FINANCIAL AID

A Guide for Community College Leaders

By Mark Wiederspan

With Carrie Warick-Smith, Genesis Santiago, Jonathan Elkin,
Anna Zardarian, and Rachel Fryer

Second Edition



ACCT
ASSOCIATION OF
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About the Association of Community College Trustees:

The Association of Community College Trustees (ACCT) is a non-profit educational organization of governing boards, representing more than 6,500 elected and appointed trustees who govern over 1,000 community, technical, and junior colleges in the United States and beyond.

These community professionals, business officials, public policy leaders, and leading citizens offer their time and talent to serve on the governing boards of this century's most innovative higher education institutions-community, junior, and technical colleges-and make decisions that affect more than 1,200 colleges and over 13 million students annually.

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FROM THE PRESIDENT

Financial aid promotes and supports students' access to and success in higher education. This is especially true at community colleges. Whether our students are seeking job training, a certificate, or an associate degree, many rely on consistent and meaningful sources of financial support to advance their educational aspirations. Without these resources, community colleges would be fundamentally unable to fulfill their open-access missions.

It is important for community college leaders to understand the processes by which students apply for financial aid and the design of aid programs, which have changed dramatically over the past three decades. With the complexities that have resulted from all these changes, it can be very confusing for anyone to understand how financial aid works. This guide is designed to help community college trustees understand the broad structure and design of the financial aid system in the United States. While reading the guide in its entirety will provide a thorough understanding of financial aid, I recommend that you keep it on hand and use it as a regular reference to support your governance goals.

The operation, administration, and oversight of financial aid programs intersect across many levels at a community college and have significant impact on staff responsibilities, institutional finances, enrollment levels, and student outcomes. The policies, practices, and procedures from college to college are highly diverse. Trustees are responsible for many board governance decisions that relate to financial aid. A key role of trustees and college leaders is to serve as advocates for critical financial aid programs at the federal and state levels.

At both the state and federal levels, policymakers continually discuss and pass legislation that modifies student aid programs with the intent to support students' abilities to enroll, persist, and complete their postsecondary educations. Trustees and college leaders must serve as effective advocates for financial aid with federal and state policymakers to protect these investments and expand access to students in need.

The information provided in this guide will assist you in being better informed when advocating for community colleges and financial aid to both state and federal policymakers throughout the year and at the annual Community College National Legislative Summit in Washington, D.C. Trustees and other college leaders are welcome to share electronic and printed copies of this publication widely with policymakers or their staffs who may benefit from understanding the unique ways by which community colleges and their students use financial aid.

When meeting with policymakers and their staff about financial aid, it is also very helpful to have the following information on hand to share as well:

- The total amount of Pell Grant funding received by your institution, as well as the total number of students who receive Pell Grants.
- Whether your institution participates in the Federal Direct Loan program.
- The percentage of students who take out federal loans and your institution's recent official Cohort Default Rates (CDRs).
- The types and number of work-study positions available at your college, as well as the funding available for these positions.
- What state or institutional aid may be available to supplement federal aid to students in need.
- Programs, practices, and resources to encourage and assist students in claiming federal tax credits or deductions for which they are eligible.

ACCT encourages trustees to know this information to better understand their respective institutions and the students they serve as well as to be informed advocates at the federal level.

Along with ACCT's many other public policy-related resources, we hope trustees and presidents find this to be a useful tool to fulfill your important governance responsibilities. Contact our public policy and advocacy team at publicpolicy@acct.org if you have any questions or need any further information. Thank you for your service to the community college mission of open access to high-quality higher education for all people.

Jee Hang Lee
President & CEO
ACCT

FINANCIAL AID'S ROLE IN PAYING FOR COLLEGE

Financial aid plays an important role in making a college education more accessible and affordable for students. It helps bridge the gap between what students and their families can afford to pay and the actual cost of attending college.[1] By providing grants, scholarships, loans, and work-study opportunities, financial aid enables students to pursue their academic aspirations without being overwhelmed by the financial burden. This assistance not only opens doors to education for individuals who might not otherwise have the means to attend college but also contributes to meeting the demand for a more educated and skilled workforce. This section explains financial aid's role in lowering tuition prices, the types of financial aid, how students apply for aid, and how aid is packaged and offered to students.

Cost of Attendance and Tuition and Fees

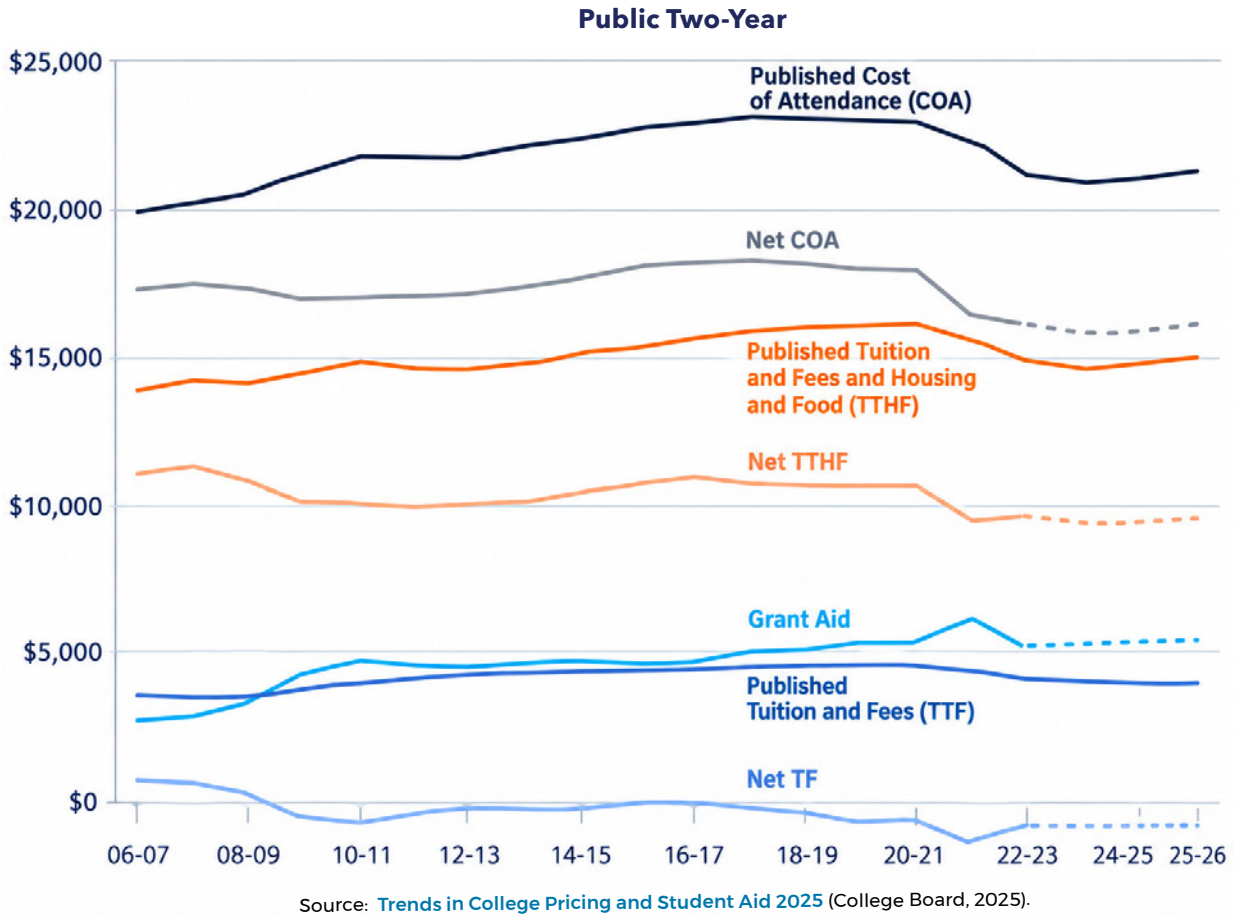
Community college prices can vary widely depending on factors such as location, state and local funding, and institutional policies. Historically, community colleges have been more affordable than public or private four-year institutions, making higher education accessible to a broader range of students. According to the College Board's Trends in College Pricing and Student Aid 2025 report, the average published tuition and fees for public two-year colleges are approximately $4,150 per year for in-district students. These published prices for tuition and fees could be less once grants, scholarships, and other financial aid are applied.

However, the true cost is usually much higher given the full "cost of attendance" is determined by the institution and reflects all the expenses that a student can expect to pay during the academic year, including tuition and fees, room and board (for living on or off campus), books, supplies, transportation, and personal expenses, such as childcare. The cost of attendance is not always the same for each student. Rather, students have a different cost of attendance that is based on multiple factors, such as academic major or personal living situation. Financial aid operates to reduce this individual cost of attendance. What students pay after the application of non-repayable financial aid, such as grants and scholarships, is known as "net price."

Figure 1 demonstrates financial aid's role in lowering community college prices. The solid lines reflect the average published cost of attendance and tuition and fees, while the dashed lines reflect the net price after grant aid is applied. Other forms of aid, such as student loans or work-study, are not represented in this graph. Over time, tuition and fees at community colleges have remained relatively stable. As a result, grant aid has continued to offset a substantial portion of these direct educational expenses for many students. Growth in college expenses has largely been driven by living costs associated with attending college, including housing, food, transportation, and other personal expenses.

1 "Costs" and "prices" are terms often used interchangeably when discussing financial aid, but they have distinct definitions in higher education. Costs refer to the actual expenses incurred by the college to provide an education, whereas prices are the amounts that students and their families pay. In this guide, the focus is on students and families, not postsecondary institutions. Therefore, the terms costs and prices may be used synonymously in reference to students' ability to pay.

Figure 1: Published vs Net Price at Community Colleges



Source: Trends in College Pricing and Student Aid 2025 (College Board, 2025).

Types of Financial Aid

Financial aid can be provided to students in a variety of ways, and eligibility for them can be based on students' financial need or merit. "Need-based" financial aid is based on the student's ability to pay for college, as determined by factors such as income and family size. "Merit-based" financial aid, on the other hand, is awarded based on individual talents or achievements be it academic, athletic, leadership, or artistic. Traditionally, financial aid can be classified into three categories, which are highlighted below but discussed in more detail later in this guide.

Scholarships and grants are forms of financial aid that do not need to be repaid. They can come from a variety of sources, such as the federal and state government, local and private organizations, and postsecondary institutions themselves. Typically, grants are identified as need-based, whereas scholarships are merit-based but may also include a need-based component.

Student loans are a form of aid in which they need to be repaid with interest. They can be obtained from federal, state, or private sources. Depending on the source and type, loans can be either need- or non-need based.

Work-study provides students with the opportunity to work part-time while attending college and gain valuable work experience. Work-study is typically need-based and predominantly funded by the federal government, but some state governments may also provide funding.

Scholarships and grants, student loans, and work-study make up the bulk of financial aid that is provided directly to students for helping them cover their college expenses. There are other forms of aid that provide financial support. Students can take advantage of education tax credits or deductions, and some may be able to access other public benefits, such as Supplemental Nutrition Assistance Program (SNAP) or Temporary Assistance for Needy Families (TANF).

Community college students earned an average of $4,740 in grant aid, including 63 percent from the federal government, 26 percent state aid, and 11 percent institutional aid in 2022-23.

At community colleges, about 32 percent of students receive Pell Grants and 13 percent receive student loans. 45 percent of students receive state aid, and 23 percent of students receive institutional aid. (Department of Education: **Community College Facts at a Glance**; College Board: ***Trends in College Pricing 2025***)

Federal Financial Aid Programs

Compared to their peers at four-year public and private colleges, community college students are generally less likely to receive, or have access to, state grants or institutional aid due to limited resources and eligibility requirements.[2] This means that federal aid — and particularly federal grants — are especially important for community colleges and students.

The most common financial aid programs used at community colleges are often referred to as "Title IV" aid, which refers to Title IV of the Higher Education Act of 1965 (HEA). These funds are administered by the U.S. Department of Education's (ED) Office of Federal Student Aid (FSA) and are intended to assist students in covering the price of tuition, fees, books, and living expenses while enrolled in college. Other forms of financial aid, such as tax credits and military benefits, are provided by the federal government but are not overseen by ED or covered under HEA. Later sections of this guide provide more details about each of these federal programs.

2 **Trends in College Pricing and Student Aid 2025** (College Board, 2025).

Federal financial aid programs include:

- Title IV aid
  - Federal Grants
    > Federal Pell Grants
    > Federal Supplemental Educational Opportunity Grant
  - Federal Student Loans
    > Direct Subsidized & Unsubsidized Loans
  - Direct PLUS Loans (Parent PLUS and Graduate PLUS) Federal Work-Study (FWS)
- Federal tax credits
  - American Opportunity Tax Credit (AOTC)
  - Lifetime Learning Credit
- Federal Aid for Veterans, Military-Connected, and Public Safety-Connected Students
  - Post 9-11 GI Bill
  - Montgomery GI Bill
  - Survivors' and Dependents' Education Assistance (DEA)
  - Department of Defense Tuition Assistance

Applying for Financial Aid

Students apply for all federal aid programs by completing the Free Application for Federal Student Aid (FAFSA) online at https://studentaid.gov/h/apply-for-aid/fafsa or by mailing in a paper application. Students and parents of dependent students need a StudentAid.gov account, which consists of an account username and password that is used to gain access to the FAFSA. Students must also apply annually for each "award year" for which they are requesting federal aid.

Many state and institutional aid programs also require the FAFSA to determine eligibility. However, some states or colleges may require additional information and applications for nonfederal aid. These supplementary applications may ask students to provide demographic or financial details not included in the FAFSA. Some states also have separate aid applications for students who are not allowed to complete the FAFSA and apply for federal aid, such as undocumented students who are identified under the DACA program or Temporary Protected Status. To determine if your state or institution requires a separate application for a specific financial aid program, contact your institution's financial aid office.

The FAFSA collects basic identifying information such as name, Social Security or taxpayer ID number, date of birth, and contact information, as well as financial information including income and assets relating to cash, savings, or investments. Students also need to list the schools to which they want their FAFSA sent. Congress requires ED to post the FAFSA by October 1 for the following academic year, and the application requires federal income tax data from two years prior. Anyone wishing to file a FAFSA must provide consent and approval to have their federal tax information automatically imported into the form directly from the IRS.

As determined by answers to FAFSA questions about family circumstances, a student can be classified as either a dependent, independent without dependents, or independent with dependents. This classification determines the information that needs to be reported on the FAFSA and the formula used to calculate a student's eligibility for financial aid. Typically, a student is independent if they are one of the following: at least 24 years of age, married, a graduate or professional student, a veteran, an active-duty service member, an orphan, a ward of the court, or have dependents other than a spouse. Dependent students need their parents to report their income and asset related information. Because independent students do not have to report their parents' financial information, they often qualify for more aid because their eligibility is based solely on their own income and assets (and those of their spouse, if married).

Many community college students are adult or returning students and qualify as independent. According to ACCT, the average age of community college students is 27, 23% are parents, and 4% are veterans.

After a student completes and submits a FAFSA, the information is processed through ED's FAFSA Processing System (FPS), which uses a formula to calculate the student's Student Aid Index (SAI).[3] Students know their SAI when they receive the FAFSA Submission Summary (FSS). The SAI is not the dollar amount of aid a student will receive. Instead, the SAI is used in a formula to determine how much federal aid a student can receive. The SAI can also serve as an indicator to determine which students will have higher financial need than others, as the minimum value of the SAI can be -1,500 (high financial need) and the maximum value is 999,999 (low financial need).

Qualifications for Financial Aid

To be eligible for need-based federal financial aid, a student must complete the FAFSA, be a U.S. citizen or eligible noncitizen, and be enrolled in an eligible degree or certificate program at an eligible postsecondary institution. Additional eligibility requirements may apply in certain situations for students who are non-U.S. citizens, have criminal convictions, or have intellectual disabilities. More information about these certain eligibility requirements is available on ED's website, at **financialaidtoolkit.ed.gov**, or through your institution's financial aid office.

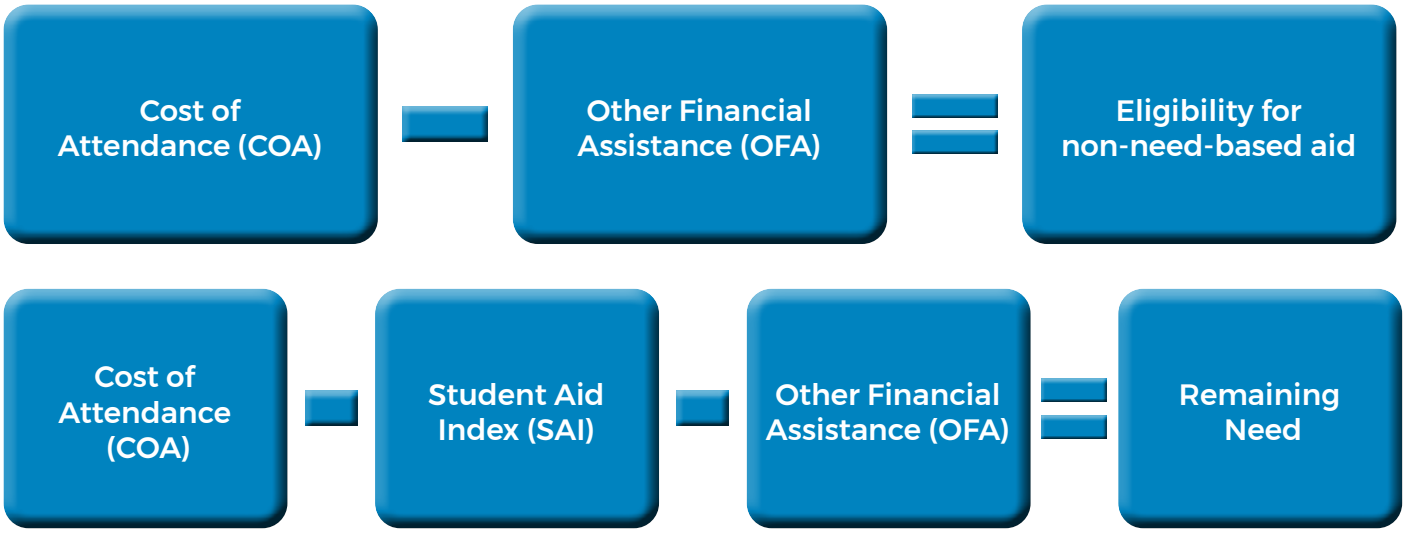
3 Prior to 2024-25, the FAFSA calculated a measure called the "Expected Family Contribution" or EFC. While SAI and EFC function in a similar manner, the calculation to determine SAI is slightly different.

Determination of Financial Aid Packages

After the FAFSA is processed by FPS, an Institutional Student Information Record (ISIR) is sent to the institution(s) the student indicated on the FAFSA. Financial aid administrators use the information from the ISIR to identify students' aid eligibility, and they use a need analysis formula to develop a financial aid package. This section briefly explains how these financial aid packages are developed. In the *Understanding Grants and Scholarships* and *Understanding Student Loans* sections of this guide, there is a more in-depth explanation of how award amounts under those aid programs are calculated.

In general, the need analysis that aid administrators use is demonstrated in **Figure 2**. The formula involves subtracting a student's Student Aid Index from the institution's "cost of attendance," resulting in the remaining amount known as "financial need." The lower a student's SAI, the higher amount of financial need there will be, and this allows for higher amounts of financial aid a student can receive. While a student's SAI can be negative (such as -1,500), a student's SAI cannot be less than 0 in the need analysis formula.[4] These "zero SAI" students and families are regarded as having the highest amount of financial need.

Figure 2: Financial Need Formula



After a student's financial need is determined, aid administrators identify the appropriate amount of federal financial aid (grants or loans), state financial aid, institutional grants, scholarships, and student loans to help cover a student's financial need. If a student is eligible, the Pell Grant is typically applied first to their financial aid package before any other forms of financial aid. This means that the Pell Grant is awarded as "first dollar," referring to its order in the financial aid awarding process. However, in some instances, state and institutional financial aid programs can also be designed to be "first dollar" and applied to the financial aid package before the Pell Grant. Conversely, it is very common for some financial aid programs to be designed such that awards are provided as "last dollar," which means that awards are applied to the financial aid package after the inclusion of other non-repayable aid. Student loans, for example, are awarded as last dollar. Many states also have a last-dollar program that covers the remaining amount of tuition and fees after the application of federal and state grant awards.

4 *FAFSA Simplification Act Changes for implementation in 2024-25 | Knowledge Center*. (2023, August 4). https://fsapartners.ed.gov/knowledge-center/library/dear-colleague-letters/2023-08-04/fafsa-simplification-act-changes-implementation-2024-25

The goal of all financial aid administrators is to develop a financial aid package that helps meet as much of a student's demonstrated financial need as possible, based on available funding and program rules. If the package, which can include grants and scholarships, does not cover the student's financial need, the remaining portion of need is referred to as "unmet need." Students and families would be responsible for covering this portion of the costs. Students can seek additional sources of funding, such as student loans, to cover this remaining amount. However, high levels of unmet need can have a negative impact on students' educational decisions and progress toward degree completion, including working more hours, changing courseload, taking on more debt, and facing higher degrees of food and housing insecurity.[5]

Students learn of their financial aid package through an aid offer provided by the institution. Upon receiving their aid offer, students have a few decisions to make. First, they need to determine how much money they need to cover their expenses after grants and scholarships have been applied. If they have remaining expenses, they may choose to cover the rest using student loans offered or by working to meet their expenses. Students also need to decide if they plan to attend college full-time or part-time, as the amount of aid for some aid programs is contingent on students' enrollment intensity. Once students have accepted their financial aid offer and enrolled, financial aid administrators can apply student aid to their institutional account.

Financial Aid Packaging Examples

EXAMPLE 1		
4,500	Tuition & Fees	Anna is a dependent, first-year student attending a local community college full-time. The institution's total cost of attendance is $12,500, which is the sticker price that includes $4,500 for tuition and fees and $8,000 to cover other expenses such as her books and supplies, room and board, transportation, and personal expenses.
+ 8,000	Other Expenses	
12,500	Cost of Attendance	
7,400	Approx. Maximum Pell Grant	Anna has a $3,000 SAI. Pell Grant eligibility is based on the maximum award minus the SAI, and then adjusted for enrollment level if the student is not full-time.
- 3,000	Student Aid Index	
4,400	Pell Grant Award	
12,500	Cost of Attendance	Anna qualifies for a $4,400 Pell Grant, $2,000 in state financial aid, and $1,500 in institutional aid. The total amount of need-based grants and scholarships in Anna's aid package is $7,900. This amount is enough to cover the tuition and fees due to the school ($4,500) and provide her with $3,400 towards expenses such as course materials, cost of living, and transportation. It is estimated that she will have another $4,600 in costs. Anna could choose to take out a federal loan to cover some or all of these additional costs.
- 4,400	Pell Grant	
- 2,000	State aid	
- 1,500	Institutional aid	
4,600	Cost of attendance remaining	

5 Goldrick-Rab, S. (2016). *Paying the price. [Book.] University of Chicago Press; Vargas, M., & Dancy, K. (2023, Aug. 16). College affordability still out of reach for students with lowest incomes, students of color.* Institute for Higher Education Policy (IHEP). Retrieved from https://www.ihep.org/college-affordability-still-out-of-reach-for-students-with-lowest-incomes-students-of-color/.

EXAMPLE 2		
5,000 + 10,000 15,000	Tuition & Fees Other Expenses Cost of Attendance	John is an independent, second-year student attending a local community college full-time. The institution's total cost of attendance is $15,000, which is the sticker price that includes $5,000 for tuition and fees and $10,000 to cover other expenses such as his books and supplies, room and board, transportation, and personal expenses.
15,000 - 0 15,000	Cost of Attendance Student Aid Index Financial Need	John has a 0 SAI, which indicates that he has high financial need. His total financial need is $15,000.
15,000 - 7,400 - 2,000 - 500 5,100	Financial Need Pell Grant State aid Institutional aid Unmet need	Because John has a 0 SAI, he is automatically eligible to receive the maximum Pell award for the year, which is approximated at $7,400 for this example. John is eligible for $2,000 in state financial aid and $500 in institutional aid. The total amount of need-based aid is $9,900, which means there is $5,100 remaining in financial need.
15,000 - 7,400 - 2,000 - 500 - 4,500 - 600 0	Financial Need Pell Grant State aid Institutional aid Subsidized student loan Unsubsidized student loan Unmet need	Because John is a second-year independent student, he is eligible for up to $10,500 in federal student loans to cover the remaining unmet need. The financial aid administrator offers John a $4,500 subsidized loan and a $605 unsubsidized loan, reducing his unmet need to 0.

UNDERSTANDING GRANTS AND SCHOLARSHIPS

Grants are a critical source of financial aid support to promote college access and success. Unlike loans, grants do not need to be repaid, making them a vital resource for low-income students to pursue their academic and career goals without the worry of excessive student loan debt. Grants can come from a variety of sources, including federal and state governments, postsecondary institutions, and private organizations. This section describes the eligibility requirements and award amounts for grants provided by the federal government and provides a brief illustration of state funding of financial aid programs available to community college students.

Pell Grant

The Pell Grant is the nation's largest funded higher education grant program. The grant has features of a federal entitlement program in that if a student is eligible for federal student aid, the federal government and institution disperse that aid to the student. In other words, this is not a program in which recipients get aid until money runs out. Instead, qualifying students all receive aid. The Pell grant also functions like a voucher for students, as the award is portable and can be used at any accredited institution that participates in Title IV programs. The maximum award for the Pell Grant is determined through Congressional appropriations and set annually by ED. Students cannot receive a Pell Grant award amount that exceeds the school's cost of attendance.

Pell Grant eligibility and award amounts are based on either federal poverty guidelines or a student's SAI, and are adjusted according to enrollment intensity. Students who have a household head's income below certain federal poverty thresholds or an SAI at or below zero are eligible to receive the maximum Pell award. Dependent students whose parents were not required to file a federal income tax return, or independents not required to file, are also eligible to receive the maximum Pell Grant award. For students whose household heads' income is above the poverty guidelines and have an SAI greater than zero, their award is calculated by subtracting their SAI from the maximum award set by ED. For example, if the Pell maximum for the year is $7,500 and the student's SAI is $2,000, the student's scheduled award amount for the academic year would be $5,500. If a student's SAI is twice the maximum Pell Grant or higher, the student is ineligible for Pell Grants.

Students can only receive Pell Grants for 12 total semesters of full-time enrollment (roughly six years), known as the Lifetime Eligibility Used (LEU). In the instance that a student uses all the scheduled Pell Grant amount for the fall and spring semesters, they still have access to use a Pell Grant to cover educational expenses over the summer term. This is known as Year-Round Pell and offers students support to progress toward degree completion faster and with more financial security.

Beginning in the 2026-27 academic year, if a student is awarded non-federal grant or scholarship aid totaling the entire cost of attendance (such as an athletic "full ride" scholarship from their institution), they do not receive the Pell Grant.

Workforce Pell Grants

Congress passed legislation in 2025 to expand Pell Grants for certain short-term programs. Previously, Pell Grants could only be used for programs with a minimum length of 15 weeks or 600 clock hours. Workforce Pell Grants now allow low-income students to receive Pell for approved, high-quality programs of 8-14 weeks and 150–599 clock hours. To receive approval, the Workforce Pell Grant programs must be aligned with in-demand jobs, be in operation for at least one year, have at least a 70 percent completion rate, have at least a 70 percent job placement rate, have a value-added earnings rate of 150% of the poverty line, and be approved by the governor. The amount of Pell dollars students receive via this use of the Pell Grant will be adjusted for both the length of the program and the level of need.

In the case of a student who qualifies for the maximum Pell award of $7,395 in an academic year, such a student enrolling in a Workforce Pell program would receive a prorated Pell award based on the weeks of instruction or clock hours of the program, whichever amounts to less. As *Table 1* describes, if the institution defines full-time as 900 clock hours over 26 weeks and its Workforce Pell program is 375 clock hours over 11 weeks, the student would qualify for the maximum amount of $3,081.25, the lesser of the two prorated amounts.

Table 1: Example of Maximum Pell Grant Award for a Workforce Pell Student

	Full Time Defined by the College as 900 Clock Hours	Full Time Defined by the College as 26 Weeks of Instruction	Workforce Pell Program of 375 Clock Hours	Workforce Pell Program of 11-Weeks
Pell Award	$7,395	$7,395	(375/900) * $7,395 = **$3,081.25**	(11/26) * $7,395 = $3,128.65

The Congressional Budget Office has estimated Workforce Pell Grants will cost less than one percent of total Pell Grant spending.

History and Growth of the Pell Grant

The Federal Pell Grant began in 1972 as the Basic Eligibility Opportunity Grant (BEOG) and was later renamed in 1980 after Senator Claiborne Pell, who was among the chief legislative champions of the program. More than 50 years later, the Pell Grant program continues to receive bipartisan support and is widely viewed as tremendously important in sending more low- and middle-income students to college.

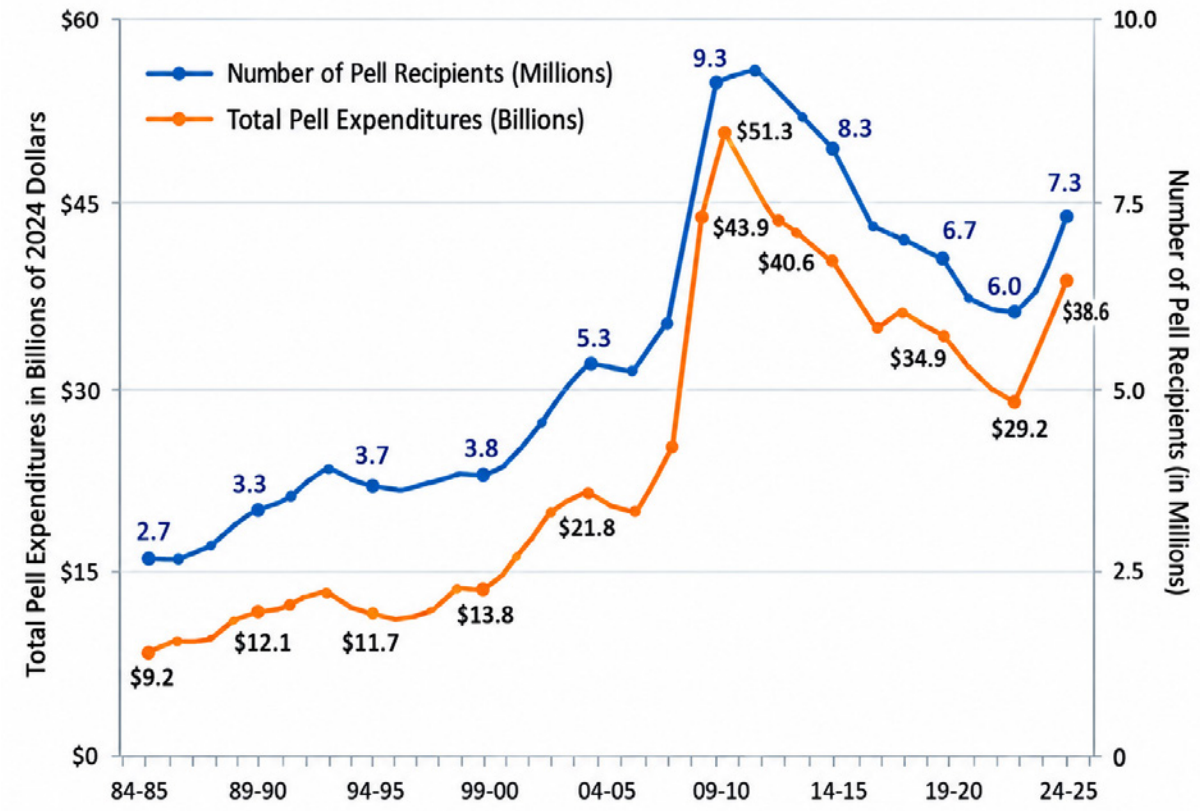
At its inception, the Pell Grant was designed primarily for low-income high school graduates to attend traditional four-year degree programs. Over time, the Pell Grant expanded to include adult learners, middle-income students, and other institutional sectors. Today, the Pell Grant is provided to over 7 million students annually. Roughly 25 percent of Pell Grant recipients attend a two-year public institution, and over 50 percent of those community college recipients are independent students.[6]

Pell Grant program expenditures increased over 100% between the 2000–01 and 2021–22 academic years (see **Figure 3**). The most significant growth occurred between 2008–09 and 2009–10, a time in which college enrollment increased because of the downturn in the economy. At that time, Congress directed more funding toward the Pell Grant to provide an increase in the maximum award and expand eligibility. Over time, Congress rolled back some of these funding expansions. As result, fewer individuals became eligible for a Pell Grant, and, after adjusting for inflation, the Pell Grant maximum for 2021–22 was at the same level as the maximum for 2011–12.

6 U.S. Department of Education (2023). *Pell end-of-year report: 2021-2022.* Retrieved from https://studentaid.gov/data-center/student/title-iv.

Congress's bipartisan FAFSA Simplification Act of 2020 altered the Pell Grant eligibility requirements and formula to determine awards, which allowed for expanded access to the Pell Grant. Starting with the 2023–24 academic year, students incarcerated in federal and state penitentiaries can receive a Pell Grant. Starting with the 2024–25 academic year, Pell Grant eligibility and awards will take into consideration family size and household heads' income in relation to federal poverty levels. In addition, FAFSA simplification reduced the time to complete FAFSA to as little as 15 minutes, increasing the number of applicants and awards. Research examining these Pell Grant changes has suggested that a large share of students will experience an increase in their Pell Grant eligibility and award amounts.[7] This suggests that fundings levels and the number of recipients represented in Figure 3 are likely to change over time. More up to date information on Pell Grant trends are available at https://studentaid.gov/data-center/student.

Figure 3: Pell Grant Expenditures and Number of Recipients, 1984-85 to 2024-25



Source: *Trends in College Pricing and Student Aid 2025* (College Board, 2025).

Federal Supplemental Educational Opportunity Grant

The Federal Supplemental Educational Opportunity Grant (FSEOG or SEOG) program is a relatively small program administered directly by financial aid offices at institutions participating in Title IV programs. FSEOG is a federal grant, but is referred to as a "campus-based" aid program because ED provides institutions a certain amount of FSEOG funds for the year, and once these funds have been awarded to students, no more FSEOG awards can be made. Unlike Pell Grants that follow the student to the institution, FSEOG is not portable, and is limited to the institution providing the award. FSEOG funding is intended to support low-income students, and institutions typically require that recipients also meet Pell Grant requirements. Students can receive between $100 and $4,000 a year depending on financial need, other sources of available aid, and overall FSEOG funding availability at the institution.

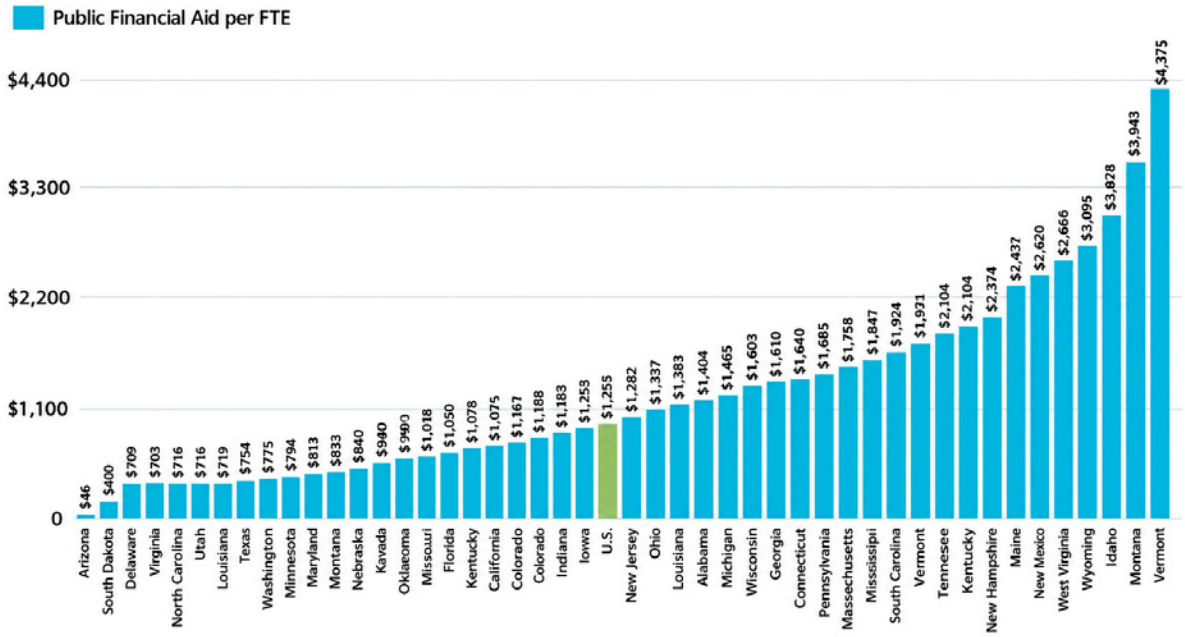
7 Burns, R. (2023). *National and state impacts of FAFSA simplification. SHEEO. Retrieved from* https://sheeo.org/wp-content/uploads/2023/10/ImpactsofFAFSASimplification.pdf.

Postsecondary institutions receive FSEOG funding through a federal formula that takes into consideration funding from previous allocations.[8] This means that institutions that received more FSEOG funding in the past will be more likely to receive higher allocations in the future. Over time, this formula has favored private and public four-year institutions more than community colleges, resulting in community colleges receiving less FSEOG funding.

State and Institutional Grants and Scholarships

Grants and scholarships are provided at the state and local levels. The eligibility requirements for these programs can be either need- or merit-based, and as discussed previously, may require students to complete an aid application that is different from the FAFSA. The award amounts for these types of grants will also vary. At the state level, some states fund financial aid programs for community colleges at higher levels than others**. Figure 4** below demonstrates the variation in financial aid funding per student specific to community colleges for the 2021–22 academic year. At the national level, the average grant amount for full-time community college students was approximately $562. Arizona had the lowest funding per community college student at $7, while Tennessee had the highest at roughly $4,000 per student due to the TN Promise, the state's tuition- and fee-free community and technical college program.

Figure 4: Public Higher Education State Financial Aid per FTE by State at Two-Year Institutions, FY 2025 (Adjusted)



Source: SHEEO (2026). *State higher education finance: FY 2025*. Notes: Alaska and District of Columbia are excluded from the graph, as financial aid funding specific to community colleges was not available.

8 Foundation, J. H.. (2017). *The campus-based financial aid programs: Background and issues.* Congressional Research Service. . Retrieved from https://crsreports.congress.gov/product/pdf/R/R45024/3

UNDERSTANDING STUDENT LOANS

Student loans have become one of the most popular forms of financial aid to assist with educational expenses. Federal student loans are offered to students through the Direct Loan Program (DL), in which the U.S. Department of Education (ED) acts as the lender of the loan. Students and parents can borrow loans through a private lender, but the terms and interest rates of these loans are different than loans offered by the federal government. This section describes the different types of loans students can borrow, the management and repayment of these loans, and the consequences associated with not making loan payments.

Student Loan Types

Direct Subsidized and Unsubsidized Loans

ED provides both Direct Subsidized and Unsubsidized loans to undergraduate students. Subsidized loans are made based on student financial need. The interest on subsidized loans does not accrue while borrowers are enrolled at least half-time in college, during a six-month grace period after they leave college, and for authorized periods of deferment. Unsubsidized loans do not consider financial need as an eligibility factor, and interest accrues through the life of the loan, which could accrue while the student is enrolled in college. However, the borrower may choose to pay the interest while enrolled or allow the interest to be capitalized (added to the loan principal) when the loan enters repayment.

The interest rates for both subsidized and unsubsidized loans are set through a statutory formula that is tied to Treasury securities and cannot exceed 8.25%. These rates are adjusted annually for new loans. Once a borrower receives a loan during an academic year, the interest rate remains fixed for the life of that loan. For the 2026–27 academic year, the interest rate for undergraduate subsidized and unsubsidized loans was 6.52%.

Students cannot borrow more than their cost of attendance, and there are annual and aggregate limits on the subsidized and unsubsidized loan amounts that students can borrow, which vary according to a student's year in college and dependency status. **Table 1** displays the current loan limits. These limits are set through legislative action, and the last time Congress changed these loans' limits was in 2025.

Independent students are permitted to borrow higher unsubsidized loan amounts than their dependent peers. For example, dependent students may borrow up to $5,500 in their first year, but no more than $3,500 of the $5,500 can be subsidized. Whereas independent students can borrow up to $9,500 in their first year, with no more than $3,500 being subsidized. The total amount that students can borrow is $31,000 for dependents and $57,500 for independents, but neither can borrow more than $23,000 in subsidized loans.

Starting with the 2026-26 academic year, there is a requirement for institutions to adjust the annual loan limit for students enrolled less than full-time. Students are not required to accept the full amount of loans offered to them. They can choose to borrow less, or decline the loans altogether. Regardless of the amount repaid, forgiven, canceled, or discharged, all students have a lifetime maximum of up to $257,500 for all federal student loans. Community college aid administrators work with students to ensure they borrow only what is necessary to cover educational expenses.

Table 1: Annual and Aggregate Loan Limits for Direct Subsidized and Unsubsidized Loans

	Dependent Students		Independent Students	
	Subsidized	**Total Subsidized & Unsubsidized**	**Subsidized**	**Total Subsidized & Unsubsidized**
1st year	3,500	5,500	3,500	9,500
2nd year	4,500	6,500	4,500	10,500
3rd year and beyond	5,500	7,500	5,500	12,500
Aggregate	23,000	31,000	23,000	57,500

Direct PLUS Loans

PLUS loans are federal loans that parents of dependent undergraduate students can use to help pay for education expenses.[9] Generally, students and families resort to parent PLUS loans if they have already exhausted their normal Direct subsidized & unsubsidized loan limits. For a parent to borrow a PLUS loan, the student must complete a FAFSA; there is no requirement that the parent complete a separate FAFSA or application, however the parent will be asked to fill out a loan application on studentaid.gov. This application process is in addition to potentially submitting a separate application with the student's institution. If approved, funds will go towards the student's tuition, room, and board, and any remaining funds would be refunded to the parent borrower. Unlike Direct subsidized and unsubsidized loans, a PLUS loan for parents does require a credit check. Individuals who have an adverse credit history will likely not be approved to borrow a PLUS loan. For each dependent, parents may borrow up to $20,000 a year, with a maximum aggregate amount of $65,000 per dependent. The interest rates for PLUS loans are calculated through a statutory formula, are fixed (like subsidized and unsubsidized loans), and cannot exceed 10.5%. The interest rate for PLUS loans for the 2026–27 academic year was 9.07%. Beginning July 1, 2026, Graduate student PLUS loans are eliminated.

For a program of study, institutions of higher education have the latitude of lowering the Direct Loan borrowing limits for undergraduate borrowers and parents borrowing on behalf of their dependents, as long as the limit applies to all students in such program. In June 2026, the Department of Education issued guidance stating that institutions can use their discretion of lowering borrowing limits for programs associated with lower earnings or high loan delinquency and default rates.[10]

9 Graduate students can also borrow under the PLUS loan program, also referred to as GRAD PLUS. Parents borrowing under PLUS is then referred to as Parent PLUS.

10 *Federal Student Aid. (June 26, 2026)* https://fsapartners.ed.gov/knowledge-center/library/dear-colleague-letters/2026-06-26/implementing-new-institutional-authority-set-program-level-federal-student-loan-limits

Private and State Education Loans

Private education loans are not federal loans, although students and families often mistake them as such. Most federal loans are serviced by private lenders, but these are not private loans, as the servicer does not guarantee the loan. Private educational loans are rarely used by community college students and have interest rates that vary by lender, with fewer repayment options than federal loans. Because students can self-certify their financial need for a private loan, institutions do not track the status of these loans.

Some states also provide loans that are not federally backed. Like private loans, the interest rates and repayment options of these loans vary by state. However, states often provided loans with terms like federal loans. It is still very common for borrowers to confuse state loans with federal loans.

Managing and Repaying Federal Student Loans

Borrowers with subsidized and unsubsidized Direct Loans have a six-month grace period following graduation, leaving their institution, or dropping below half-time enrollment to begin repaying their loans. As the beginning of repayment draws near, borrowers can choose from one of two repayment options that came into effect starting July 1, 2026: the Tiered Standard Plan and the Repayment Assistance Plan. Student loan borrowers repaying their loans under the Tiered Standard Plan will have a fixed monthly payment over a period of 10 to 25 years, depending on the amount the borrower's total outstanding balance. Students who borrowed prior to the implementation of the Tiered Standard Plan and the Repayment Assistance Plan have the option to continue loan repayment in a grandfathered student loan repayment plan.[11]

Table 2: Tiered Standard Repayment Plan Fixed Repayment Schedule

Outstanding Principal Amount	Fixed Repayment Period
Less than $25,000	10 years
$25,000 to $50,000	15 years
$50,000 to $100,000	20 years
More than $100,000	25 years

Unless borrowers notify their loan servicer otherwise, they will automatically be enrolled in the Tiered Standard Plan. Borrowers who are not in deferment or forbearance and select the Repayment Assistance Plan are to submit monthly payments until the balance of the loan either equals $0 or the borrower submits 360 qualifying monthly payments, amounting to 30 years. For this plan, the minimum monthly payment is $10. The monthly payment amount is based on the borrower's Adjusted Gross Income (AGI). Additionally, one's monthly payment is lowered by $50 for each of the borrower's dependents. Borrowers who select the Repayment Assistance Plan may transition into the Tiered Standard Plan at any time.

11 For borrowers taking subsidized and unsubsidized student loans prior to July 1, 2026, can opt for a standard repayment plan, extended repayment plans, graduated repayment plans, or one of several income-driven repayment (IDR) plans that offer monthly payments capped at a percentage of their income. Depending on the IDR plan, the payments can be 5% to 20% of income and the repayment term can be extended to 20 or 25 years. Additionally, IDR plans provide borrowers to have the remaining balance of their loan forgiven after a certain number of months of qualifying payments.

Table 3: Repayment Assistance Plan Repayment Schedule

Adjusted Gross Income	Repayment Assistance Calculation	Monthly Payment Range
Less than $10,000	$120	Minimum: $10
More than $10,000 to $20,000	1 percent of AGI	$10 to $16.67
More than $20,000 to $30,000	2 percent of AGI	$33.33 to $50
More than $30,000 to $40,000	3 percent of AGI	$75 to $100
More than $40,000 to $50,000	4 percent of AGI	$133.33 to $166.67
More than $50,000 to $60,000	5 percent of AGI	$208.33 to $250
More than $60,000 to $70,000	6 percent of AGI	$300 to $350
More than $70,000 to $80,000	7 percent of AGI	$408.33 to $466.67
More than $80,000 to $90,000	8 percent of AGI	$533.33 to $600
More than $90,000 to $100,000	9 percent of AGI	$675 to $750
More than $100,000	10 percent of AGI	$833.33 or more

*Subtract $50 per month per dependent child of the borrower, with the minimum monthly payment of $10.

Parent PLUS Loans can only be repaid under the Tiered Standard Plan.

Direct Loan borrowers do have the option to combine multiple federal student loans into a single loan with one monthly payment through a Direct Consolidation Loan. Consolidated loans can be repaid through either the Tiered Standard Plan or the Repayment Assistance Plan, unless the Direct Consolidation Loan repaid a Parent PLUS Loan, since the Tiered Standard Plan is the only plan available for Parent PLUS Loan borrowers. The fixed interest rate under consolidation is based on the weighted average of the interest rates on the loans being consolidated. and the repayment term can range from 10 to 30 years, depending on the total amount of consolidated loans and the selected repayment plan

Federal student loans provide borrowers with the opportunity of temporary relief in payment obligations through deferments and forbearances. The difference between deferment and forbearance relates to how interest accrues and who qualifies. Under a deferment, interest does not accrue for subsidized loans and is available to a borrower during periods in which he or she is pursuing a postsecondary education, completing military service, or receiving treatment for cancer. As of July 1, 2027, deferments are no longer be available for unemployment or economic hardship. For forbearances, interest accrues for all loans and is granted at the discretion of the loan servicer. Borrowers have access to forbearance for a period of nine months over a two-year period.

Loan Discharge and Forgiveness

There are several ways in which a borrower can be relieved of their federal loan repayment obligations. Federal loans can be discharged in certain situations, including death, total and permanent disability, and if the school closed while the student was enrolled. Loan repayments can also be relieved through forgiveness following 360 qualifying monthly payments under the Repayment Assistance Plan described above or through programs that allow students to have their loans forgiven in exchange for service in a designated area, occupation, or employment sector over a period of time. These loan forgiveness programs can be offered through the federal government, states, or local employers. For example, the federal government offers forgiveness of loans in and the Repayment Assistance Plan for those working in a public service field who make on-time payments for 10 years through the Public Service Loan Forgiveness program (PSLF).[12] However, borrowers in the Tiered Standard Plan do not qualify for PSLF. States can offer loan forgiveness for targeted occupations that are in high demand, such as healthcare or education-related fields.[13]

Student loans are generally not dischargeable through bankruptcy. Both the 1998 Reauthorization of the Higher Education Act and the 2005 Bankruptcy Abuse and Consumer Act (BAPCA) preclude federal and private loans from being declared in bankruptcy courts.[14] Under these laws, student loans are not discharged unless the borrower can prove that repaying the loan imposes undue hardship. The process of proving undue hardship can be difficult and often requires a significant burden of proof in court.

Student Loan Default

When a borrower does not make their required payments, the loan first becomes delinquent and will remain so until the borrower repays the past due amount or makes arrangements with the servicer through a deferment or forbearance. If the borrower is delinquent for than 90 days, the loan servicer will report the borrower to national credit bureaus. Being delinquent for 270 days can result in the borrower being in default. Under default, the borrower may lose federal and state income tax refunds, lose federal or state benefit payments, be sued, be assessed collection charges, lose student aid and assistance, lose eligibility for student loan deferments, damage his or her credit rating, or suffer wage garnishment. Borrowers who have defaulted on their student loan do have the ability to get out of default and have their payment benefits and privileges restored through loan rehabilitation, which involves the borrower entering a written agreement with the loan servicer and making nine monthly payments over a ten-month period. Defaulted loans can be rehabilitated twice per loan.

Student loan defaults can have significant implications for community colleges, affecting their funding, accreditation, and reputation. More information on the importance of student loan default for colleges is discussed further in the section titled *Understanding Institutional Participation in Federal Financial Aid Programs.*

12 *Federal Student Aid. (n.d.).* https://studentaid.gov/manage-loans/forgiveness-cancellation/public-service

13 Wiederspan, M. (2018). *Understanding state loan forgiveness and conditional grant programs.* Midwest Higher Education Compact. Retrieved from https://www.mhec.org/sites/default/files/resources/mhec_affordability_series4_20180201.pdf

14 Ang, X., & Jimenez, D. (2014). Private student loans and bankruptcy: Did four-year undergraduates benefit from the increased collectability of student loans? In B. Hershbein & K.M. Hollenbeck (Eds.), *Student loans and the dynamics of debt (pp. 235-286). W.E. Upjohn Institute for Employment Research.*

UNDERSTANDING WORK-STUDY AND OTHER FORMS OF FINANCIAL AID

Financial aid can also come from a variety of sources, where students' receipt of these funds is sometimes not immediate nor directly included in their financial aid package. These other sources of aid provide some financial assistance in covering students' educational expenses. This section discusses the Federal Work-Study program, tax credits and deductions, military support, employer-provided education benefits, and public assistance programs.

Federal Work-Study

Federal Work-Study (FWS) is a federal grant program designed to offer students part-time employment opportunities. Instead of receiving an upfront award, students are offered a potential maximum, which they can earn through hourly work at the college or with a nearby organization. Students in FWS must have financial need and earn at least the federal minimum wage. There is no maximum award amount for FWS, but awards are based on a combination of factors such as a student's financial need, financial aid from other sources, the wage rate, how many hours the student can work per week, and overall availability of FWS funds that an institution can provide.

Like FSEOG, FWS is a "campus-based" aid program, wherein the federal government provides schools with an allocation of funds, and institutions provide awards to students until funds run out. Students receive compensation through a combination of FWS federal funding and matching amounts from either the college or the employer. The process in which the federal government allocates FWS funds to institutions is done in a similar manner to FSEOG. Institutions receive funds in aggregate based on a formula that considers historical funding allocations, which tends to favor private and public 4-year institutions more than community colleges.[15] As a result, community colleges receive significantly less in FWS funding.

Tax Credits and Deductions

American Opportunity Tax Credit

The American Opportunity Tax Credit (AOTC) offers taxpayers a credit of up to $2,500 per eligible students for qualified education expenses, including tuition, fees, and course materials, over the first four years of postsecondary education. To be eligible, the student must be pursuing a degree or other recognized education credential and be enrolled at least half-time for at least one academic period during the tax year. Eligible independent students can claim the tax credit for themselves, or parents and guardians of dependent students can claim the credit. AOTC is refundable, meaning that those who claim the credit and have little to no tax liability can receive up to $1,000 to assist with education expenses.

The AOTC does have an income cap and can only be claimed with qualified expenses. Given that community colleges traditionally have low tuition rates and that financial aid, such as the Pell Grant, can cover these expenses, not all community college students and their families can claim the AOTC.

15 Foundation, J. H.. (2017). *The campus-based financial aid programs: Background and issues.* Congressional Research Service. . Retrieved from https://crsreports.congress.gov/product/pdf/R/R45024/3

Lifetime Learning Credit

The Lifetime Learning Credit (LLC) provides for a tax deduction of up to $2,000 (20% of the first $10,000 spent on higher education). The basic requirements for receiving the LLC are that the person claiming the credit paid qualified educational expenses for an eligible student and that the student is either the filer, their spouse, or their dependent. Qualified educational expenses include tuition and fees, and any other expenses required for a student's educational program. Because community colleges traditionally have low tuition rates and qualified education expenses under $10,000, many students and their families may not necessarily receive the full $2,000 deduction.

Unlike the AOTC, the LLC has no limit on the number of times it can be used, is a non-refundable credit, and students do not need to be pursuing a degree to qualify. Even if a student is taking one college course, they can claim this credit. However, the AOTC and LLC cannot be claimed for the same student in the same tax year. If a filer pays qualified education expenses for more than one student in the same year, they may choose to take credits on a per-student, per-year basis. This means that filers can claim the AOTC for one student and the LLC for another student in the same tax year. Like the AOTC, there are income limits to claim the LLC.

Student Loan Interest Deduction

Individuals can also deduct the interest paid on a federal or private student loan from their taxable income. The maximum deduction for student loan interest is $2,500 and the deduction amount decreases as income levels increase.

529 Plans

While not a federal tax credit or deduction, 529 college saving plans have tax advantages that are designed to save for future education costs. These plans can be sponsored by states and are authorized under Section 529 of the Internal Revenue Code. The earnings in 529 plans grow tax-deferred, and withdrawals are tax-free when the funds are used for qualified education expenses.

Employer-Provided Education Benefits

Section 127 of the federal tax code allows employers to give employees up to $5,250 a year in tax-exempt tuition and fees assistance at the undergraduate level regardless of whether the education is job-related. This amount increases annual by inflation beginning in 2027. The employer deducts the cost of the benefit, but the employee does not have to report it as income. Employers also can exclude payments on student loans.

Support for Veterans, Military- and Public Safety-Connected Students

There are federal resources available to students who currently serve or are veterans of the United States armed forces, and for those whose parents died in military service or as public safety officers. These include:

Post-9/11 GI Bill

This is available to veterans who served at least 90 days in active duty after September 10, 2001.The benefit pays tuition and fees directly to the school, up to 100% for public schools; directly pays the veteran a tax-free monthly housing allowance, adjusted for housing costs by zip code; provides up to $1,000 per year for books and supplies; and allows transferability to a child or spouse. For veterans who completed service after January 1, 2013, the benefits do not expire.

Montgomery GI Bill

Montgomery GI Bill is available to veterans who served at least two continuous years in any time period. The benefit pays a flat monthly rate directly to the veteran, who must pay the school. The benefit is up to $2,518 for full-time students. There is no separate benefit for housing, books, or supplies, and benefits may not be transferred. The benefits expire 10 years after release from active duty.

Survivors' and Dependents' Educational Assistance (DEA) Program

DEA is available to the child or spouse of a veteran or service member who died, is captured or missing, or is permanently and totally disabled due to a service-connected disability. Benefits include monthly payments to cover school or expenses during on-the-job training or apprenticeship. For those who began school or training before August 1, 2018, benefits are available for up to 45 months. For those who began school or training after August 1, 2018, benefits are available for up to 36 months.

Department of Defense Tuition Assistance (DOD-TA)

DOD-TA pays up to 100% of college tuition and fees for active duty service members, up to $4,500 per year, directly to the college. Textbooks, course materials, housing, food, and transportation are excluded.

Pell Grants Recipients Under the Special Rule

Under the Special Rule found in the Higher Education Act, eligible students who are younger than 33 years old as of January 1 prior to the award year the applicant is applying for are eligible for the maximum Pell Grant award regardless of SAI if they qualify for the grants within the Special Rule.

The Special Rule encompasses the Iraq & Afghanistan Service Grants; a program that provides non-need-based financial assistance to students whose parent or guardian died because of military service in Iraq or Afghanistan after the events of September 11, 2001. Moreover, the Special Rule also applies to the Children of Fallen Heroes Scholarships. These grants are for students with a parent or guardian who died in the line of duty while serving as a public safety officer.

Public Benefits and Child Care Services

Some community college students may be able to access public benefits for added support during their years of postsecondary study, such as Supplemental Nutrition Assistance Program (SNAP) and Temporary Assistance for Needy Families (TANF).

Supplemental Nutrition Assistance Program (SNAP)

The Supplemental Nutrition Assistance Program (SNAP) is a federal program that provides financial assistance with nutrition expenses to low-income households and individuals. To qualify for SNAP, individuals must meet certain income requirements set by the federal government. In general, students enrolled in college at least half-time cannot access SNAP benefits. However, there are several exceptions to this rule. For example, students who work for a minimum of 20 hours per week or receive TANF assistance could be eligible for SNAP. Additionally, students who receive Federal Work-Study support may be eligible for SNAP, even if they work less than 20 hours per week in their position. Some students with children may also meet criteria for SNAP.

Temporary Assistance for Needy Families (TANF)

Temporary Assistance for Needy Families (TANF) offers cash assistance to low-income families with children. While TANF is a federal program, states have flexibility in how they implement the program, including eligibility criteria and benefit amounts. However, there is a federal standard on the share of state TANF recipients who must participate in designated work or training activities. States can establish guidelines for how postsecondary education counts toward the work requirements. Check with your state's TANF office or local social service agency for information on whether postsecondary education can count as work or training activity in your state.

Special Supplemental Nutritional Program for Women, Infants, and Children (WIC)

WIC is a federal assistance program that provides nutritious foods, nutritional education, breastfeeding support, and healthcare and social services referrals to low-income women, infants, and children under the age of five. To qualify for WIC, the household income must be at or below 185% of the federal poverty threshold. However, states do have discretion in setting income eligibility levels. Community college students may be eligible to receive WIC in your state, but specific criteria can vary by state. Check with your local WIC office for specific information on the eligibility requirements.

Child Care Access Means Parents in School (CCAMPIS)

CCAMPIS provides federal competitive grants to institutions in order to serve parenting students who are Pell Grant recipients. Institutions may use CCAMPIS funding to operate child care centers on campus, or to provide subsidies for parenting students to pay for child care in the community. Check if your college currently holds a CCAMPIS grant – or plans to apply in an upcoming competition. In addition, some colleges help parenting students apply for other child care benefits, including those that follow.

Head Start

Head Start is a federal program that provides early childhood education, health and nutritional services, and parental involvement support to low-income children ages 0–5 and their families. Qualifying families receive free, high-quality early education and preschool for their young children. Free child care can decrease the out-of-pocket expenses for a parenting student. The eligibility requirements for Head Start can vary depending on location, program availability, and the child's developmental needs. In general, the eligibility criteria include the child's age, a household income that is below federal poverty levels, and the family living within the service area of the Head Start program. Students interested in enrolling their child in a Head Start program can contact their local for more information on eligibility requirements and the application process.

Child Care and Development Block Grant (CCDBG)

CCDBG provides formula funding to states, which then provide child care subsidies to eligible low-income parents for child care services while they are working or in school. The subsidies are portable and follow the parents. Child care programs must meet quality standards to be eligible for federal subsidies. Options vary widely by state and local area, and most states have long waitlists for child care slots under CCDBG. States and localities operate child care resource and referral agencies, which provide directory and intake services for a variety of child care programs, including their contact information, quality ratings, and whether they have slots available.

UNDERSTANDING INSTITUTIONAL PARTICIPATION IN FEDERAL FINANCIAL AID PROGRAMS

Institutions that opt to participate in Title IV programs must meet certain statutory and regulatory requirements set by the Higher Education Act (HEA) and U.S. Department of Education (ED). In general, an institution must be licensed, accredited, and, as determined by ED, it must be both financially responsible and administratively capable of handling program requirements.

An institution's administrative capacity to receive Title IV is determined by whether it has required electronic processes, adequate staff support, financial aid counseling, internal monitoring and reporting procedures for fraud and abuse, and sufficient tracking of students' satisfactory academic progress. Other various statutes and regulations that are monitored by an institution's financial aid office also apply.

ED monitors and enforces compliance of institutions' participation in Title IV programs through several policy mechanisms. This section explains these accountability mechanisms and how they can impact an institution's ability to provide federal financial aid.

Cohort Default Rates

An institution's eligibility to participate in Title IV programs can be affected by its cohort default rate (CDR). CDRs are published annually and represent the proportion of an institution's student borrowers who default on their federal student loans within three years of entering repayment. For example, among borrowers who entered repayment in 2024, the cohort default rate is the share of borrowers who are in default by 2027. Institutional CDRs must stay within certain thresholds to maintain Title IV participation, as defined by statute:

- An official three-year CDR below 30 percent is required to maintain participation in the Pell Grant program.
- An official three-year CDR below 40 percent is required to maintain participation in the Direct Loan program.

If an institution's default rates rise above these thresholds, it could face federal sanctions that lead to the loss of providing Title IV funds to students. For example, an institution with a three-year CDR of 30 percent or greater in just one federal fiscal year is required to establish a default-prevention task force and to develop and enforce plans to reduce student defaults. Institutions with CDRs of 30 percent or greater for two consecutive years are required to revise their plans and could be subject to provisional certification to participate in Title IV. Institutions with three consecutive CDRs of 30 percent or greater lose Direct Loan and Pell Grant program eligibility for the remainder of the fiscal year in which the institution is notified of its sanction and for the following two fiscal years thereafter.

Community college tuition and fees are much lower than four-year counterparts, and, as a result, students are generally less likely to borrow. When only a small portion of the student body borrows student loans, the CDR should be interpreted with caution as these rates may not reflect the entire college population. An appeals process for cohort default rates known as the Participation Rate Index (PRI) appeal is available for institutions that have low percentages of students borrowing. Additionally, because CDRs are calculated over a three-year period, ED also provides "draft" rates each year that show the rates of default in the first two years of a cohort, allowing more time for PRI challenges. Therefore, processes are in place to assist colleges in appealing their default rates and taking the necessary steps to avoid federal sections.

Having a high default rate not only affects an institution's ability to provide financial aid, but it can also impact the institution's accreditation and overall reputation. For all these reasons, community colleges take proactive approaches to keep default rates low through financial literacy education, counseling services, and support for students during and after their college enrollment.

Some community colleges choose not to participate in the federal loan program. Institutions that opt out are not subjected to these cohort default rate participation thresholds. However, research demonstrates that community colleges that opt out of federal loan programs limit students' ability to borrow a loan, and, as a result, can negatively impact students' progress toward degree completion.[16]

Student Tuition and Transparency System/Earnings Accountability

The Student Tuition and Transparency System (STATS) is a regulatory framework in which institutions of higher education must submit data on their programs and the students attending those programs to the Department of Education. This data is then consolidated with data across the federal government to determine the program's median post-college earnings, and a calculated earnings premium. Ultimately, the Department of Education will then post these data on their program information page, with colleges and universities linking this page to their own webpages.

Programs of study fail the earnings premium measure if their graduates' median earnings are less than working adults with only a high school diploma or its equivalent for two of three consecutive years. These programs are unable to offer their students federal direct loans. Colleges must inform both current and prospective students if any of their programs did not meet the earnings premium measure in a given year. Students pursuing these programs must verify that they are aware of the program's status before receiving federal aid in both grants and student loans. If an institution loses access to student loans, the institution must reapply to the Department of Education to restore eligibility after a period of two years.

CONCLUSION

Students depend on federal and state financial aid resources to afford a postsecondary education. Community colleges would not be able to fulfill their open-access missions without the grants, loans, and tax credits available to these students. Trustees and college leaders have the responsibility of effectively governing and managing these financial aid resources through various programs, practices, and policies at their institutions. This guide serves as a resource to inform trustees, and other leaders who find it beneficial, about the myriad programs that students access to support the financing of their postsecondary education.

Congress provides funding for federal student aid each year in the annual appropriations process and long-term authorizations of the Higher Education Act. Community college trustees, staff, students, business leaders, and advocates have an essential role in advocacy each year to urge their members of Congress to protect and strengthen critical federal student aid programs. Together, we can support student aid for community college students to access, persist, and complete college.

16 Dynarski, S., Page, L., & Scott-Clayton, J. (2023). College costs, financial aid, and student decisions. In E. Hanushek, S. Machin, & L. Woessman (Eds). *Handbook of the Economics of Education, Vol. 7. (pp. 227-285).*

APPENDIX

Financial Aid Terms

Campus-based aid – federal student aid programs that are administered by postsecondary institutions. This includes Federal Work-Study and FSEOG. The federal government provides institutions with an allocation of funds and awards are provided to students on a first-come, first-served basis until funds run out.

Cohort Default Rate – the percentage of federal student loan borrowers who default on their loans within 3 years of entering repayment.

Costs – the actual expenses incurred by the college to provide an education. For this guide, costs are used synonymously with price.

Cost of Attendance (COA) – the estimated total cost to attend a postsecondary institution for one academic year, including tuition and fees, housing and food, books and supplies, transportation, and personal expenses. Direct Subsidized loans – federal student loans that operate under the Direct Loan Program and are offered to undergraduate students with financial need. The interest on these loans does not accrue while students are enrolled at least half-time, during the grace period after leaving the school, and during deferment.

Direct Unsubsidized loans – federal student loans that operate under the Direct Loan Program and are available to undergraduate and graduate students regardless of financial need. The interest on these loans starts accruing from the moment they are disbursed to students.

Direct PLUS loans – federal student loans available to parents of dependent undergraduate students and to graduate or professional students to help pay education expenses not covered by other financial aid.

FAFSA Submission Summary (FSS) – a summary of the information submitted on the FAFSA, including the student's Student Aid Index (SAI). First dollar award – a grant or scholarship that is applied to a financial aid package before other forms of financial aid.

Free Application for Federal Student Aid (FAFSA) – the application that students and their families complete annually to determine eligibility for federal financial aid.

FSA ID – the account username and password used to access and sign federal student aid documents, including the FAFSA.

Financial need – the difference between a student's cost of attendance and their Student Aid Index (SAI). Financial need is used to determine eligibility for need-based financial aid.

ISIR (or Institutional Student Information Record) –the electronic record of a student's processed FAFSA information sent to the colleges and universities listed on the FAFSA.

Last dollar award – financial aid that is applied to the financial aid package after the inclusion of other non-repayable aid.

Merit-based financial aid – financial assistance awarded on individual talents or achievements be it academic, athletic, leadership, or artistic.

Need-based financial aid – financial assistance awarded to students based on financial need.

Net price – the amount that a student and family is to pay after subtracting financial aid that does not need to be repaid from the cost of attendance.

Private student loans – loans for educational expenses that are not federally backed and offered by private lenders.

Satisfactory Academic Progress (SAP) – a school's standards for satisfactory academic progress toward a degree or certificate offered by that institution.

Sticker price (or Published price) – the full cost of attendance at a college for an academic year without the consideration of financial aid or scholarships.

Student Aid Index (SAI) – a number calculated by a student's FAFSA data that institutions use to determine financial need and how much aid a student is eligible to receive. A lower SAI means higher financial need.

Title IV – the title within the Higher Education Act of 1965 that governs federal financial aid programs.

Unmet financial need – any remaining amount of a student's financial need after the Student Aid Index and consideration of any financial aid that does not need to be repaid.

Financial Aid Abbreviations & Acronyms

AOTC – American Opportunity Tax Credit

CCAMPIS – Child Care Access Means Parents in School

CCDBG – Child Care and Development Block Grant

CDR – Cohort Default Rate

COA – Cost of attendance

DEA – Survivors' and Dependents' Education Assistance

D/E – Debt-to-earnings

DL – Direct loan

ED – U.S. Department of Education

EP – Earnings Premium

FAFSA – Free Application for Federal Student Aid

FPS – FAFSA Processing System

FSEOG or SEOG – Federal Supplemental Educational Opportunity Grant

FSA – Federal Student Aid

FSA ID – Federal Student Aid Account Username and Password FSS – FAFSA Submission Summary

FWS – Federal Work-Study

HEA – Higher Education Act

LEU - Lifetime Eligibility Used

LLC - Lifetime Learning Credit

IDR – Income-Driven Repayment

ISIR - Institutional Student Information Record

PLUS – Parent Loan for Undergraduate Students / Graduate PLUS Loan Program PRI - Participation Rate Index

PSLF – Public Service Loan Forgiveness

SAI – Student Aid Index

SAP – Satisfactory Academic Progress\

SUB – Subsidized Loan

SNAP – Supplemental Nutrition Assistance Program

SSN – Social Security Number

TANF – Temporary Assistance for Needy Families

UNSUB – Unsubsidized Loan



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