Understanding The Different Types of Financial Aid

There are four basic types of financial aid:

1. Grants
2. Scholarships
3. Loans
4. Work study

And four basic sources of where that financial aid comes from:

1. Federal
2. State
3. Institutional
4. Private

All financial aid awards have a "type" and "source." For example, a Pell Grant is a grant (type) that is funded through the federal government (source).

Types of Aid

Grants

A grant is considered gift aid (i.e., money that does not need to be repaid). Grants are usually given to students based solely on a demonstration of financial need. For federal grants, students must submit a Free Application for Federal Student Aid (FAFSA) each academic year. For state grants, students must submit a New York State Tuition Assistance Program (TAP) application each year.

Scholarships

Scholarships are gift aid (i.e., money which does not need to be repaid). Scholarships are usually given to students based on some form of demonstrated merit (e.g., academic ability, community service involvement, particular talent). Scholarships often require that the student has financial need in addition to being meritorious. Scholarships typically require the student submitting additional applications to the organization(s) offering the scholarship.

Work Study

Work Study is simply a part-time job, often on campus, for which a student earns a paycheck. It is considered financial aid because the government is paying a portion of the paycheck and the student must demonstrate financial need to qualify. Students must submit a FAFSA to determine their eligibility for work study.

Loans

Loans are aid funds that are borrowed and must be repaid at a future date plus interest. Federal student loans are considered aid in part because the interest rates are subsidized by the federal government, and except for PLUS loans, a credit check is not required.

Sometimes a portion of a federal loan can be forgiven (i.e., not repaid) if a student goes into certain occupations or does full-time volunteer service upon graduation from school. Information about federal student loan forgiveness can be found here.

More information: Federal loans | What is a private loan? | Federal Versus Private Loans

Need-Based Aid
The financial need of a student is determined by the information provided on the FAFSA. Financial need is simply defined as the difference between the student's cost of attendance and the EFC (expected family contribution—the family's ability to pay towards the costs of attending college, as defined by the federal government).

- Cost of attendance
- EFC (expected family contribution)
- Need

Since a student's EFC is the same regardless of which school they attend, a student's need varies based on the cost of the school.

Sources of Aid

Federal Aid
The federal government offers grants, loans, and work-study. Eligibility for these aid programs is determined by the financial aid administrators at the college where a student chooses to attend and the student's FAFSA.

Eligibility for some aid programs will vary from school to school and is not transferable. Students must have a determination of eligibility done at each school that they are interested in attending.

New York State Aid
New York State offers grants and scholarships. Eligibility is determined by the Higher Education Services Corporation in Albany, not the school a student attends. The school does verify that the student is making satisfactory academic progress toward their degree and is enrolled for the required number of credit hours.

Other states also have grant programs. Some states allow their students to use the grants to attend colleges that are out of state.

Institutional Aid
Most colleges and universities have grant and scholarship funds that they give to their students and some have work programs outside of the federal work program. Others even have loan programs. Students should contact each individual school that they are interested in attending to see what additional aid programs they offer and what they must do to qualify for the aid.

Private Aid
Private organizations offer scholarships and sometimes forgivable loans. The pool of applicants can be quite limited as it might be for a local church or civic organization, or very large such as with the Gates Scholarship available to minority students nationwide. It's best to look for scholarships locally first as the competition is less, and then to investigate national scholarship programs.