step of due diligence.

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A Note for International Students

The previous sections of this financial guide are specific to “domestic” students to top U.S. grad schools – meaning U.S. citizens or permanent residents. International students are not eligible for federal loans and whether they are considered for scholarships, fellowships, and grants is a choice for each individual institution.

For those international students seeking financial assistance through private loans, there are two options:

1. Seeking private loans through banks and lending institutions in their home country. This is a terrible option for students from countries where inflation is rampant and interest rates can soar about 20% (*such as Argentina*).
2. Applying for a specific international student loan brokered and offered by the institution in question. One byproduct of the recent financial crisis is that many schools either temporarily or permanently saw their loan arrangements for international students fall apart. Most top programs have patched this hole and now offer some sort of institutional loan program, but international students should make this their first inquiry at any school of interest.

About Veritas Prep

Veritas Prep is the world’s fastest-growing test preparation and admissions consulting provider, offering industry-leading programs to help applicants improve their test scores and gain admission to the world’s best graduate schools. Founded in 2002 by graduates of the Yale School of Management, Veritas Prep now offers live GMAT prep instruction in more than 80 cities worldwide, as well as interactive online courses available everywhere. Additionally, Veritas Prep offers industry-leading admissions consulting services for applicants seeking admission to the most competitive business schools, law schools, and medical schools in the world.





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