

Understanding Financial Need

Many financial aid programs are based on financial need, but what exactly is "financial need"?

Some students and families assume they don't have financial need since they live a comfortable lifestyle. Actually, the amount of need depends on many factors, including not only income, but also the cost of each school and the number in your household who are enrolled in college at one time.

Financial need is determined by formulas that take into account student income, parental income for financially dependent students, savings, and the cost of attending a particular school. At its basic level, need is simply:

$$\begin{array}{r} \text{Cost of Attendance} \\ - \text{Expected Family Contribution} \\ \hline \text{Financial Need} \end{array}$$

So "Financial Need" equals the Cost of Attendance (COA) minus the Expected Family Contribution (EFC). The cost of attendance will vary by school, but the expected family contribution doesn't change. In other words, **the more expensive the school is, the greater the need for financial assistance.** To illustrate, using round numbers with a family whose Expected Family Contribution is \$12,000, take a look:

	Public 2YR	Public 4YR	Private 4YR
Cost	\$12,000	\$20,000	\$40,000
EFC	\$12,000	\$12,000	\$12,000
Need	\$ 0	\$ 8,000	\$28,000

If the student chose to attend the public two-year school, he or she would not qualify for any need-based aid since the amount the family should be able to contribute equals the total cost.

On the surface, it really is that simple. Of course, the reality is that coming up with the funds to meet the need is complex. First, let's talk about cost and expected family contribution.

The Cost of Attendance includes all the expenses involved in attending a particular school. These expenses include tuition, room and board, student fees, textbooks, supplies, transportation, and other costs, which vary per school.



Each school prepares a budget that takes into account all those costs.. Essentially, the budget is what an average student would spend for the year while living frugally.

The Expected Family Contribution (EFC) is, in theory, the amount your family can afford to pay for your college education. The dollar amount of the EFC is determined by a formula derived by Congress that takes into account your family income, savings, other assets, the size of the household, the number in the household attending college, among other factors. Calculation of your EFC uses information gathered on the financial aid application, and in some instances, through multiple applications. You can calculate your own family's EFC, or an approximation of it, by using online calculators.

Your financial need is what remains after subtracting the EFC from the cost of attending school - the higher the cost, the greater the need since the EFC does not change. The most important thing to understand here is that "financial need" is relative since the cost of attendance varies greatly from school to school. If your family needs help coming up with the EFC amount, private student loans or a Direct PLUS Loan for parents are options.

Never let a school's tuition discourage you from applying – the school with the higher tuition may actually even be less expensive than a lower cost school once you factor in an aid package.