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Introduction

This publication is intended for financial aid administrators and counselors who help students begin the student aid process—filing the Free Application for Federal Student Aid (FAFSA), verifying information, and making corrections and other changes to the information reported on the FAFSA.

Throughout the Handbook we use "college," "school," and "institution" interchangeably unless some more specific use is given. "Parents" in this volume refers to the parents of dependent students, and "you" refers to the primary audience of the Handbook: financial aid administrators at colleges. "We" indicates the United States Department of Education, and "federal student aid" and "Title IV aid" are synonymous terms for the financial aid offered by that department.

We appreciate any comments that you have regarding the Application and Verification Guide (AVG) as well as all the volumes of the Federal Student Aid Handbook. We revise and clarify the text because of questions and feedback from the financial aid community, so please contact us at **fsaschoolspubs@ed.gov** to let us know how to improve the Handbook so that it is always clear and informative.

CHANGES FOR 2009–10

Two substantial pieces of legislation account for most of the changes to this year's guide: the College Cost Reduction and Access Act (CCRAA, signed into law on September 27, 2007) and the Higher Education Opportunity Act (HEOA, which also reauthorizes the Higher Education Act, or HEA, and was signed into law on August 14, 2008).

Many of these changes occur in Chapter 2 and have affected the order and number of the FAFSA questions. For example, on page 14, we discuss the new question added to identify potential recipients of the Teacher Education Assistance for College and Higher Education (TEACH) grant, which resulted from the CCRAA.

Also on page 14, we added text to the margin note specifying that income designated by code A in box 14 of the IRS Schedule K-1 is what should be included in income earned from work. We also specified that a negative income in box 14 (as with lines 12 and 18 of IRS Form 1040) should be treated as zero when determining income earned from work on the FAFSA.

On page 17 we specify that for the small family business exclusion, the term "family-owned and controlled" means over 50% ownership of the business by the "family," who are persons that are directly related or are or were related by marriage.

We updated the guidance on page 18 to show that dependent students who are owners of qualified education benefits now count those benefits as assets of their parents. We also noted that when the owner is someone else, such as a noncustodial parent, disbursements from these plans are untaxed income to the student.

On page 20 we note that the question for the amount of veterans benefits was removed, though questions remain that ask the student if he will receive the benefits and what kind they are. Because the HEOA does not exclude these benefits from estimated financial assistance until the 2010–2011 award year, aid administrators will need to determine the total amount of these benefits for one more year.

The Secretary has determined that the stimulus payments taxpayers received due to the Economic Stimulus Act of 2008 are not to be counted as untaxed income. We note this in the margin on page 21.

The CCRAA removed several types of income from the need analysis. As a result, Worksheet A was removed from the application and the items formerly on Worksheets C and B now appear in questions in the body of the FAFSA. We discuss this on pages 20 to 23. Taxable combat pay is now excluded income; this is mentioned on page 23.

On page 22 we specify that when a dependent student receives money from a non-custodial parent that is not part of a child support agreement, the money counts as untaxed income to the student.

Beginning on page 24 we note the changes to the dependency status questions that resulted from the CCRAA. Foster children, emancipated minors, those in legal guardianship, and unaccompanied homeless youth have been added as categories of independent student.

We explain on page 26 that some states use the phrase "ward of the state" and that this is synonymous with "ward of the court" as long as the student is not a ward of the state due to being incarcerated.

We added a margin note to page 26 describing the new special circumstances field available for FAFSA on the Web applicants.

On page 30 we note that schools may now accept dependency overrides from a previous school in the same award year without gathering documentation in support of the override.

On page 32 we explain the new provision, added by the HEOA, that permits FAAs to determine if a student whose parents refuse to support and refuse to provide data for on the FAFSA may receive unsubsidized Stafford loans only.

Pages 34 and 35 give guidance about who is a dislocated worker. This status is now an alternative to the type of tax return and the receipt of means-tested federal benefits criteria for determining if a student qualifies for the simplified needs test or the automatic zero EFC.

In Chapter 3, on pages 41 and 42, we include the dislocated worker option in the criteria for the simplified needs test and zero EFC. We also note that for the means-tested benefit option, the benefit may be received at any time in the previous two years, rather than just during the base year.

Also on page 42, we amended the income threshold for determining if a student qualifies for an automatic zero EFC; in accord with the CCRAA, this has changed from $20,000 to $30,000.

Chapter 3 has also been updated throughout to include the annual revisions to the EFC calculation.

In Chapter 4 we removed references to the earned income credit, the additional child credit, and Social Security benefits because these are no longer considered untaxed income.

Chapter 5 contains additions to the types of specific situations in which an FAA may use professional judgment to adjust the student's numerical data to account for unusual family circumstances. The additions include nursing home expenses and being homeless or a dislocated worker. Also included here, in the verbatim text from the law in the margin of page 106, is the new provision relating to students whose parents refuse support.

Chapter 6 is new to this guide and contains information previously found in Volume 4, Chapter 1, of the Federal Student Aid Handbook. It pertains to applying for a Stafford or PLUS loan and signing the master promissory note.

The Application Process: FAFSA to ISIR

CHAPTER 1

The laws governing the Federal Student Aid (FSA) programs require that a person apply for aid with a form provided by the U.S. Department of Education (ED) and that no fee be charged for processing it. This form is the "Free Application for Federal Student Aid" (FAFSA), and its online version is FAFSA on the Web.

To be considered for federal student aid, a student must complete a FAFSA unless the only aid he wants to receive is a PLUS loan via his parent. The FAFSA collects financial and other information used to calculate the expected family contribution (EFC) and to determine a student's eligibility through computer matches with other agencies.

The FAFSA is the only form students must fill out to apply for Title IV aid. A school cannot require extra information from students except for verification or resolution of conflicting information. However, a school may require additional information for other purposes, such as packaging private or institutional aid. If the school collects additional information that affects Title IV eligibility, it must take the information into account when awarding Title IV aid.

Exception to FAFSA filing requirement

If the only federal aid a dependent student wants to receive is a PLUS loan to one of her parents, she doesn't have to complete a FAFSA, but the parent will need to complete a loan application and promissory note. Also, the student must still meet all the usual eligibility criteria, and the parent must meet the PLUS eligibility requirements. A student must submit a FAFSA, however, to receive a graduate PLUS loan.

TYPES OF APPLICATIONS

Most students use FAFSA on the Web to apply for federal student aid. With an aid administrator's help, they can apply via FAA Access to CPS Online. The paper FAFSA and its portable document format (PDF) version are also available.

FAFSA on the Web (FOTW)

Students can complete an application online at **www.fafsa.ed.gov** and submit it directly to the Central Processing System (CPS). They can also correct any of their previously submitted data except for the Social Security number (SSN). Help is available online, and students can also call 1-800-4-FED-AID (1-800-433-3243).

FAFSA on the Web Worksheet

To make using the Web application easier, ED makes available the FAFSA on the Web Worksheet. The worksheet can be printed from the website, and schools can order bulk quantities on the Web at **www.fsapubs.org**.

FAA Access to CPS Online

You can submit a student's application data at FAA Access to CPS online (**www.fafsa.ed.gov/FOTWWebApp/faa/faa.jsp**). You can also connect to the site through EDExpress.

Before submitting the data, print out the signature page/FAFSA summary for the student (and parent) to sign. Alternately, you can have the student fill out and sign a paper FAFSA, but to reduce the need for paper applications, we recommend the former method. As

Free CPS/SAIG technical support for schools or their destination points

1-800-330-5947
CPSSAIG@ed.gov

Advantages of electronic filing
We strongly recommend electronic applications over the paper FAFSA because of the following benefits:

- Faster processing
- Fewer errors and rejected applications because internal and end-of-entry data edits ensure that required fields are completed and conflicts are resolved prior to submission
- Skip logic, which helps "shorten" the form by allowing applicants to skip over questions that don't pertain to them
- Availability of online help

Websites for students
www.fafsa.ed.gov
➔FAFSA on the Web
➔Make corrections to the application
➔Check status of application
➔Online SAR

www.pin.ed.gov
PIN website

www.studentaid.ed.gov
Higher education portal for students

www.fafsa4caster.ed.gov
This website allows future college students to estimate what their EFC might be and what kind of federal student aid they might be eligible for when they apply for aid. Students can later use the data they input to populate their online FAFSA.

FAFSA on the Web demo
You can use the FAFSA on the Web demonstration to train financial aid staff or to show students how to use the online application. Go to **http://fafsademo.test.ed.gov** and type in **eddemo** for the user name and **fafsatest** for the password.

noted on page 38, you will need to retain either the signed signature page/summary or signed FAFSA for your records, even if the student doesn't receive aid or attend your school.

Paper FAFSA

Schools can place limited orders (at **www.fsapubs.org**) of up to 50 copies of the paper FAFSA. Students can request a copy from the Federal Student Aid Information Center by calling 1-800-4-FED-AID. Another paper option is the PDF FAFSA (in color or black and white), which students can get at **www.federalstudentaid.ed.gov**. They can print the PDF and fill it out by hand, or they can type their data on the PDF before printing and mailing it.

The personal identification number (PIN)

The FSA PIN, along with other identifiers, gives students Internet access to their information in FSA systems. Students (and parents) can get a PIN by going to the website at **www.pin.ed.gov** or by choosing to apply for a PIN when completing a FAFSA on the Web. The PIN is available to use immediately to sign the FAFSA; once the application passes the Social Security Administration (SSA) match, the PIN becomes fully functional. Applicants can use the PIN to:

- electronically sign a FAFSA on the Web or access and sign a renewal FAFSA on the Web
- correct their student aid report (SAR) online
- see their EFC and other SAR information as soon as the FAFSA is processed
- review their financial aid history as maintained in the National Student Loan Data System (NSLDS)
- access Direct loan information and tools, including online entrance and exit counseling
- sign electronic promissory notes for Direct loans

Students without a PIN will automatically receive one if their application was signed, passed the data match with the SSA, and had a complete address. They will receive a paper PIN mailer with the number or an e-mail (if an e-mail address was given) with a secure link to their PIN online.

Students should not give their PIN to anyone. The Higher Education Opportunity Act (HEOA) mandates that no person or entity may request, obtain, or use a student's PIN for submitting a FAFSA on behalf of the student. The unauthorized use of a PIN by anyone but the owner may result in the deactivation of the PIN or the invalidation of signed documents, including FAFSAs and promissory notes.

Renewal FAFSA

When a renewal-eligible student who had a valid application the

year before enters her personal identifiers on FAFSA on the Web, she will be asked if she wants to pre-fill some of the application with data from the prior year. If she chooses that option, she can review each pre-filled item, correct any that has changed, and provide new information as needed. Students who filled out the FAFSA4caster form before January 11, 2009, also have the option of pre-filling data on FAFSA on the Web. If an aid administrator's school does not appear on the renewal application, she can use the student's data release number (DRN) to get the application on FAA Access.

In January and February 2009 most students will automatically receive a renewal reminder by e-mail if they provided an e-mail address in the previous application year or by regular mail if they did not. The reminder tells students that they can reapply for aid on the Web and that if they forgot their PIN, they can retrieve it online.

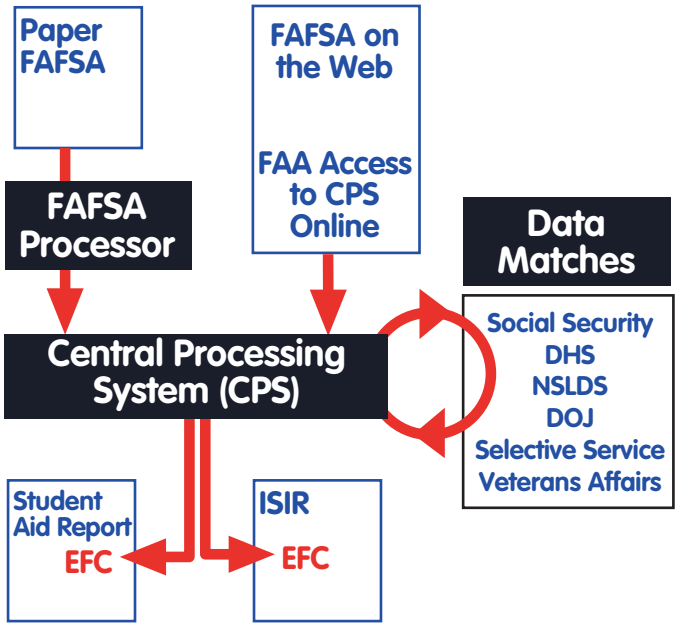
Renewal FAFSA and students from Palau, the Marshall Islands, and Micronesia

Because students from the above Pacific islands, known collectively as the Freely Associated States, are not eligible for a PIN (for lack of an SSN), they can't pre-fill data on FAFSA on the Web. But an FAA can use FAA Access to CPS Online and the student's DRN to enter and access renewal applications for these students if they meet the renewal application eligibility requirements. An FAA will submit the application using the same "888" identifier that students used on their FAFSA the previous year.

PROCESSING THE FAFSA

If the FAFSA was submitted on paper, it goes first to the FAFSA processor for data entry and then to the CPS. If the FAFSA was signed and submitted on the Web, it goes directly to the CPS. If a Web applicant indicated she would sign electronically later or send a paper signature page, the FAFSA goes to a signature hold file for up to 14 days. If some type of signature hasn't been received in that time, the application will be sent to the CPS but will result in a reject application; it won't be processed again until a signature is received. See the next section on output documents.

The CPS uses the application data to calculate the EFC and to match against several databases: those of NSLDS, the Department of Justice, the Social Security Administration, and the Department of Veterans Affairs; the Department of Homeland Security's database of noncitizens and the Selective Service System registration database.



From FAFSA to SAR/ISIR

2009–10 Summary of Changes for the Application Processing System

This is posted each autumn. Go to **www.ifap.ed.gov** and select Publications > Summary of Changes for the Application Processing System > 2009–2010.

The CPS also checks the application for possible inconsistencies and mistakes. For instance, if a dependent student reported the parents' marital status as married but reported the household size as "2," the edit checks would catch the inconsistency. Even when data is inconsistent, the CPS may be able to calculate an EFC based on assumptions. For applications that your school submits through FAA Access, you can anticipate certain assumptions and correct or override information on the student's FAFSA submission. Students who submit applications using FAFSA on the Web can also correct or override some of the CPS edits before submitting the application.

OUTPUT DOCUMENTS: THE SAR AND ISIR

After processing is complete, the CPS produces output documents or records that show the information the student originally provided, the EFC, the results of the eligibility matches, and information about any inconsistencies identified through the CPS edits. If the CPS was unable to calculate an EFC, the output record will not show one.

There are two types of output documents: the *Institutional Student Information Record* (ISIR), which is made available electronically to the schools the student listed on the FAFSA (or adds later), and the *Student Aid Report* (SAR), which is sent to the student or made available to her online.

Reject example

Sioned is living with her boyfriend. She reports on the FAFSA that she's single, but also reports her boyfriend's income as spouse's income earned from work. Her application is rejected because if she is not married, there should be no entry for spouse's income. She receives a reject reason code of 11 and a comment explaining that she reported contradictory information. Sioned must submit a correction to blank out the boyfriend's income.

You will receive an ISIR for the student only if she includes your school on her FAFSA. If your school is not listed, you can request an ISIR for her through FAA Access if you have her DRN. The DRN appears in the upper right corner of the first page of the SAR and at the top of the correctable pages. The DRN and PIN are different: the DRN authorizes your access to the student's application information; the PIN is the student's personal code, which she should give to no one. A school may ask for the student's DRN, but it should never request the PIN.

Schools are required to receive ISIRs and to accept SARs from students, but they cannot require students to submit SARs to the school in order to receive aid. We recommend making corrections electronically, via FAFSA on the Web (the student) or FAA Access (the school); however, a school can require the student to use a SAR to make corrections. If you don't have an ISIR for a student who provided a SAR or SAR Acknowledgement, you **must** use the SAR or the acknowledgement to award and disburse the student aid. You must also ensure that your school is added to the CPS record for the student (see page 98).

The SAR arrives in one of three ways. (1) Students who give an e-mail address, whether on a paper FAFSA or an electronic application (FAA Access or FAFSA on the Web), will receive an e-mail with a link to an online SAR that they can access by providing their SSN, date of birth, and first two letters of their last name. (2) Students who don't give an e-mail address and who apply with a paper application will receive a paper SAR. (3) Students who apply electronically and don't provide an e-mail address will receive a SAR Acknowledgement, which

has fewer and less detailed comments than the SAR and which can't be used for corrections as the SAR can. If a student or parent signature is missing, students will receive a rejected paper SAR.

The SARs and ISIRs include comment codes and text explaining any questionable results from the matches and edits described above. For some of these there will also be a C code, which you must resolve before paying the student aid. For instance, if a student has defaulted on a federal student loan, the SAR and ISIR will note this in several places, including comments to the student and the NSLDS financial aid history page.

For other problems, the SAR and ISIR will show that the student's application has been rejected and no EFC has been calculated. The SAR will tell the student how to remove the reject by providing signatures or more information or by correcting errors. Reject codes are given in the FAA Information section, and a complete list of reject codes is in *The ISIR Guide 2009–2010* at **www.ifap.ed.gov**.

DEADLINES

The application processing cycle lasts 18 months. For the 2009–10 award year, applications are accepted beginning January 1, 2009 and will be accepted through June 30, 2010.

The CPS must receive a student's electronic FAFSA by June 30, 2010. **A paper FAFSA must be legible, and it must be mailed to the Federal Student Aid Programs address listed on the FAFSA in time for the processor to receive it by June 30, 2010. There are no exceptions to these deadlines**. An electronic application cannot be received before January 1, 2009, and if it is received after June 30, 2010, it will not be processed. A paper application received before January 1, 2009, or after June 30, 2010, will be returned unprocessed with a letter of explanation. If it is signed before and received after January 1, 2009, it will be accepted, but the student will receive a rejected SAR asking him to date and re-sign the SAR and return it for processing.

In addition to the above dates, the following are anticipated deadlines for the 2009–10 award year:

- Corrections on a paper SAR must be received by September 20, 2010.
- Corrections through FAFSA on the Web or FAA Access to CPS Online must be received and accepted by the CPS before midnight (central time) on September 20, 2010.
- Address and school changes through the Federal Student Aid Information Center can be made through September 20, 2010.
- A school must pay or offer to pay any disbursements for a student if it receives a SAR or ISIR with an official EFC while she is enrolled and eligible, but not later than September 27, 2010.

Resources for aid administrators

For questions about EDconnect, EDExpress, and Renewal FAFSAs, call CPS customer service:
1-800-330-5947
TDD/TTY 1-800-511-5806

For technical systems publications, go to **www.fsadownload.ed.gov** and click on "Technical References and Guides."

Deadline Date Notice

Every year the Department publishes in the Federal Register a deadline notice that provides all the processing deadline dates. When the official deadline notice for the 2009–10 award year is published, it will be available on the IFAP website under "Federal Registers."

- To give a Pell grant to a student, a school must have a valid output document (one with an EFC computed from correct data) while the student is still enrolled for the award year or in the timeframe the student qualifies for a late disbursement under 34 CFR 668.164(g)(4)(i), but no later than September 27, 2010.

- For students selected for verification (both ED-selected and school-selected), the school must have verification documents, and for Pell recipients a valid output document, no later than 120 days after the last day of enrollment or September 27, 2010, whichever is earlier. Schools may set earlier deadlines for the campus-based and loan programs.

For the deadlines above, the date the CPS processed the ISIR transaction is considered to be the date the institution received the ISIR. On the SAR, SAR Acknowledgement, and ISIR printout, the processed date is above the EFC on the first page.

Filling Out the FAFSA

CHAPTER 2

The FAFSA is the first step in the financial aid process. Because it's important to complete the form correctly, this chapter discusses some of the more difficult questions that arise. While the chapter more closely follows the organization of the paper application, the guidance applies equally to FAFSA on the Web. To see how FAFSA data are used to calculate the expected family contribution, refer to Chapter 3.

The FAFSA is organized as steps, each consisting of a group of related questions. There are also instructions on how to fill out the form. For 2009–10 the worksheets that were used to total untaxed income have been incorporated into the body of the form.

As of the date the FAFSA is signed, it is considered a "snapshot" of the family's information that can be updated only in certain circumstances and only for certain items; see Chapter 5.

This chapter provides guidance that supplements the application instructions. Students can get similar advice on filling out the FAFSA on our website for students at **www.studentaid.ed.gov**. Where parents are mentioned the reference is to parents of dependent students. In parentheses are the numbers for the items as they appear on the paper FAFSA, SAR, ISIR, and FAA Access.

FAFSA Steps 1–7

Step One—General student info
Step Two—Student's financial data
Step Three—Dependency questions
Step Four—Parent data (dependent students)
Step Five—Household size (independent students)
Step Six—Schools and school codes
Step Seven—Signature(s)

STEP ONE: GENERAL STUDENT INFORMATION

Purpose: This section of the application identifies the student and establishes his aid eligibility based on factors such as citizenship, educational level, and Selective Service registration (see also *Volume 1: Student Eligibility*). Some questions are included to help the school package awards and to eliminate the need for students to fill out a separate state or school financial aid form.

- **Student's name (1–3).** The name, along with other identifying information, is used for several data matches. Because the U.S. Department of Education (ED) matches the student's name and Social Security number (SSN) with the Social Security Administration (SSA), the name here should match the one in the SSA's records.

- **Permanent mailing address (4–7).** This cannot be the school address, with one exception: an incarcerated student may use his college's administrative address and, if he is submitting a paper FAFSA, he will include with it a letter from the school indicating

Completing the FAFSA

Information for students about completing the FAFSA is posted on the Web at **www.studentaid.ed.gov/completefafsa**

You may wish to add a link from pages that students use on your website to this reference information. You can also download FAFSA on the Web banner graphics to use on your website. Go to **http://www.ifap.ed.gov/fafsa/0330FAFSA4caster.html**

STEP 1

Questions 8–20
Student information

The SSN and certain Pacific island residents
Persons from the Republic of the Marshall Islands, the Federated States of Micronesia, or the Republic of Palau (the Freely Associated States) typically do not have SSNs. Students who indicate on the FAFSA that their state of legal residence is one of the above Pacific island groups should enter 888 for their SSN, and the CPS will assign them an identification number. They should use this number in place of the SSN throughout their financial aid years.

Same-sex marriage and the Defense of Marriage Act (DOMA)
According to the Defense of Marriage Act (1996), "…the word 'marriage' means only a legal union between one man and one woman as husband and wife, and the word 'spouse' refers only to a person of the opposite sex who is a husband or a wife." Therefore, same-sex unions are not considered marriages for federal purposes, including the FAFSA.

that he is incarcerated and is using the school's address. If he is applying on the Web, he should send the letter to the FAFSA processor (the same address to which a paper FAFSA is sent) and be sure that it contains his SSN.

- **Student's SSN (8).** With the exception noted in the margin, a student must have an SSN to apply for federal student aid. If she submits a FAFSA without an SSN, the FAFSA will be returned to her unprocessed. To get an SSN or to determine what the number is if the Social Security card was lost, she must contact the local Social Security Administration office. Call the SSA at 1-800-772-1213 (TTY: 1-800-325-0778) for more information.

  The student should be careful when entering her SSN; although it can be corrected after the FAFSA is processed, the number originally entered will always be used as her ID, and it is likely to cause confusion and extra work for the financial aid administrator if it doesn't match the student's SSN. While not required, the student can solve the confusion by filing a new original FAFSA using the correct SSN.

- **Student's e-mail address (13).** If the student provides this address, he should get an e-mail with a link to his online SAR data within one to three days after the CPS receives his application. The Department will also use this e-mail address to correspond with him regarding his application and PIN.

- **Citizenship status (14).** Examples of noncitizenship categories are given in the FAFSA instructions, and a detailed discussion of citizenship issues can be found in *Volume 1: Student Eligibility*. Only citizens or certain classes of noncitizen are eligible for Title IV aid; however, a student should still submit the FAFSA if she might be eligible for aid from institutional, state, or private sources that do not require U.S. citizenship.

- **Student's marital status (16 and 17).** This is marital status "as of today"—the day the application is signed. Marital status cannot be projected or updated during the award year.

- **Student's state and date of legal residence (18–20).** This information is used in the EFC calculation to determine the appropriate allowance for state and other taxes.

  It also indicates which state agency should receive the student's FAFSA information. States have varying criteria for determining whether the student is a resident for purposes of their financial aid. However, residing in one state for four years will meet any state's criteria. Therefore, a person answering "Yes" to question 19 will likely meet the residency requirements of the state reported in question 18, while the state eligibility for a person answering "No" will depend on the date reported in question 20 and the state's requirements.

STEP 1

Questions 23–28
Student information

- **Conviction for possessing or selling illegal drugs (23).** Students convicted of a federal or state offense of selling or possessing illegal drugs that occurred while they were receiving federal student aid should still complete and submit the FAFSA because they may be eligible for federal aid, and even if they aren't, they may be eligible for state or institutional aid.

  Students who fill out their FAFSA online and answer "Yes" to question 23 will immediately receive a series of questions to determine their eligibility.

  Students who fill out a paper FAFSA and answer "Yes" to this question will receive a worksheet with their SAR to determine whether the conviction affects their eligibility for federal student aid. If the date they regain eligibility falls before July 1, 2009, the worksheet will instruct them to change the response to a "1," indicating full eligibility for the award year. If the date falls between July 1, 2009, and June 30, 2010, they will not be eligible for part of the award year and will need to change the response to a "2."

  If the date falls after June 30, 2010, the students' response will remain a "3." They will not be eligible for federal aid during the entire award year unless they complete a qualified drug rehabilitation program. See *Volume 1: Student Eligibility* for more on drug convictions and eligibility.

  Students who leave question 23 blank cannot be paid Title IV aid until they respond by submitting a corrected SAR or ISIR.

- **Highest level of school completed by student's parents (24 and 25).** Some state agencies use this information to award grants and scholarships. Father and mother are defined here as the student's birth or adoptive parents but not stepparents, guardians, or foster parents. This definition is unique to these questions—all others use the definition on page 26.

- **First bachelor's degree (27).** The FAFSA asks if the student will have a first bachelor's degree before July 1, 2008, because eligibility for Pell, ACG, National SMART, and Federal Supplemental Educational Opportunity grants (FSEOGs) is almost exclusively restricted to students who have not received a bachelor's degree or completed the requirements for one. See "Pell Grants" in Chapter 7 of *Volume 1: Student Eligibility* regarding degrees from unaccredited and foreign schools, which can count as bachelor's degrees for Pell and FSEOG eligibility.

- **Student's grade level at the start of the school year (28).** This is not based on the number of years the student has attended college but on work completed toward the degree/certificate. For instance, a full-time student might attain second-year grade level after one year of study, while a half-time student would take two years to reach that level.

Undergraduate student definition

A student who is enrolled in a program of study that usually does not exceed four academic years or is enrolled in a longer program that is designed to lead to a first degree at the baccalaureate level. A student enrolled in a program that lasts longer than five years is considered an undergraduate for only the first four years.

For the purpose of the FSEOG, Pell Grant, ACG, and National SMART Grant programs, a student is an undergraduate only if he has not earned, or completed the requirements for, a bachelor's or professional degree. Students enrolled in a postbaccalaureate program as described in 34 CFR 690.6 are still undergraduates for the purpose of Pell grants.

Students enrolled in dual degree programs that confer a bachelor's degree and either a graduate or first professional degree are undergraduates for at least the first three years of the program. The school determines at what point after three years the student ceases to be an undergraduate.
34 CFR 668.2(b)

Graduate or professional student definition

A graduate student is one who: is not receiving aid as an undergraduate for the same period of enrollment; is enrolled in a program above the bachelor's level or one leading to a professional degree; and has completed the equivalent of at least three years of full-time study, either before entrance into the program or as part of it.
34 CFR 668.2(b)

STEP 2

Questions 30–32 Enrollment status, types of aid, and potential TEACH grant recipients

Income and assets citations
HEA Sec. 480(a), (b), (f), (g).

- **Enrollment status (30).** The student indicates whether at the start of the academic year she plans to attend full time, three-quarter time, half time, less than half time, or she doesn't know. This information will help the college package her aid. A student who is applying to more than one school should provide the enrollment status for the school she is most likely to attend.

- **Types of aid (31).** The student indicates what types of aid, in addition to grants, she is interested in receiving. This helps the school in packaging her award. If she isn't sure about wanting loans or work-study, she should answer "don't know" so she will be considered for those types of aid that are available; later she can decline any aid she doesn't want. If a dependent student doesn't want to take out a loan but her parents want to get a PLUS loan, she should give an answer that doesn't exclude loans.

- **Prospective elementary and secondary school teachers (32).** This question serves only to identify students who should receive information about the Teacher Education Assistance for College and Higher Education (TEACH) grant. Students should answer "Yes" or "Don't know" if they want this information.

STEP TWO: STUDENT/SPOUSE INCOME AND ASSETS

Purpose: Questions 33–47 ask for the student's (and spouse's) income and assets. Step Four collects similar information about parents' income and assets, so the following discussion pertains to parents as well as the student and spouse. Income, assets, and living allowances are used to calculate the student's portion of the EFC.

If the student or the student's parent wasn't married in 2008 but is married at the time the application is signed, the applicant also needs to provide income and asset information for the new spouse. If the student or the student's parent was married in 2008 but is now separated or divorced, or the spouse has died at the time the application is signed, the student or parent doesn't provide income and asset information for that spouse, even though the information may be on the 2008 tax forms.

Income earned from work and the IRS 1040 form
The FAFSA instructs the applicant to sum lines 7, 12, and 18 of the 1040 form and box 14 [code A] of Schedule K-1 (Form 1065) as an option for determining the income earned from work. But when the values of lines 12 or 18 or box 14 are negative, this will reduce the total and can wrongly affect the Social Security allowance. If values from lines 12 or 18 or box 14 are negative, treat them as zero when determining the income earned from work.

The FAFSA asks for income and taxes paid for the "base year," which for 2009–10 applicants is the 2008 tax year, so the questions refer to lines on 2008 IRS tax forms. Data from the completed tax year is used as a predictor of the family's financial situation for the current year. If 2008 tax data is not available yet, best estimates can be used on the application, though the student may need to correct them later if they differ from the tax return.

The FAFSA also collects information for certain investments and other assets. Applicants only report the net worth of assets, instead of reporting the value and debt. They should report asset amounts **as of the date the application is signed**.

STEP 2

Questions 33–43 and 82–93

Tax return data

- **Tax return filed (33–35, 82–84 for parents).** These questions ask if a 2008 tax return was completed, which return was or will be filed, and whether the student or parents were eligible to file a 1040A or 1040EZ. The CPS uses this information in part to identify if the student is eligible for the simplified needs test or the auto zero EFC (see margin note on page 17).

- **Adjusted gross income (AGI) and other tax data (36–40, 86–90 for parents).** Dependent students report these items for their parents. Each question gives the line reference to the 2008 IRS tax forms, so it will be easier for students to complete these questions if they've already completed their tax return. The student can also estimate answers, but if the estimated information is wrong, she might have to correct it when the tax return is filed. The worksheet on page 16 can help students estimate their tax information.

  Students or parents who filed a joint return but are divorced, separated, or widowed when the application is signed won't be able to copy the information from the tax forms. Instead, they must figure out how much of the income and taxes paid is attributable to them and not their spouses. For more on this calculation, see "Using a joint return to figure individual AGI and taxes paid" in Chapter 4.

  If the student, spouse, or parents were not required by IRS rules to file a tax return, the student should still report any income earned from work in lines 39–40 (student and spouse) and/or lines 89–90 (parents). The W-2 form and other records should be used to determine these amounts.

  Income earned from work is used to calculate allowances for the Social Security tax (FICA) and for the additional costs incurred by working families. For non-taxfilers it will also be used in place of AGI and will cause the application to be rejected if it is above the tax filing threshold.

  For a fiscal year tax return, as opposed to one for the calendar year, the applicant should report information from the fiscal year return that includes the greater number of months in 2008.

  If the student or parents filed a tax return using something other than a common IRS form, such as a foreign or Puerto Rican tax form, the student should report on the FAFSA the amounts (converted to U.S. dollars) from the lines of the form that correspond most closely to those on the common IRS forms.

- **Assets (41–43, 91–93 for parents).** An asset is property that is owned by the family and has an exchange value. A student or parent does not report as assets possessions such as a car, a stereo, clothes, or furniture.

Fiscal year return example

Owen's parents file a fiscal year tax return. They start their fiscal year in September. The return they filed for the fiscal year starting in September 2007 includes eight months in 2008. The return they'll file for the fiscal year starting in September 2008 only includes four months of 2008. Therefore, they should use the information from the tax return for the fiscal year that started in September 2007.

Other tax forms

The following tax forms are considered alternatives to a U.S. Form 1040A and 1040EZ: the income tax returns required by the tax codes of the Commonwealth of Puerto Rico, Guam, American Samoa, the U.S. Virgin Islands, the Republic of the Marshall Islands, the Federated States of Micronesia, or the Republic of Palau. Information from these tax returns would be reported on the FAFSA in the same manner as U.S. tax information, and copies of these forms can be used for verification in the same way as U.S. tax forms are. Amounts are already reported in U.S. dollars and the school should look at tax return line items that are comparable to the IRS line items for verification.

AGI Worksheet for those who have not completed a tax return		
Use this worksheet to estimate adjusted gross income (AGI) if you have not completed a tax return.	***For question 36 Student/Spouse***	***For question 86 Parents***
Wages, salaries, tips, etc.	$ _____.00	$ _____.00
Interest income	+ _____.00	+ _____.00
Dividends	+ _____.00	+ _____.00
Other taxable income (alimony received, business and farm income, capital gains, pensions, annuities, rents, unemployment, compensation, Social Security, Railroad Retirement, and all other taxable income)	+ _____.00	+ _____.00
Add all of the numbers in the column	= _____.00	= _____.00
Subtract IRS-allowable adjustments to income (payments to IRA and Keogh plans, one half of self-employment tax, self-employed health insurance deduction, interest penalty on early withdrawal of savings, and alimony paid)	– _____.00	– _____.00
Total—write this amount in question 36 or 86	$ _____.00	$ _____.00

Zero income

Occasionally an applicant will report no income for the base year. This can occur when the family has tax write-offs that produce a negative AGI or when the applicant neglected to report untaxed assistance. Zero income is noted in our CPS edits and may increase the likelihood that the applicant will be selected for verification. If the CPS does not select the student for verification, you may still choose to ask her for further information about her means of support during the base year. Also, you may use professional judgment (PJ) to adjust the income line items to reflect income the family receives that doesn't appear on the tax return.

Any cash support for the student, other than support from a parent for a dependent student, counts as untaxed income and must be reported. In-kind help (see page 23) from a friend or relative—for instance, using a room at an aunt's house and eating meals with her family—is not considered untaxed income, but you may use PJ to account for the value of that in-kind support (by adjusting the room and board component of the cost of attendance, for example).

STEP 2
Assets and veterans education benefits

The FAFSA collects current (as of the day of signing the FAFSA) data about three types of assets in addition to cash, savings, and checking accounts: investments, businesses, and investment farms. Most assets are investments; examples include college savings plans, Coverdell savings accounts, real estate, installment and land sale contracts (including mortgages held), trust funds, mutual funds, money market funds, UGMA and UTMA accounts, certificates of deposit, stocks, stock options, bonds, commodities, and precious metals. If the asset isn't a business or investment farm, it should be reported as an investment.

A family's **principal place of residence** is not reported as an asset, even if it is part of a business. Neither is a family farm reported as an asset—only investment farms are (see the margin note).

The FAFSA asks for the **net worth** of investments, which is their total current market value minus their associated debts. If their net worth is negative, the student reports a zero.

Similarly for **businesses and investment farms**, the current net worth is reported for land, buildings, machinery, equipment, livestock, and inventories. The current market value of a business or investment farm is reduced by the debt owed on it to determine the net worth. Business or farm debt means only those debts for which the business or farm was used as collateral.

Family-owned and controlled small businesses (which can include farms) that have 100 or fewer full-time or full-time equivalent employees do not count as an asset. "Family-owned and controlled" means that more than 50% of the business is owned by persons who are directly related or are or were related by marriage (family members do not have to be counted in the household size for this question).

Excluded assets—not reported on the FAFSA:

➔ **Pensions and whole-life insurance.** The value of a pension is not counted as an asset, but pension distributions do count as income—they appear in the AGI if taxable and in questions 47 and 95 if untaxed. The cash value or equity of a life insurance policy (often called a whole-life policy) isn't reported as an asset.

➔ **Excluded assets for Native American students.** The law explicitly excludes reporting any property received under the Per Capita Act or the Distribution of Judgment Funds Act (25 U.S. Code 1401, *et seq.*), the Alaska Native Claims Settlement Act (43 U.S. Code 1601, *et seq.*), or the Maine Indian Claims Settlement Act (25 U.S. Code 1721, *et seq.*).

Simplified needs test

The law provides a "simplified EFC" calculation for a student who meets certain income and tax-filing requirements. If the applicant is eligible based on the information on the FAFSA, the CPS will automatically exclude assets from the EFC calculation. However, some states and schools require this information for their own aid programs.

Family farm

A farm (including equipment, livestock, etc.) isn't reported as an investment on the FAFSA if:

- it is the principal place of residence for the applicant and his family (spouse or, for dependent students, parents), and
- the applicant (or parents of a dependent student) materially participated in the farming operation

Rental properties

Rental properties are an asset. A unit within a family home that has its own entrance, kitchen, and bath (a rented bedroom would not count therefore) and that is rented to someone other than a family member, counts as an asset. To calculate its net value, multiply the net value of the entire structure by the fraction the rented space represents. Similarly, if a family owned a ten-unit apartment building and lived in one of the apartments, 9/10 or 90% of the net value of the building would be an asset.

At times a student or parent will claim rental property as a business. Generally, it must be reported as real estate instead. A rental property would have to be part of a formally recognized business to be reported as such, and it usually would provide additional services like regular cleaning, linen, or maid service.

STEP 2
Qualified tuition programs

UGMA and UTMA accounts
The Uniform Gifts and Uniform Transfers to Minors Acts (UGMA and UTMA) allow the establishment of an account for gifts of cash and financial assets for a minor without the expense of creating a trust. Because the minor is the owner of the account, it counts as his asset on the FAFSA, not the asset of the custodian, who is often the parent.

Qualified education benefits

Qualified tuition programs (QTPs, also known as section 529 plans because they are covered in section 529 of the IRS tax code) and Coverdell education savings accounts are grouped together in the law as qualified education benefits and have the same treatment: they are an asset of the owner (not the beneficiary because the owner can change the beneficiary at any time), except when the owner is a dependent student, in which case they are an asset of the parent. When the owner is some other person (including a non-custodial parent), distributions from these plans to the student count as untaxed income, as "money received."

States, their agencies, and some colleges sponsor plans known in the IRS tax code as qualified tuition programs. The IRS mentions two types of QTPs that are commonly called prepaid tuition plans and college savings plans. States may offer both plan types, but colleges may only sponsor prepaid tuition plans.

Prepaid tuition plans allow a person to buy tuition credits or certificates, which count as units of attendance. The number of units doesn't change even though tuition will likely increase before the beneficiary gets to use the tuition credits. Prior to the HERA, prepaid tuition plans were estimated financial assistance; they are now an asset of the plan owner, and their worth is the refund value of the credits or certificates.

College savings plans allow a benefactor to deposit money into an account that will be used for the beneficiary's college expenses. The buyer does not pre-purchase tuition credits as with a prepaid tuition plan. Rather, this type of plan is essentially a savings account, and its value as an asset is the current balance of the account.

Coverdell education savings accounts, or ESAs, are another tax-advantaged savings vehicle for college education. They are treated the same as college savings plans: the current balance is an asset of the account owner.

As long as distributions from QTPs and ESAs do not exceed the qualified education expenses for which they are intended, they are tax-free, so they will not appear in the next year's AGI. They should not be treated as untaxed income or as estimated financial assistance. For more information on these benefits, see the IRS's Publication 970, *Tax Benefits for Education*.

Reporting "take-back" mortgages

In a take-back mortgage, the seller of a house finances a portion of its cost for the buyer, who repays this additional mortgage to the seller. The seller reports the interest part of any payments received from the buyer on Schedule B of IRS Form 1040. Therefore, if a student or his parents report such interest on the tax return, it likely indicates an asset that should be reported on the FAFSA: the value of the take-back mortgage. There would be no debt reported against this asset. For example, if a dependent student's parents sold their house for $200,000 and financed a take-back mortgage of $40,000 to the buyer, the parents should report $40,000 as the net worth of the investment. The worth will decrease each year depending on how much of the principal the buyer paid back that year. This concept applies to other forms of seller financing of the sale of a home or other property.

Reporting trust funds

Trust funds in the name of a student, spouse, or parent should be reported as that person's asset on the application, generally even if the beneficiary's access to the trust is restricted. If the settlor of a trust has voluntarily placed restrictions on its use, then the student should report its present value as an asset, as discussed below. If a trust has been restricted by court order, however, the student should not report it. An example of such a restricted trust is one set up by court order to pay for future surgery for the victim of a car accident.

How the trust must be reported depends on whether the student (or dependent student's parent) receives or will receive the interest income, the trust principal, or both. In the case of a divorce or separation where the trust is owned jointly and ownership is not being contested, the property and the debt are equally divided between the owners for reporting purposes unless the terms of the trust specify some other method of division.

Interest only

If a student, spouse, or parent receives only the interest from the trust, any interest received in the base year must be reported as income. If the interest accumulates and is not paid out, the recipient must report an asset value for the interest she will receive. The trust officer can usually calculate the value of the interest the person will receive while the trust exists. This value represents the amount a third person would be willing to pay for the interest income.

Principal only

The person who will receive only the trust principal must report as an asset the present value of his right to that principal. For example, if a $10,000 principal reverts to a dependent student's parents when the trust ends in 10 years and the student is receiving the interest, he would report the interest he received as income and report as a parental asset the present value of his parents' rights to the principal. The present value of the principal can be calculated by the trust officer; it's the amount that a third person would pay for the right to receive the principal 10 years from now—basically, the amount that one would have to deposit now to receive $10,000 in 10 years.

Both principal and interest

If a student, spouse, or parent receives both the interest and the principal from the trust, the student should report the present value of both interest and principal, as described in the discussion of principal only. If the trust is set up so that the interest accumulates within the trust until it ends, the beneficiary should report as an asset the present value of the interest and principal that she is expected to receive when the trust ends.

Ownership of an asset

In some cases the ownership of an asset is divided or contested, which can affect how the student reports the asset:

Part ownership of asset

If the parent or student has only part ownership of an asset, the student should report only the owned part. Generally the value of an asset and debts against it should be divided equally by the number of people who share ownership unless the share of the asset is determined by the amount invested or the terms of the arrangement specify some other means of division.

Contested ownership

Assets shouldn't be reported if the ownership is being contested. For instance, if the parents are separated and can't sell or borrow against jointly owned property because it's being contested, the parent reporting FAFSA information would not list any net worth for the property. However, if the ownership of the property is not being contested, the parent would report the property as an asset. If ownership of an asset is resolved after the initial application is filed, the student can't update this information.

Lien against, and imminent foreclosure of, an asset

If there's a lien against the asset, the net value of the asset is determined by subtracting from its total value any associated debt as well as the amount of the lien. If foreclosure of an asset is imminent, the net value of the asset would still be reported until the party making the foreclosure completes legal action to take possession of the asset. If the status of the property changes after the application is filed, the student can't update the asset information.

STEP 2 Taxable income offsets

- **Student's veterans education benefits (44 and 45)**. The Higher Education Opportunity Act (HEOA), which reauthorized the Higher Education Act (HEA) and added new laws, removed veterans education benefits from estimated financial assistance, effective July 1, 2010. But because they might reduce how much of its own aid a school will award, these questions are included to identify students who receive the benefits. Students will report the amount of their benefits directly to their school. Because this change does not take effect until 2010, you will need to use the amount of the student's benefits as estimated financial assistance in 2009–2010.

- **Taxable income offsets (46 and 94).** Beginning with 2009–2010, Worksheets A, B, and C no longer appear on the FAFSA. The items that made up Worksheet C now appear in these two questions, which total certain types of taxable income that appear on the tax return but are excluded from the need analysis. When the CPS calculates the EFC, it subtracts this excluded income from the AGI. Having the AGI from the tax return listed on the application makes verification easier.

  Items that can be found on tax forms:

  ➔ **Education tax credits.** These are the Hope and Lifetime Learning tax credits; the FAFSA refers to the pertinent lines on the tax return.

  ➔ **Taxable earnings from need-based work programs.** These are earnings from any need-based work program including FWS and need-based employment portions of fellowships or assistantships. The student might have received W-2s for these earnings. Otherwise, she will need to use any other records she received showing how much she earned.

  ➔ **Student grant and scholarship aid.** A student reports **only** the amount of grants and scholarships received that is included in taxable income. This includes grant and scholarship (not employment) portions of fellowships and assistantships. Be sure to include any AmeriCorps benefits (awards, living allowances, and interest accrual payments) except those for health care or child care. For grant and scholarship aid that is part of the taxable income, the tax filer usually writes the amount separately on the tax form next to the line where wages and other earnings are reported. If the information was reported this way, the student can copy that amount from the tax form.

  ➔ **Combat pay.** Enter only the portion that was included in adjusted gross income. This should be zero for enlisted persons and warrant officers (including commissioned warrant officers) because their combat pay is entirely non-taxable. For commissioned officers generally, combat pay in excess of the highest enlisted person's pay (plus imminent danger/hostile fire pay) is taxable. To determine the taxable amount, find the

Child support payments example

Steven and his wife each have a child from a previous relationship who doesn't live with them and for whom they pay child support. Because Steven provides over half of his daughter's support through his payments, he counts her in his household size. Therefore, he doesn't report the amount of child support he pays on his FAFSA. Steven's wife isn't providing over half of her son's support, so he isn't included in Steven's household size. Therefore, Steven can report the amount of child support his wife pays.

total combat pay from the serviceperson's leave and earnings statements and subtract the untaxed portion, which is reported in box 12 of the W-2 form with code Q. See IRS Publication 3, *Armed Forces' Tax Guide*, for more information.

Not from tax forms, but to be reported:

➔ **Child support payments** made during 2008 because of divorce, separation, or legal requirement by the student, spouse, or parent whose income is reported on the FAFSA. However, don't include child support paid for a child included in the household size on the FAFSA.

■ **Untaxed income (47 and 95).** These questions total the untaxed income that is added to the taxable income. The items in these questions used to appear on Worksheet B, though the College Cost Reduction and Access Act (CCRAA) removed combat pay, the foreign income exclusion, and the tax credit on special fuels from the need analysis, along with all of the types of untaxed income that appeared on Worksheet A.

Some types of income are reported on the tax form even though they aren't taxed. A student who hasn't filed a return will have to estimate these amounts, and students or parents may need to separate information from a joint return.

Items that are drawn from tax forms:

➔ **Payments to tax-deferred or sheltered pension and savings plans (paid directly or withheld from earnings).** This includes untaxed portions of 401(k) and 403(b) plans. These types of payments are listed in boxes 12a through 12d of the W-2 and will have one of the following codes: D, E, F, G, H, or S. Note that employer contributions to these plans shouldn't be reported as an untaxed benefit.

➔ **Deductible IRA or Keogh payments.** If the student, spouse, or parent can exclude from taxation payments to an IRA or Keogh, those payments are reported as untaxed income. These amounts appear on the tax return.

➔ **Tax-exempt interest income.** Certain types of interest, such as interest on municipal bonds, are tax-exempt. This amount is on line 8b on both the 1040 and 1040A forms.

➔ **Untaxed IRA distributions and pension or annuity payments.** A tax filer determines how much of his IRA distribution or pension or annuity payment is taxable when he completes his tax return. The applicant reports the untaxed portion but should not include rollovers (transfers of funds from one IRA to another). The question indicates how to determine the untaxed amount from the tax return.

STEP 2
Untaxed income

Excluding the 2008 stimulus

The Economic Stimulus Act of 2008 provided a tax credit in the form of a cash payment based on information reported on the 2007 tax return. The maximum amount of the payment was $600 ($1,200 for married persons filing jointly) plus $300 for each eligible child under 17. The Secretary has determined that these stimulus payments received by eligible taxpayers in 2008 are not to be included as income on the 2009–2010 FAFSA.

Independent student with parental support example

Doug is a graduate student, so he's independent even though he still lives with his parents and has no income of his own. Although the FAA at his school can't make him a dependent student, she decides to use professional judgment to add an amount to his untaxed income to account for the in-kind support his parents provide.

STEP 2
Untaxed income

Box 14 items on the W-2

Schools are not required to review income listed in box 14 of the IRS's W-2 form. There are a few reasons for this: several of the items that the IRS suggests could be reported in box 14 are captured already on the FAFSA (in adjusted gross income for instance); also, employers could include in box 14 certain non-elective pension plan contributions, and non-elective contributions should not be counted in the need analysis; finally, because no employer is required to provide information in box 14, it is unlikely that employers will be consistent in what they report there.

But if you are aware that a box 14 item should be reported—i.e., if it represents discretionary income—you should include it on the appropriate line. For example, clergy parsonage allowances often appear in box 14, and you would count that on line g of question 47 or 95.

Dependent benefits example

Stanislaw's uncle Yvor lives with him and receives a small disability payment each month. This amount is paid directly to Yvor, so Stanislaw doesn't report it as income when he completes the FAFSA. The payment is small enough that Stanislaw is still providing more than half of Yvor's support, and because he expects to continue to provide more than half support during the award year, he includes Yvor as a dependent in his household size. However, starting the July after the current award year, Yvor expects to also start receiving a pension. The combination of the pension and the disability payment will be enough that Stanislaw won't be providing more than half of his uncle's support and therefore won't be able to include Yvor in his household size after this award year.

Income not reported on the tax return:

➔ **Child support received for all children.**

➔ **Housing, food, and other living allowances.** Some people, particularly clergy and military personnel, receive these allowances as compensation for their jobs. Money received to pay for rent should also be reported, as should the free use of a house or apartment (the rent or market value of a comparable house or apartment can be used). Similarly, if the student received free room or board in 2008 for a job that was not awarded as student financial aid (including resident advisor positions that provide free room and board as part of the student's non-need-based employment compensation), she must report the value of the room and board as untaxed income. Do not, however, include rent subsidies for low-income housing.

➔ **Veterans' noneducation benefits.** This includes disability, the death pension, Dependency and Indemnity Compensation (DIC), and VA educational work-study allowances.

➔ **Any other untaxed income not reported elsewhere.** This can include disability, worker's compensation, interest income on education IRAs, untaxed portions of railroad retirement benefits, black lung benefits, refugee assistance, the untaxed portion of capital gains, and foreign income that wasn't taxed by any government.

➔ **Money received.** The student reports any cash support he has received. But if he is dependent, he does not count his parents' support, with one exception: money from a non-custodial parent that is not part of a legal child support agreement is untaxed income to the student. Cash support includes money, gifts, and loans, plus housing, food, clothing, car payments or expenses, medical and dental care, college costs, and any money paid to someone else on his behalf. For example, if a friend or relative pays his electric bill or part of his rent, he must report the amount as untaxed income. If he is living with a friend who pays the rent and the student's name is on the lease, the rent paid on his behalf counts as cash support because he is responsible for payments that his friend is making. Note that this item does not appear in the parents' question (95)—only the student reports this information.

Tips on reporting benefits:

The student reports the actual amount of benefits received during the year, even if it is an underpayment or an overpayment that will be corrected in the next year. However, if the underpayment or overpayment was adjusted in the same year, only the net amount received during that year would be reported.

Benefits the student or parent receives on behalf of anyone included in his FAFSA household size count as income to him unless the person (e.g., a grandmother) receives the benefits in her name. Such a person is not included in the household size if benefits in her name total more than half of her support.

Income and benefits NOT to be included:

➔ **Student aid** is accounted for in packaging aid (see *Volume 3: Calculating Awards and Packaging*) and does not count as income or a benefit in the calculation of the EFC. Student aid includes tuition benefits a parent receives for a dependent (for example, from the parent's employer). Note that student aid that was included in the AGI is reported separately as an exclusion so that it can be subtracted from income.

➔ **Payments and services received from states for foster care or adoption assistance,** under Part A or Part E of Title IV of the Social Security Act.

➔ **Per capita payments to Native Americans.** Money received in 2008 from the Per Capita Act or the Distribution of Judgment Funds Act should not be reported unless it exceeds $2,000 per payment. Any amount over that is reported as untaxed income.

➔ **Heating/fuel assistance.** This includes payments or allowances received under the Low-Income Home Energy Assistance Act (LIHEA). Payments under the LIHEA are made through state programs that may have different names.

➔ **Flexible spending arrangements.** These are employee benefit programs, sometimes called "cafeteria plans." Neither contributions to nor payments from these programs should be counted as untaxed income.

➔ **Welfare benefits, untaxed Social Security benefits, and the earned income and additional child tax credits.** These formerly appeared on Worksheet A of the FAFSA as includable types of untaxed income but were excluded by the CCRAA.

➔ **Combat pay, foreign income exclusion, and credit for federal tax on special fuels.** As noted above, these used to be included in untaxed income but were excluded by the CCRAA.

➔ **In-kind support.** In-kind support is other than money, for example, friends or relatives giving the student food or allowing him to live with them rent-free. That support isn't included as untaxed income, though you may use professional judgment (e.g., by reducing the cost of attendance or increasing income) with students who receive such in-kind support. This is not the same as housing and other allowances received as compensation for a job, which, as stated earlier, must be reported. If the student is living with someone who is paying living expenses, it can be difficult to determine whether the support is cash

STEP 2
Untaxed income not reported on the FAFSA

Examples of in-kind income (not reported)

- Food Stamp Program
- Women, Infants, and Children Program (WIC)
- Food Distribution Program
- National School Lunch and School Breakfast programs
- Commodity Supplemental Food Program (CSFP)
- Special Milk Program for Children
- Daycare provided by the Social Services Block Grant Programs (if the recipient receives **reimbursement** for child care expenses, that amount is reported as income)
- WIA (formerly JTPA) educational benefits
- Rollover Pensions
- Payments and services received from states for foster care or adoption assistance, under Part A or Part E of Title IV of the Social Security Act

STEPS 2, 3
Questions 49–50
Dependency status

support or in-kind support. The basic rule is: if someone pays a cost that the student is obligated to pay, the amount counts as cash support.

STEP THREE: DEPENDENCY STATUS

Purpose: The law governing the FSA programs is based on the premise that the family is the first source of the student's support, and the law provides several criteria that decide if the student is considered independent of her parents for aid eligibility. Note that a student reaching the age of 18 or 21 or living apart from her parents does not affect her dependency status.

If the student is considered a dependent of his parents, information on the income and assets of the parents must be included on the FAFSA. The CPS will calculate a parental contribution and add it to the student's contribution to derive an EFC.

In unusual cases an aid administrator can determine that a student who doesn't meet any of the independence criteria should still be treated as an independent student. (See "Dependency overrides" later in this section.)

Note that the CCRAA has added considerably to the criteria that determine student dependency status. These statutory changes have been further clarified by the HEOA.

- **Married (49).** This question must be answered according to the student's marital status at the time the FAFSA is signed. If the student is engaged to be married, she must answer as unmarried unless she waits until after the marriage to complete the FAFSA. If she is married and planning to divorce, she must answer as married. Note that a student **cannot** update FAFSA information for changes in marital status after the application is signed.

  If the student has a relationship that meets the criteria for common-law marriage in his state, the student is considered to be married. A married student who is separated (not divorced) is considered married for determining dependency status. A student who was independent only because he was married becomes dependent for the next award year if he divorces and cannot answer yes to any of the dependency questions.

- **Graduate or professional study (50).** The FAFSA asks the student if she will be working on a master's, doctorate, or graduate certificate program at the beginning of the school year. A student who is a graduate or professional student is independent for purposes of Title IV aid.

  Graduate and professional students aren't eligible for Pell grants, so a student who incorrectly answers "Yes" to this question must submit a correction before he can get a Pell grant, even if he is independent for another reason.

Criteria for independence

For the 2009–10 year, a student is independent if he meets any of the following criteria from HEA Sec. 480(d), i.e., if he:

- was born before January 1, 1986
- is married as of the date he applies
- will be a graduate or professional student at the start of the award year
- is currently serving on active duty for purposes other than training
- is a veteran of the U.S. Armed Forces
- has dependents other than a spouse
- was an orphan, foster child, or ward/dependent of the court at any time since the age of 13
- is an emancipated minor
- is in legal guardianship or
- was determined at any time since July 1, 2008, to be an unaccompanied youth who was homeless or was self-supporting and at risk of being homeless.

Early exit cadets

Students who attend a U.S. military academy or military academy preparatory school and who are discharged other than dishonorably prior to commission are veterans for FSA purposes but might not be veterans for VA purposes. These students will likely receive match results showing that they aren't veterans. Just like other students who receive these match results, if an early exit cadet meets one of the other criteria for independence, no resolution is required. But if he meets no other independence criteria, he must provide the school with documentation that shows he was a cadet of a military academy or its preparatory school.

Students should fill out the FAFSA based on their expected grade level at the beginning of the award year. If a dependent student completes her undergraduate program during the year and begins graduate school, she can update the answer to the dependency question so that the CPS can reprocess her application, or the aid administrator at the graduate school can recalculate her EFC and use it to package her graduate aid.

- **Member or veteran of the U.S. Armed Forces (51 and 52).** Veterans and persons on active duty in the U.S. Armed Forces (the Army, Navy, Air Force, Marines, or Coast Guard) for purposes other than training are independent.

  Veterans are those who were in active service (which includes basic training) and were released under a condition other than "dishonorable." This includes those who fraudulently entered the service as long as their entire period of service was not voided. There is no minimum amount of time the student has to have served to be a veteran, but it does have to be active service. This is less stringent than the VA's definition of veteran for receiving certain VA benefits.

  The application also tells students to answer "Yes" to the question about veteran status if they aren't yet a veteran but will be by June 30, 2010. Students who attended a **U.S. service academy** or its preparatory school (e.g., USMAPS or NAPS, not high school academies) for at least one day and were released under conditions other than "dishonorable" count as veterans for Title IV purposes. Students serving in ROTC or currently attending a U.S. military academy are not veterans.

  Members of the **National Guard** or **Reserves** are only considered veterans if they were called up to active federal duty by presidential order for a purpose other than training. It does not matter how long the active duty lasted or if the student returned to reserve status afterward, but, as with the other qualifying veterans, the student must have had a character of service that was not "dishonorable."

- **Children and legal dependents (53 and 54).** Students who have legal dependents are independent. Legal dependents comprise children (including those who will be born before the end of the award year) of the student who receive more than half their support from the student, and other persons (except a spouse) who live with and receive more than half their support from the student as of the FAFSA signing date and will continue to do so for the award year. The same criteria apply to household size.

  For a student who applies after the award year has begun, in order to count a person not her child as a dependent, the future support for the award year plus that already given in that year must total more than 50% for the entire year. See the example in the margin.

STEP 3
Questions 51–54
Dependency status

Legal dependent examples

Laurel is going to college and is her cousin Paul's legal guardian. Paul receives Social Security benefits, but because he's a minor, the benefits are paid to Laurel on his behalf. These benefits provide more than half of Paul's support. Because Paul lives with Laurel and will be supported by her (through the Social Security benefits) throughout the award year, Laurel answers "Yes" to the legal dependent question. If Paul didn't live with Laurel, she would have to answer "No" to the question.

Alan pays $4,000 to support his girlfriend, Cathy, who lives with him. She has earned income of $3,000, and she receives $200 a month ($2,400 a year) from her parents. She uses all of this for her support. Alan cannot consider Cathy a dependent since the $4,000 he provides is not more than half of her total support of $9,400.

In April 2009 Anika applies for aid for 2008–09. One month prior to that her cousin Bettina came to live with her. Even though Anika provides all of her cousin's support, the one month of support she has given plus the two months left in the award year would not amount to more than 50% for the entire year, so she can't consider Bettina her dependent for 2008–09. If Bettina had moved in just before the midpoint of the year, Anika would have been able to count her as a dependent for 2008–09.

STEP 3
Veteran match

Veteran match (for question 52)

If the student answers "Yes" to the question about veteran status, the CPS performs a match with the U.S. Department of Veterans Affairs (VA) records to confirm that status. The VA sends the result back, which appears as a match flag in the FAA Information section of the output document. For flags 2, 3, and 4, a comment and a C flag will appear on the SAR only if veteran status is the sole reason that the student would be independent. See Appendix B in *The ISIR Guide: 2009–2010*.

Successful match (match flag 1)

There won't be any comments on the output document if the VA confirms that the student is a veteran.

Not a veteran (match flag 2)

A student will receive this flag if the VA database indicates he is not a veteran. If the student answered "Yes" to one of the other dependency questions, he is independent based on that question and can receive student aid without resolving his veteran status.

If the student answered "No" to all the other dependency questions and he believes he is a qualifying veteran, he should provide the financial aid office at his school a copy of his DD214 (the Certificate of Release or Discharge from Active Duty, with "Character of Service" as anything but "dishonorable"). If it shows that he is a veteran, he can receive aid as an independent student. A dependency override is not necessary because the CPS accepts his "Yes" answer to the veteran question. If a national guardsman or a reservist who served on active duty (for other than training) did not receive a DD214 but can obtain a letter from a superior officer that documents the call-up to active duty and that classifies the character of service as anything but "dishonorable," the student will be considered a veteran for FSA purposes. If the student turns out not to be a veteran, he will need to change his answer to the question from "Yes" to "No" and provide parent information including a parent's signature.

If the VA match problem is due to an error in the VA's database, the student should contact the VA and correct the error. A subsequent transaction will then redo the match with the VA.

Not on database (match flag 3)

Much of the guidance above applies for students not on the VA database: if the student is independent for a reason other than being a veteran, she doesn't need to resolve the problem before receiving student aid, although she should have the VA correct its database if it's wrong. If she answered "No" to the other dependency questions, she must either correct any problem with the VA, provide documentation showing she is a veteran or will be one by June 30, 2009, or, if she is not a veteran and will not be one by that date, provide parent data and change her response to the question from "Yes" to "No."

Active duty (match flag 4)

If the student is currently on active duty, he isn't a veteran yet, but if his active duty will end by June 30, 2009, he counts as a veteran for dependency status. Because he should have answered "Yes" to the active duty question, he would be independent by that criterion, and he wouldn't have to resolve this situation.

STEP 3
Who is a parent or has dependents

Who counts as a parent?

If the applicant answers "No" to questions 48–60, then she is dependent and must report parental information. In most cases it's clear who the parents are, but not always.

✔ **Adoptive parents and stepparents**

An adoptive parent is treated just like a biological parent. For reporting income and assets in Step 4, a stepparent is considered a parent if married to a biological or adoptive parent and if the student counts in their household size.

However, a stepparent who did not adopt the student cannot be the sole parent for determining dependency status. If the other parent dies, the student is still a dependent of the remaining biological parent, not the stepparent. If no biological parent remains, the student answers "Yes" to Question 55 and is independent.

× **Foster parents, legal guardians, and relatives**

A foster parent or a legal guardian is not treated as a parent for FSA purposes. If at any time since the age of 13 both of the student's parents were dead (and he did not have an adoptive parent) or he was in foster care, he is independent. If he is now, or was when he became an adult, an emancipated minor or in legal guardianship, he is independent.

If a student is living with her grandparents or other relatives, their data should not be reported on the FAFSA as parental data unless they have adopted the student. Any cash support from persons other than the student's parents should be reported as untaxed income, as discussed in Step 2. The school may also consider other kinds of support as part of the student's financial resources and use professional judgment to include the support under the item for student's untaxed income (see Chapter 5 on professional judgment).

Other sources of support for children and other household members

If the student is receiving support to raise her child, is the child still considered a legal dependent? If one or both of the student's parents are directly or indirectly providing more than 50% support in cash or other assistance to the child, then the student would answer "No" to the FAFSA question about legal dependents. "Indirect support" to the child includes support that a parent gives to the student on behalf of the child. If the student is living with a parent who is paying for most of the household expenses, the parent would usually be considered the primary source of support to the child, and the student would answer "No" to the question about legal dependents. However, there may be some cases where the student can demonstrate that she provides more than half of her child's support even while living at home, in which case she would answer "Yes" to the question about legal dependents.

When the student receives money for the child from any source other than her parents, she may count it as part of her support to the child. Sources include child support and government programs, such as Temporary Assistance to Needy Families (TANF), that provide benefits for dependent children. So a student may be considered independent when the benefit she receives is the primary support for her child. For example, if a student who lives alone with her child receives cash from her boyfriend that amounts to more than 50% support for her child, then she would be able to count the child as a dependent and in her household size, and she would be independent. If the boyfriend is the father of the child and a student himself, then he would also be able to count the child as a dependent and in his household size, and he would be independent too.

STEP 3
Questions 55–60
Dependency status

Unable to provide parent data
New for 2009–2010, FAFSA on the Web allows students to indicate that they believe they have special circumstances that prevent them from providing parent information. A student who indicates this is thoroughly informed about what warrants a dependency override and what the results will be for his application. If he persists through those screens and does not include parent data, he will get a rejected ISIR that will have the special circumstances flag set. You, the FAA, will have to review the student's situation and determine if he: is an unaccompanied youth, merits a dependency override, must instead provide parent data, or should be permitted to borrow only unsubsidized Stafford loans because he can document that his parents have refused to support him and to provide their information on his FAFSA. See page 32.

Student living with relatives example
Millie's father is dead, and her mother can't support her, so she is living with her grandmother. Her mother doesn't pay any money for her support. Millie doesn't meet any of the independence criteria, so she has to provide parental information. Because her grandmother hasn't adopted her, her grandmother isn't her parent. Millie will have to provide information about her mother on the form unless there are unusual circumstances that would warrant a dependency override or her receiving only unsubsidized loans (see page 32). In any case, the school might use PJ to account for the grandmother's support.

- **Orphan, foster child, or ward of the court (55).** This category was modified by the CCRAA to include foster children and to make 13 the effective age. A student who was an **orphan**—both her parents were dead—when 13 or older is independent even if she was subsequently adopted. Likewise, a student who was at any time since the age of 13 a **foster child** or a **ward of the court** is independent even if her status changed later.

  A student is a ward of the court if the court has assumed custody of her. In some states the court may impose its authority over a juvenile who remains in the legal custody of her parents; such a student is not a ward of the court. Also, incarceration of a student does not qualify her as a ward of the court. In some states the phrase "ward of the state" is used. This is considered the same as a ward of the court for dependency status as long as the student is a ward of the state **not** due to incarceration.

- **Emancipation and legal guardianship (56 and 57).** The CCRAA added these categories for 2009–2010, and the HEOA clarifies them. Students are independent if they are, or were when they turned 18, emancipated minors (released from control of their parent or guardian) or in legal guardianship, both as adjudicated by a court in their state of legal residence.

- **Unaccompanied homeless youth (58–60).** As another result of the CCRAA, a student is independent if at any time on or after July 1, 2008, she is determined to be an *unaccompanied homeless youth* by a school district homeless liaison or the director (or designee) of an emergency shelter program funded by the Department of Housing and Urban Development (HUD). The director (or designee) of a runaway or homeless youth basic center or transitional living program can determine this as well, plus whether a student is independent because she is an *unaccompanied youth who is self-supporting and at risk of being homeless*. These authorities make this determination if the student is receiving their programs' services or if, in the case of a school district homeless liaison, the student is in high school.

  A financial aid administrator can also determine if a student is an unaccompanied youth who is either homeless or is self-supporting and at risk of being homeless. It is important that you examine students' living situations and claims on a case-by-case basis. This is not a dependency override or an exercise of professional judgment. If a student does not have, and cannot get, documentation from any of the above authorities, you must determine if she is an unaccompanied youth who is homeless or is self-supporting and at risk of being homeless.

  As defined in the margin note, a student is considered homeless if he lacks fixed, regular, and adequate housing. This is broader than just living "on the street." It includes temporarily living with other people because he had nowhere else to go; living in

substandard housing (if it doesn't meet local building codes or the utilities are turned off, it is generally not adequate); living in emergency or transitional shelters, for example, trailers provided by the Federal Emergency Management Agency (FEMA) after disasters; or living in motels, camping grounds, cars, parks, abandoned buildings, bus or train stations, or any public or private place not designed for humans to live in. It also includes living in the school dormitory if the student would otherwise be homeless. A student living in any of these situations and fleeing an abusive parent may be considered homeless even if the parent would provide support and a place to live.

There is no prescribed documentation for an FAA's evaluation of the living arrangements of a student, but it must demonstrate that she meets the definition of this category of independent student. The determination may be based on a documented interview with the student if there is no written documentation available.

For 2009–2010, process the student's FAFSA as though it were a dependency override; we expect to add a separate item for homeless youth on the 2010–2011 application. As with a dependency override, you may rely on a determination by another school that a student was, on or after July 1, 2008, an unaccompanied homeless youth or an unaccompanied, self-supporting youth at risk of being homeless.

Students who are older than 21 but not yet 24 and who, if not for their age, would be considered unaccompanied homeless youths or unaccompanied, self-supporting youths at risk of being homeless, would qualify for a dependency override.

Dependency overrides

The Higher Education Act allows a financial aid administrator (FAA) to make dependency overrides on a **case-by-case** basis for students with unusual circumstances. If the FAA determines that an override is appropriate, she must write a statement detailing the determination and must include the statement and supporting documentation in the student's file. **However, none of the conditions listed below, singly or in combination, qualify as unusual circumstances meriting a dependency override:**

1. Parents refuse to contribute to the student's education;
2. Parents are unwilling to provide information on the FAFSA or for verification;
3. Parents do not claim the student as a dependent for income tax purposes;
4. Student demonstrates total self-sufficiency.

Unusual circumstances do include an abusive family environment or abandonment by parents and may cause any of the above conditions. In such cases a dependency override might be warranted. See Chapter 5 for guidance on other professional judgment (PJ) changes.

STEP 3
Dependency overrides

Homeless youth definitions

At risk of being homeless—when a student's housing may cease to be fixed, regular, and adequate, for example, a student who is being evicted and has been unable to find fixed, regular, and adequate housing.
Homeless—lacking fixed, regular, and adequate housing.
Self-supporting—when a student pays for his own living expenses, including fixed, regular, and adequate housing.
Unaccompanied—when a student is not living in the physical custody of a parent or guardian.
Youth—a student who is 21 years old or younger or still enrolled in high school as of the date he signs the application.

Housing

Fixed—stationary, permanent, and not subject to change.
Regular—used on a predictable, routine, or consistent basis.
Adequate—sufficient for meeting both the physical and psychological needs typically met in the home.

Verification not required

You are not required to verify the answers to the homeless youth questions unless you have conflicting information. A documented phone call with, or a written statement from, one of the relevant authorities is sufficient verification.

Example: surviving parent and stepparent

Meurig's parents divorced when he was seven; his mother later remarried, and Meurig lived with his mother and stepfather. His stepfather didn't adopt him. His mother died last year, but his father is still living. Meurig doesn't meet any of the independence criteria, so he's a dependent student. Because his father is his only surviving parent, Meurig needs to report his father's information on the form, even though he's still living with and being supported by his stepfather.

STEP 3
Students without parent support

Dependency overrides
HEA Sec. 480(d)(7). Also see Dear Colleague Letter GEN-03-07.

Overrides and professional judgment
The phrase "professional judgment" is commonly used for the discretion that FAAs apply to dependency overrides and to data adjustments in the application. It is important to note that the provisions for these two types of changes are in separate places in the HEA. The citation for dependency overrides is in Sec. 480(d)(7); the citation for data adjustments is in Sec. 479A and is copied in toto in a margin note in the last chapter of this guide.

The presence of these conditions would not disqualify a student from being an unaccompanied youth who is homeless or self-supporting and at risk of being homeless. As noted on page 29, such a student who is too old to be a "youth" would merit a dependency override.

An aid administrator may override only from dependent to independent (though as noted earlier, if an independent student receives substantial support from others, a school may use PJ to adjust the COA or FAFSA data items such as untaxed income).

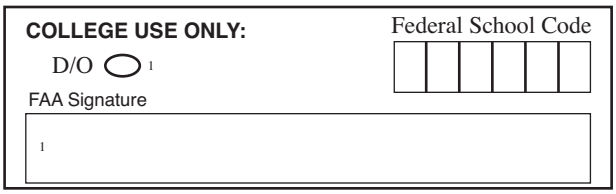
In the past overrides were valid only at the school that performed them, but now FAAs may, without gathering documentation, use an override that another school granted in the same award year. However, overrides still do not carry over from one year to the next; the FAA must reaffirm each year that the unusual circumstances persist and that an override is still justified.

Generally the documentation of unusual circumstances should come from a third party that knows the student's situation (such as a teacher or member of the clergy), but in cases where this is not available, the school can accept a signed and dated statement from the student or a family member detailing the unusual circumstances.

To override the student's dependent status on an initial application through FAA Access, the FAA should use the Dependency Override code of "1" (see the *EDE Technical Reference* for more information).

To authorize a dependency override on a paper FAFSA, the FAA marks the oval for an override, labeled "D/O," in the "College Use Only" box, fills in the school's federal school code, and signs. A separate letter attached to the application in lieu of making the override is **not** acceptable.

If the student has already applied, you can use FAA Access to CPS Online to authorize or cancel an override; overrides cannot be done on the SAR. If she had an override done at another school in the current year, that will be noted with the school's federal code on FAA Access. Only the school performing the override will receive that transaction. If the student adds your school to the transaction or if she gives you her data release number (DRN), you can access the record.



Reporting information in cases of death, separation, divorce, and remarriage

If the parents of a student divorce or separate, a student must answer parental questions on the FAFSA as they apply to the surviving or responsible parent.

Death of a parent

If one, but not both, of the student's parents has died, the student answers the parental questions about the surviving biological or adoptive parent and does not report any financial information for the deceased parent. If both her parents are dead when she fills out the FAFSA, she must answer "Yes" to Question 55, making her independent. Remember that an adoptive parent counts as a parent, but a legal guardian doesn't. If the surviving parent dies after the FAFSA has been filed, the student must update her dependency status and report income and assets as an independent student.

Stepparent

A stepparent is treated like a biological parent if the stepparent has legally adopted the student or if the stepparent is married, as of the date of application, to a student's biological or adoptive parent whose information will be reported on the FAFSA. **There are no exceptions.** A prenuptial agreement does not exempt the stepparent from providing information required of a parent on the FAFSA. The stepparent's income information for the entire base year, 2008, must be reported even if the parent and stepparent were not married until after 2008. See above for how to fill out the parent questions when the stepparent's spouse (the biological parent) dies; if the stepparent has not adopted the student, he would no longer provide parental information as before, but any financial support he gives to the student would be counted as untaxed income.

Divorce of the student's parents

If the student's parents are divorced, he should report the information of the parent with whom he lived longer during the twelve months prior to the date he completes the application, regardless of which parent claimed him as an exemption for tax purposes. If the student lived equally with each parent or didn't live with either one, then he should provide the information for the parent from whom he received more financial support or the one from whom he received more support the last calendar year for which it was given. Note that it is not typical that a student will live with or receive support from both parents exactly equally. Usually you can determine that the student lived with one of the parents more than half the year or that he received more than half support from one of the parents.

Separation of the student's parents or the student and spouse

A couple need not be legally separated to be considered separated—they may deem themselves informally separated when one of the partners has left the household for an indefinite period and the marriage is severed. While a married couple that lives together can't be informally separated, in some states they can be legally separated. If their state allows this, and if they are still living together and are legally separated, then that is their status on the FAFSA. For a dependent student, use the rules for divorce to determine which parent's information to report.

Common-law marriage

If a couple lives together and has not been formally married but meets the criteria in their state for a common-law marriage, they should be reported as married on the application. If the state doesn't consider their situation to be a common-law marriage, then they aren't married; a dependent student would follow the rules for divorce to determine which parent's information to report. Check with the appropriate state agency concerning the definition of a common-law marriage.

STEP 4
Questions 61–70
Parent information

Death, separation, divorce
HEA Sec. 475(f)

Divorce example
Marta is 22 and doesn't meet any of the independence criteria. Her parents divorced recently, and she hasn't lived with them since she was 18. Also, neither parent provided support in the past year. The last time she received support from her parents was when she lived with them and they were still married. Because her father's income was larger and he contributed more money to the overall household expenses, Marta determines that the last time she received support, most of it was from her father. She provides his data on the FAFSA.

Students without parent support

Although students whose parents refuse support are not eligible for a dependency override, the Higher Education Opportunity Act of 2008 (HEOA) granted that such students may receive unsubsidized Stafford loans only. For a student to be eligible for this provision (the text of which is in the "Professional judgment" margin note in Chapter 5), you must get documentation (1) that his parents refuse to provide information for his FAFSA and (2) that they do not and will not provide any financial support to him. Include the date support ended. If the parents refuse to sign and date a statement to this effect, you must get documentation from a third party (the student himself is not sufficient), such as a teacher, counselor, cleric, or court.

As noted above, this situation does not justify a dependency override. But as with overrides, making this determination is up to the discretion of the financial aid administrator. If you decide that a student falls into this category, you must document your decision and ensure that the student submits a FAFSA and passes all the eligibility matches. The result will be a rejected application with no EFC. You can then award the student unsubsidized Stafford loans up to the maximum the student would normally be eligible for depending on his grade level (but not the amount a student can get when his parent is unable to get a PLUS loan). See DCL GEN-08-12 for more information.

STEP FOUR: PARENTS' INFORMATION (DEPENDENT STUDENTS ONLY)

Purpose: Questions 61–81 collect information about the student's parents and their household. Questions 82–95 collect tax and financial information for the parents, and because these questions are answered in the same way as for the student, they were discussed under Step 2.

- **Parents' personal information (61–70).** The FAFSA asks for parents' SSNs, last names, first initial, date of birth, and month and year they were married, separated, divorced, or widowed. This is to prepare for a possible match with the IRS on AGI, taxes paid, filing status, and number of exemptions claimed. If the SSN, last name, and birth date for at least one parent are not provided, or if neither parent's SSN matches with the Social Security Administration, the application will be rejected. When the SSN doesn't match with SSA, the wrong number must be corrected so that the application and SSA agree. For a name or birth date that doesn't match, correct the application if it's wrong or re-enter the information if it's correct. If the parent doesn't have an SSN, enter 000-00-0000 to prevent or remove a reject code. (See also the SSN chapter in Volume 1.)

- **Parents' state of residence (72–74).** Parents who do not live in the U.S. should enter "FC" for question 72.

- **Household size (75).** This determines the standard living allowance that offsets the family income in the EFC calculation.

The following persons may be included in the household size of a dependent student's parents:

➔ **The student and parents,** even if the student is not living with them. Exclude a parent who has died or is not living in the household because of separation or divorce.

➔ **The student's siblings and children,** if they will receive more than half their support from the student's parent(s) from July 1, 2009, through June 30, 2010. Siblings need not live in the home. This includes unborn children and siblings of the student who will receive more than half support from the student's parent(s) from birth to the end of the award year. It also includes siblings who would be considered dependent based on the FAFSA dependency questions (i.e., they need not be students nor apply for aid).

For the purpose of including children in the household size, the "support test" is used rather than residency because there may be situations in which a parent supports a child who does not live with her, such as when the parent is divorced or separated. If the parent receives benefits (such as social security or AFDC payments) in the child's name, these benefits must be counted as parental support to the child. An exception to this is foster care payments, which typically cover the costs of foster children, who for FSA purposes are not considered children of the foster parents and are not counted in the household size.

➔ **Other persons** who live with and receive more than half their support from the student's parent(s) and will receive more than half support for the entire award year. When the application is submitted after the start of the year, see the relevant paragraph and example about legal dependents on page 25.

- **Number in college (76).** The applicant is **always** included in the number in college, but parents are not included. Others who count in the household size are in the number in college if they are or will be enrolled at least half time during the award year in an eligible degree or certificate program at a school eligible for any of the FSA programs. The definition of half-time enrollment for this question must meet the federal requirements even if the school defines half time differently. (See *Volume 1: Student Eligibility* for enrollment status requirements.) Do not include students at a U.S. service academy because most of their primary educational expenses are paid for.

- **Receipt of means-tested federal benefits (77–81).** This as an alternative for the tax return requirement of the simplified needs and automatic zero EFC tests.

- **Tax forms filed by parents, income, and assets (82–84, 86–95).**

STEP 4

Questions 72–76
Household size and number in college

FSA and IRS household rules
The rules that decide whether someone is counted in the household for FSA purposes aren't identical to the IRS rules for determining dependents or household members.

Dependent student household size example
Lydia is a dependent student, and her parents are married. Her brother Ron is 26, but his parents still provide more than 50% of his support, so he is included in the household size. Her sister Elizabeth is attending college but is an independent student and isn't supported by their parents, so she isn't included in the household size. Her sister Susan is not attending college, but is working and supporting herself. However, if Susan were to apply for student aid, she would be considered a dependent student, so she is included. Therefore, the household size that Lydia reports for her parents is 5.

Number in college
HEA Sec. 474(b)(3)

STEP 4

Questions 77–85 Benefits, tax forms, income, assets, and dislocated worker

The criteria for reporting income, assets, and the tax forms filed are basically the same for parents as for the student, so refer to the discussion in Step Two for these questions.

■ **Dislocated worker (85).** The CCRAA added dislocated worker (as defined in the Workforce Investment Act or WIA; see 29 U.S.C. 2801 for the definition) status as a new alternative to the tax return and means-tested federal benefits criteria for determining if a person qualifies for the simplified needs test or automatic zero EFC. A person would still answer "yes" to this question if she meets the statutory definition of dislocated worker but does not appear to because of the general nature of the FAFSA instructions. Under the WIA, a dislocated worker is someone who falls into at least one of these categories:

1. A person who meets all of the following requirements:

• he was terminated or laid off from employment or received a notice of termination or layoff;

• he is eligible for or has exhausted his unemployment compensation, **or** he is not eligible for it because, even though he has been employed long enough to demonstrate attachment to the workforce, he had insufficient earnings or performed services for an employer that weren't covered under a state's unemployment compensation law; **and**

• he is unlikely to return to a previous industry or occupation.

2. A person who was terminated or laid off from employment or received a notice of termination or layoff as a result of any permanent closure of, or any substantial layoff at, a plant, facility, or enterprise.

3. A person who is employed at a facility at which the employer made a general announcement that it will close within 180 days.

4. A person who is employed at a facility at which the employer made a general announcement that it will close.

5. A self-employed person (including farmers, ranchers, or fishermen) who is unemployed because of natural disasters or because of general economic conditions in his community.

6. A displaced homemaker, someone who meets all of the following requirements:

• she has been providing unpaid services to family members in the home;

• she has been dependent on the income of another family member but is no longer supported by that income; **and**

• she is unemployed or underemployed and is having difficulty obtaining or upgrading employment. An "underemployed" person is

one who is working part time but wants to work full time or one who is working below the demonstrated level of her education or job skills.

STEP 4

Question 85
Dislocated worker

Not everyone who receives unemployment benefits will meet the definition of dislocated worker. For example, in general those who quit their jobs are not considered dislocated workers, even if they are receiving unemployment benefits.

You are not required to verify the answer to this question. If you choose to verify it, documentation can include, as appropriate to the category, a letter or a layoff or termination notice from the employer, unemployment insurance (UI) system verification, tax returns, a business license, or newspaper articles. You may also use documents from the state workforce agency or a "one-stop career center," though they are not required to provide you such documentation and a person may meet the dislocated worker definition without going to the workforce investment system for services. Absent all other evidence, self-certification will suffice, such as a statement signed by the person affirming that he meets the definition of dislocated worker.

Response of "Don't know"
"Don't know" is treated as "No" by the CPS. If a person gives this response, you are not required to verify it, but you may want to determine if he is a dislocated worker and if that would affect the student's eligibility for federal aid.

Information from the workforce investment system. The local workforce investment system and state UI agency may support financial aid administrators by:

- providing general information to dislocated workers;

- providing general information to financial aid administrators, such as about the WIA definition of dislocated workers and appropriate samples of documentation that financial aid offices can request from an individual to verify dislocated worker status;

- providing specific information to dislocated workers. A person can request documentation from the career center or other appropriate office that he is receiving dislocated worker services through the workforce investment system. That office can give the documentation to him, or at his request it may (it is not obligated to) give the documentation directly to the college.

If you need to determine a person's dislocated worker status, you have sole responsibility for assessing the validity of that status for the purpose of federal student aid. You are required to make this determination regardless of whether he has proof of dislocated worker status, or is receiving dislocated worker services, from the workforce investment system.

STEPS 5–6

Questions 96–104 Independent student and school data

Independent student household size example

Eddy is an independent student. He was married, but now he and his wife have separated. He's paying child support, but it isn't enough to provide more than half his children's support, so he can't include his children in his household size. Eddy's nephew Chavo lives with him and gets more than half of his support from Eddy (and will do so for the award year), so he can be counted in Eddy's household size, which is 2.

Having just turned 24, Chavo is also independent, and his household size is 1.

STEP FIVE: FOR INDEPENDENT STUDENTS ONLY

Purpose: Questions 96–103 collect information about independent students. Only students who answered "Yes" to one or more questions in Step Three complete this step.

- **Student's household size (96).** The following persons are included in the household size of an independent student:

  ➔ **The student and his or her spouse,** unless the spouse has died or is not living in the household due to separation or divorce.

  ➔ **The student's children,** regardless of where they live, if they will receive more than half of their support from the student from July 1, 2009, through June 30, 2010. This includes the student's unborn children who will be born during the award year and will receive more than half their support from the student from birth to the end of the award year. Foster children do not count in household size.

  ➔ **Other persons** who live with and receive more than half their support from the student and will receive more than half support for the entire award year. When the application is submitted after the start of the year, see the relevant paragraph and example about legal dependents on page 25.

- **Number in college (97).** The student is **always** included in the number in college. Also included are those in the household size who are or will be enrolled at least half time during the award year in a degree or certificate program at a Title IV-eligible school and who can reasonably be expected to receive aid from the family for their education. This excludes students at a U.S. service academy because their entire education is paid for. The definition of half-time enrollment for this question must meet the federal requirements even if the school defines half time differently.

- **Receipt of means-tested federal benefits (98–102).** This as an alternative for the tax return requirement of the simplified needs and automatic zero EFC tests.

- **Dislocated worker (103).** See question 85.

STEP SIX: SCHOOL INFORMATION

Purpose: These items collect information about which colleges the student wants to receive his information. For a college to be able to receive his data, the student must list the college's federal school code (not the OPE ID) or enter its complete name, address, city, and state. There is a federal school code search on the FAFSA on the Web site (**www.fafsa.ed.gov**), and the entire list of school codes is available in portable document format (PDF) and Excel on the IFAP site (**www.ifap.ed.gov**).

For each school, the student is asked to indicate whether he expects to live on campus, with his parents, or off campus. While this information is not used to calculate the student's EFC, it is useful to schools for determining the cost of attendance.

The student can list up to four schools on the paper FAFSA, ten on the Web (at least one is required). If he wants his information to be available to more schools, he can use his SAR or Corrections on the Web to change the schools listed. The CPS will send data to no more than four (or ten) schools at a time for a student. Chapter 5 describes how he can add or change schools on the list.

STEP 7

Questions 105–109
Date, signatures, and preparer's data

STEP SEVEN: SIGNATURE REQUIREMENTS

Purpose: By signing the FAFSA, the applicant is assuming responsibility for the accuracy of the information reported.

- **Date and signature(s) (105–106).** In addition to certifying that the data on the FAFSA are correct, the student is also signing a Statement of Educational Purpose, which is required to receive FSA funds. Among other things, the student agrees to spend FSA funds only on educational expenses and affirms that he is not in default on a federal loan or does not owe a grant overpayment. If he is dependent, one parent whose information is reported on the FAFSA must also provide a signature.

- **Preparer's ID and signature (107–109).** The HEOA changed the requirements for FAFSA preparers. Now, only persons who are paid a fee to help the student fill out the application are considered preparers. Those who advise students without charging a fee, such as high school counselors and FAAs, are not preparers. A preparer must include his name, his company's name (if applicable), his address or the company address, and either his SSN or the company Employer Identification Number (EIN, as assigned by the IRS). With the paper FAFSA, the preparer must also sign and date the form.

  Preparers have other obligations. In their advertising and their initial contact with a consumer, including via the Internet or phone, they must clearly inform him that the FAFSA is free and can be completed electronically or on paper without professional help. If they have a website for their service, it must link to FAFSA on the Web. They may not use any form other than the FAFSA for the purpose of applying for Title IV aid.

  A preparer who knowingly falsifies information on the application is subject to the same penalties as an applicant.

Copies of signed documents

While you will often receive documents with original or "wet" signatures from the student (e.g., a paper FAFSA that the student has worked on and signed while in your office), there might be an occasion where the student gives you a copy or sends you a fax of a signed document. Except for a copied FAFSA, other imaged versions of the original signed document are valid and may be kept in the student's file.

Signatures for electronic applications

FAA Access to CPS Online

If you enter a student's original application through FAA Access to CPS Online, you must obtain original or "wet" signatures on the printed signature page/FAFSA summary or on a completed paper FAFSA, and you must keep the signed document in the school files even if the student doesn't receive federal student aid or attend your school. You may electronically store the original document, but you may not accept faxed or copied signatures from the student for the FAFSA. (You have more latitude regarding verification documents and changes to the application; see Chapters 4 and 5.)

FAFSA on the Web

Students who have PINs can electronically sign their FAFSA on the Web. Parents who have a PIN can also electronically sign. Both parents and students will have to provide their name ID (first two letters of their last name), SSN, and date of birth along with the PIN. Parents also must provide their child's name ID, SSN, and DOB in order to match the parent's signature record with the student's FAFSA.

Alternately, students can print the signature page, sign it, and mail it to the processor. If the processor doesn't receive the signature page within 14 calendar days of receiving the application data, it will mail a "reject 16" SAR to the student ("no student signature on an electronic application"), which the student can sign and return. If the student chooses not to print and send a signature page, or if no printer was available, the processor won't wait 14 days to print a rejected SAR for the student, but will generate one within 72 hours of receiving the data.

If the student indicated on an electronic FAFSA that she would print, sign, and mail in a signature page but the processor has not received the signature page, the student can call FAFSA on the Web customer service and have her record released from the FAFSA hold file. Because no signature page has been received, the FAFSA processor will produce a rejected SAR and mail it to the student to sign and return. The processor will accept the first signature document it receives—either the signed signature page or the signed SAR.

Schools and states receive ISIRs for rejected records. A student's reject 16 SAR and her ISIR will reflect the data that she provided on the application; however, the CPS won't calculate an official EFC for the student (an unofficial EFC that cannot be used to award or disburse aid will appear on the ISIR) or do any database matches until it receives a signed signature page, a signed SAR, or an electronic signature. A school can also collect the required "wet" signatures at the school, either on the SAR or a document that has the required certification statements (FAA Access allows schools to print out a signature page for the ISIR). The school can then submit an electronic correction showing that the signatures have been provided.

Renewal FAFSA on the Web

To access their Renewal FAFSA on the Web, students must provide their PIN along with other identifiers. In addition to allowing access to application data over the Internet, the PIN is a legal equivalent to a manual or "wet" signature for FSA purposes. For an independent student, no other signatures are needed, and the application will be processed within 72 hours.

Parents of dependent students can sign with their own PIN. Otherwise, the student can print a signature page for the parent. If the student indicates that no printer was available, the CPS will generate a "reject 15" (no parent signature) output document for the student within 72 hours. If the student indicated she would send in a signature page, the processor will wait up to 14 calendar days to receive the signed page. If it doesn't receive a signed signature page after 14 days, it will generate a reject 15 SAR and send it to the student. The student must have a parent sign the SAR and must send it back to the address on the SAR. For reject 15 records, a student's SAR and ISIR will reflect the data provided on the application, but the processor won't calculate an EFC for the student until it receives the parent's electronic signature or the signed SAR or signature page.

Signature requirements for changes made after the FAFSA is filed will be discussed in Chapter 5.

Signature Requirements: Application and Verification for All FSA Programs			
	Application ***(FAFSA, FAFSA on the Web, FAA Access to CPS Online)***	***IRS Forms*** ***(1040 or other form submitted for verification)***	***Verification Worksheet***
Student	Must sign statement that data are accurate and other conditions are met (on paper FAFSA, Web summary, or signature page or by using PIN).	Tax return must be signed by student (or spouse), or the tax preparer must provide his name and SSN, EIN, or PTIN.	Must sign worksheet.
Parent(s) ***(if student is dependent)***	One parent must sign statement that data are accurate (on paper FAFSA, Web summary, or signature page or by using PIN).	Tax return must be signed by one parent, or the tax preparer must provide his name and SSN, EIN, or PTIN.	One parent must sign.
Aid Administrator	Must certify if overriding dependency status (can't be done on FAFSA on the Web).		
Signature Requirements for Changes*			
	Changes via SAR or Corrections on the Web	***Changes submitted via FAA Access***	***Professional Judgment via FAA Access***
Student	Must sign corrections statement on the SAR; on the Web the PIN serves as the student's signature		
Parent(s) ***(if student is dependent)***	One parent must sign the corrections statement on the SAR. If parent data are changed on the Web, a parent must sign with PIN or print and sign signature page.		
Aid Administrator		School must have signed documentation from student and parent.	Must certify for adjustments or dependency override.

* These requirements apply to any submission of changes to the Central Processing System, whether required by regulation (for Pell grant recipients or corrections to data match items) or at the discretion of the financial aid administrator (for Campus-based aid and Stafford loans).

Substitutes for a parent's signature

Although parent information must be provided for a dependent student, a high school counselor or a college aid administrator may sign the application in place of a parent if:

- the parents are not currently in the United States **and** cannot be contacted by normal means,
- the current address of the parents is not known, or
- the parents have been determined physically or mentally incapable of providing a signature.

The signer must provide her title in parentheses next to her signature and briefly state the reason (only one is needed) why she is signing for the parents. The signer assures a minimum level of credibility in the data submitted, however, she does not assume any responsibility or liability in this process. If the counselor or FAA finds any inaccuracies in the information reported, she should direct the student to send the SAR through the normal correction process or, if she is an FAA, she can submit corrections through FAA Access. Because this proxy signing isn't possible electronically, it must be done on a paper FAFSA or on the signature page/FAFSA summary used with FAA Access.

Expected Family Contribution (EFC)

CHAPTER 3

The EFC is a measure of how much the student and his or her family can be expected to contribute to the cost of the student's education for the year. The EFC is calculated according to a formula specified in the law. In this chapter, we describe the EFC formula in detail.

GENERAL INFORMATION

All the data the CPS uses to calculate the EFC come from the information the student provides on the FAFSA. The EFC formula uses many variables, including income, assets, the number of persons in the household, and the number attending college for the award year.

Every year the Department publishes updated tables used in the EFC calculation. The 2009–2010 updates are in the May 29, 2008, *Federal Register*. Also available at **www.ifap.ed.gov** is the *EFC Formula Guide*.

The law provides three different formulas to calculate the EFC: one for dependent students, one for independent students without dependents other than a spouse, and one for independent students with dependents other than a spouse. In addition there are three simplified versions of each formula with fewer data elements.

SIMPLIFIED FORMULA

The simplified formula is basically the same as the regular formula, except that asset information isn't considered in the calculation. A dependent student qualifies for the simplified calculation if:

- the parents' combined AGI (for tax filers) or income earned from work (for non-filers) was less than $50,000, and
- either: (1) the parents were not required to file an IRS Form 1040,[1] (2) one of them is a dislocated worker as defined in the Workforce Investment Act of 1988 (see Chapter 2 for a description of dislocated worker), or (3) anyone counted in their household size received a means-tested federal benefit during 2007 or 2008.[2]

Basic EFC formulas

➔Dependent students
➔Independent students
➔Independent students with dependents

Special calculations

➔Simplified formula (no assets)
➔Automatic zero EFC
➔Other than 9-month enrollment

HEA Sec. 474–479

[1] Persons not required to file the IRS Form 1040 comprise those who were eligible to file a 1040A or 1040EZ form and those who did not have to file a return at all. Someone who filed a Form 1040 solely to claim a tax credit is not disqualified from consideration for the simplified formula or the automatic zero EFC.

[2] The means-tested federal benefit programs are:

- Supplemental Security Income (SSI)
- Food Stamps
- Free and Reduced Price School Lunches
- Temporary Assistance for Needy Families (TANF)
- Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)

Other tax forms
A foreign tax return counts as an IRS Form 1040 to determine if one qualifies for the simplified formula and the automatic zero EFC. A tax return for Puerto Rico, Guam, American Samoa, the Virgin Islands, Marshall Islands, the Federated States of Micronesia, or Palau counts as an IRS Form 1040A or 1040EZ for the purposes of qualifying for the simplified formula and the automatic zero EFC.

Assets not reported on FAFSA
If the student doesn't provide any asset data and qualifies for the simplified formula, her application will still be processed normally. She will only receive one EFC, which will be produced by the simplified formula. However, if the student doesn't qualify for the simplified formula, her application will be rejected and she will have to submit asset data before the CPS will calculate an EFC.

Automatic zero EFC
Sec. 479(c)

Receipt of means-tested federal benefits
A person need not have received the benefit for an entire year; receiving it at any time in the base or prior year qualifies. Also, an FAA may use professional judgment (PJ) to count a benefit if a person did not receive it during those 24 months but is receiving it now.

[1] See margin note #1 on the previous page.

[2] See the previous page for a list.

An independent student qualifies for the simplified calculation if:

- the student's and spouse's combined AGI (tax filers) or income earned from work (non-filers) was less than $50,000, and
- either: (1) the student and spouse were not required to file an IRS Form 1040,[1] (2) one of them is a dislocated worker as defined in the Workforce Investment Act of 1988, or (3) anyone counted in the household size received a means-tested federal benefit during 2007 or 2008.[2]

The application asks for asset information from all students. If the student qualifies for the simplified formula and provides the asset information, the CPS will make two EFC calculations: one using the assets and one excluding them. The EFC from the simplified formula (which excludes assets) is called the primary EFC and is printed on the front of the student's SAR, while the EFC from the full calculation is called the secondary EFC and is printed in the FAA Information section. To determine the student's aid, the school must use the primary EFC, which will always be less than or equal to the secondary EFC. If it turns out that the student was not eligible for the simplified formula, the school must correct and submit the record and use the EFC reported on the resulting transaction.

AUTOMATIC ZERO EFC

The law also provides for an automatic zero EFC for some students. The CPS will assign a zero EFC to a dependent student if:

- the parents' combined AGI (for tax filers) or combined income earned from work (for non-filers) is $30,000 or less, and
- either: (1) the parents were not required to file an IRS Form 1040,[1] (2) one of them is a dislocated worker as defined in the Workforce Investment Act of 1988, or (3) anyone counted in their household size received a means-tested federal benefit during 2007 or 2008.[2]

An independent student with dependents other than a spouse automatically qualifies for a zero EFC if:

- the student's and spouse's combined AGI (for tax filers) or combined income earned from work (for non-filers) is $30,000 or less, and
- either: (1) the student and spouse were not required to file an IRS Form 1040,[1] (2) one of them is a dislocated worker as defined in the Workforce Investment Act of 1988, or (3) anyone counted in the household size received a means-tested federal benefit during 2007 or 2008.[2]

Independent students with no dependents other than a spouse do not qualify for an automatic zero EFC.

ALTERNATE EFCS

The law specifies how the EFC of a dependent student must be modified if the student is going to enroll for other than a nine-month period. The EFC found in the upper-right-hand corner of the first page of the output document is based on a nine-month enrollment period and should always be used for awarding a Pell grant, even if the student is attending for a longer or shorter period. The second section of the "FAA Information" area contains a table of alternate primary and secondary EFCs for periods of one to twelve months. These are alternate EFCs that you must use to award aid (other than Pell grants) if the student is attending for other than nine months.

Formula for dependent students

- **Parents' contribution**
  Parents' available income
  Parents' contribution from assets
  Number in college
- **Student's contribution from income**
- **Student's contribution from assets**

FORMULA A—DEPENDENT STUDENTS

The EFC for a dependent student is calculated using the FAFSA information for the student and his parents. The CPS calculates the parents' contribution, the student's contribution from income, and the student's contribution from assets; the EFC is the sum of these three. The parents' contribution includes a contribution from assets.

Under the simplified formula the parent's contribution doesn't include assets, nor is the student's contribution from assets counted.

Worksheets and tables that can be used to calculate the EFC for a dependent student are at the end of this chapter. For those items that are taken from the FAFSA, the worksheets indicate the corresponding FAFSA/SAR line numbers. On the worksheets for the simplified formula, the parts of the calculation that aren't used are grayed out.

Parents' contribution

There are three basic steps in calculating the parents' contribution. First, the parents' available income is determined. Then, the parents' contribution from assets is calculated. Finally, the parents' contribution is calculated using the available income, the contribution from assets, and the number in college.

▼ *Parents' available income.* The parents' available income is calculated by subtracting certain allowances from the parents' total income. These allowances account for certain nondiscretionary expenses, such as taxes and basic living expenses. Once a minimum level of support has been offset for those expenses, the formula assumes that the remaining income is available for discretionary purposes, including paying for a postsecondary education. The available income can be a negative number.

The total income is the sum of the taxable and untaxed income, minus amounts reported in the income but excluded from the formula. If the parents are tax filers, the parents' AGI as reported on the FAFSA is the amount of the parents' taxable income used in the calculation. If the parents are not tax filers, the calculation uses the parents' reported income earned from work. Total income can be a negative number.

Negative AGI or zero?

The FAFSA instruction for parents' AGI is to use the number that appears on a specific line of the tax return; this can be a negative number. The first line of the worksheet for EFC Formula A cites the FAFSA line number and instructs you to substitute a zero if the AGI is negative. Do not take this to mean that a negative AGI should be reported as a zero on the FAFSA. The CPS will change the value to zero, and it makes assumptions that you will not when completing an EFC worksheet by hand. When filling out the FAFSA, the applicant should follow the instruction given and use the AGI as it appears on the tax return.

The sum of the following allowances are used to reduce the parents' total income:

- **U.S. income tax paid.** Use the amount reported on the FAFSA. Non-taxfilers don't receive this allowance. If this is a negative amount, it is set to zero.

- **State and other tax allowance.** Use Table A1. This allowance is a percentage of parents' total income and approximates the average amount paid in state and other taxes. The percentage varies according to the state and according to whether the parents' total income is below $15,000 or is $15,000 or more. The state used is the parents' state of legal residence reported on the FAFSA. If this item is blank or invalid, the student's reported state of legal residence is used. If both are blank or invalid, the state in the student's mailing address is used. If all three are blank or invalid, the rate shown in Table A1 for a blank or invalid state is used (3% for total income below $15,000; 2% for total income of $15,000 or more). If the allowance is a negative amount, it's set to zero.

- **Father's and mother's Social Security tax allowance.** The father's and mother's Social Security taxes are calculated separately by applying the rates shown in Table A2 to the father's income earned from work and the mother's income earned from work in 2008 (as reported on the FAFSA). The total allowance for Social Security taxes is never less than zero.

- **Income protection allowance.** Use Table A3. This allowance is for the basic living expenses of a family. It varies according to the number in the parents' household and the number in college in 2009–10, as reported on the FAFSA. In general, a school can assume that 30% of the income protection allowance amount is for food, 22% for housing, 9% for transportation expenses, 16% for clothing and personal care, 11% for medical care, and 12% for other family consumption. The income protection allowance used for a particular student is provided as one of the intermediate values in the FAA Information Section of the output document (labeled as "IPA").

- **Employment expense allowance.** Families with two working parents and one-parent families have extra expenses that must be considered, such as housekeeping services, transportation, clothing and upkeep, and meals away from home. This allowance recognizes those extra expenses. For two working parents, the allowance is 35% of the lesser of the father's income earned from work (question 89) or the mother's income earned from work (question 90), but may not exceed $3,500. For one-parent families, the allowance is 35% of the parent's income earned from work, also not to exceed $3,500. If a student's parents are married and only one parent reports an income earned from work, the allowance is zero. The employment expense allowance is never less than zero.

▼ *Parents' contribution from assets.* The full formula uses the assets of parents of a dependent student and determines a "contribution from assets." This amount is combined with available income to give an accurate picture of the family's financial strength. In the simplified formula assets aren't counted.

First, the parents' **net worth** is calculated by adding assets reported on the FAFSA. The net worth of a business or a farm is adjusted to protect a portion of the net worth of these assets. Use Table A4 to calculate the amount to be used.

Second, the parents' **discretionary net worth** is calculated by subtracting the education savings and asset protection allowance (Table A5) from the parents' net worth. As with income, this is done to protect a portion of assets. The allowances for ages 40 through 65 approximate the present cost of an annuity which, when combined with Social Security benefits, would provide at age 65 a moderate level of living for a retired couple or single person. As shown in Table A5, the allowance increases with the age of the older parent (as reported on the FAFSA) to indicate the cost of purchasing such an annuity at a given age. Discretionary net worth may be less than zero.

Finally, the discretionary net worth is multiplied by the conversion rate of 12% to obtain the **parents' contribution from assets**, which represents the portion of parental assets considered available to help pay for the student's postsecondary education. If the contribution from assets is less than zero, it is set to zero.

▼ *Calculation of parents' contribution.* This is the final step in determining the parents' contribution. The parents' available income and contribution from assets are added together to determine the parents' adjusted available income, which can be a negative number. The total parents' contribution from adjusted available income is calculated from the amounts and rates in Table A6 and is the total amount parents are expected to contribute toward all of their family's postsecondary educational costs. The rates in Table A6 increase from 22% to 47% as the adjusted available income increases. This is based on the principle that as income increases beyond the amount needed to maintain a basic standard of living, the portion used for family maintenance decreases and the portion available for discretionary purposes increases. Therefore, a progressively larger amount of income may be contributed toward postsecondary educational costs.

The parents' contribution for the individual student is calculated by dividing the total parents' contribution from adjusted available income by the number in college in 2009–10, as reported on the FAFSA. Parents are not included in the number attending college.

Student's contribution from income

To determine the student's contribution from income, the student's available income (AI) is first calculated by subtracting total allowances from the student's total income. The AI is then assessed at a rate of 50% to obtain the student contribution from available

income. If the student contribution from available income is less than zero, it's set to zero.

As with the parents' income information, the student's total income is calculated using information from the student's FAFSA. The student's total income is the sum of the student's taxable and untaxed income, minus amounts reported in the income but excluded from the formula (see Chapter 2 for more on these exclusions). If the student is a tax filer, the student's AGI as reported on the FAFSA is the amount of taxable income used in the calculation. If the student is not a tax filer, the calculation uses the student's reported income earned from work. Total income may be a negative number.

The allowances are calculated by adding the following:

- **U.S. income tax paid.** Use the amount reported on the FAFSA. Non-tax filers don't receive this allowance. If this is a negative amount, it's set to zero.

- **State and other tax allowance.** Use Table A7. This allowance is a percentage of the student's total income. The percentage varies according to the state. The state to be used is the student's state of legal residence reported on the FAFSA. If that item is blank or invalid, the state in the student's mailing address is used. If both items are blank or invalid, the parents' state of legal residence is used. If all three items are blank or invalid, the rate for a blank or invalid state in Table A7 is used (2%). If the allowance is a negative amount, it's set to zero.

- **Social Security tax allowance.** The student's Social Security taxes are calculated by applying the rates shown in Table A2 to the student's income earned from work in 2008 (as reported on the FAFSA). The total allowance for Social Security taxes is never less than zero.

- **Income protection allowance.** The income protection allowance for a dependent student is $3,750.

- **Parent's negative AAI.** To recognize that a student's income may be needed to help support the family, the EFC calculation allows a parent's negative adjusted available income (AAI) to reduce a dependent student's contribution from income. Because the student's contribution from income cannot be negative, this will not affect the student's contribution from assets.

Student's contribution from assets

The student's assets are treated the same way as the parents' assets with three differences: there is no adjustment to the net worth of a business or farm, there is no education savings and asset protection allowance, and net worth is assessed at the rate of 20%. Remember that under the simplified formula there is no student contribution from assets.

The student's net worth is calculated by adding assets reported on the FAFSA (negative amounts are converted to zero for this calculation). The net worth is multiplied by 20% to obtain the student's contribution from assets, which is the portion of assets considered available to help pay for his postsecondary education.

Formula for independent students without dependents other than a spouse

- **Contribution from available income**
- **Contribution from assets**

Alternate EFCs for other than nine-month enrollment

The standard parents' contribution is for a nine-month enrollment period. For a shorter period, the parents' contribution is prorated according to the number of months of enrollment. The student's contribution from available income is also prorated and then added to the student asset contribution, which is not prorated. For an enrollment of more than nine months, the parents' contribution is calculated by adjusting the standard nine-month formula on page 3 of Worksheet A of the EFC worksheets, and the student's contribution remains at the nine-month amount.

FORMULA B—INDEPENDENT STUDENT WITHOUT DEPENDENTS OTHER THAN A SPOUSE

The EFC for an independent student without dependents other than a spouse is calculated using the FAFSA information for the student and spouse. The CPS calculates a contribution from available income and a contribution from assets. The sum of these two is divided by the number in college in 2009–10, as reported on the FAFSA. The result is the EFC for the 2009–10 award period. Under the simplified formula, the contribution from assets isn't used.

Worksheets and tables that can be used to calculate the EFC for an independent student without dependents other than a spouse are at the end of this chapter. For those items that are taken from the FAFSA, the worksheets indicate the corresponding FAFSA/SAR line numbers. On the worksheets for the simplified formula, the parts of the calculation that aren't used are grayed out.

Contribution from available income

The student's available income, which can be a negative number, is calculated by subtracting the total allowances from the total income. These allowances account for certain nondiscretionary expenses, such as taxes and basic living expenses. Once a minimum level of support has been provided to meet those expenses, the formula assumes that the remaining income is available for discretionary purposes, including paying for a postsecondary education. The available income is then assessed at a rate of 50% to obtain the student's contribution from available income.

▼ *Total income.* The total income is the sum of the student's and her spouse's (if the student is married) taxable and untaxed income, minus amounts reported in the income on the FAFSA but excluded from the formula (see Chapter 2 for more on these exclusions). If the student and spouse are tax filers, their AGI as reported on the FAFSA is the amount of taxable income used in the calculation. If the student and spouse are not tax filers, the calculation uses reported

income earned from work. Untaxed income is included in the formula because it may have a considerable effect on the family's financial strength and, in some cases, may be the family's main source of income. Note that "earned income credit" is included as part of total untaxed income and benefits only if the student or spouse are tax filers. Total income can be a negative number.

▼ *Allowances against income.* Total allowances are calculated by adding the following:

- **U.S. income tax paid.** Use the amount reported on the FAFSA. Non-taxfilers don't receive this allowance. If this is a negative amount, it's set to zero.

- **State and other tax allowance.** Use Table B1. This allowance is a percentage of the student and spouse's total income. The percentage varies according to the state. The state to be used is the student's state of legal residence reported on the FAFSA. If that item is blank or invalid, the state in the student's mailing address is used. If both items are blank or invalid, the rate for a blank or invalid state is used (2%). If the allowance is a negative amount, it's set to zero.

- **Social Security tax allowance.** The student and spouse's Social Security taxes are calculated separately by applying the tax rates shown in Table B2 to the student's income earned from work in 2008 and the spouse's income earned from work in 2008 (as reported on the FAFSA). The total allowance for Social Security taxes is never less than zero.

- **Income protection allowance.** The income protection allowance for an unmarried student is $7,000. For a married student, the income protection allowance is $7,000 if the student's spouse is enrolled at least half time, and $11,220 if the student's spouse isn't enrolled at least half time.

- **Employment expense allowance.** Families with two working spouses have extra expenses that must be considered, such as housekeeping services, transportation, clothing and upkeep, and meals away from home. This allowance recognizes those extra expenses. If the student isn't married, the employment expense allowance is zero. If the student is married but only one person is working (either the student or the student's spouse), the allowance is zero. If both the student and his spouse are working, the allowance is 35% of the lesser of the student's income earned from work (question 39) or the spouse's income earned from work (question 40), but may not exceed $3,500.

Contribution from assets

For students who qualify for the simplified formula, there is no contribution from assets. In the full formula, the assets of an independent student with no dependents other than a spouse are

considered in order to fully measure the family's ability to contribute toward postsecondary educational costs.

First, the **net worth** of the student and spouse's assets is calculated by adding assets reported on the FAFSA. The net worth of a business or a farm is adjusted to protect a portion of the net worth of these assets. Use Table B3 to calculate the amount to be used.

Second, the student and spouse's **discretionary net worth** is calculated by subtracting the asset protection allowance (Table B4) from the net worth. The allowance increases with the age of the student as of December 31, 2009, which may be determined from the student's date of birth as reported on the FAFSA. This is done to protect a portion of assets that may be needed for purposes other than education, such as emergencies or retirement. Discretionary net worth can be less than zero.

Finally, the discretionary net worth is multiplied by the conversion rate of 20% to obtain the student and spouse's contribution from assets, which represents the portion of the value of the assets that is considered available to help pay for the student's college education. If the contribution from assets is less than zero, it's set to zero.

Alternate EFCs for other than nine-month enrollment

The standard EFC is for a nine-month enrollment period. If the student will be enrolled for less than nine months, the EFC is simply prorated by dividing it by nine and then multiplying the result by the number of months the student will be enrolled. For an enrollment of more than nine months, however, the EFC remains at the nine-month amount.

FORMULA C — INDEPENDENT STUDENT WITH DEPENDENTS OTHER THAN A SPOUSE

Formula for independent student with dependents other than a spouse

- **Available income**
- **Contribution from Assets**
- **Calculation of the student's EFC**

The EFC for an independent student with dependents other than a spouse is calculated using the information for the student and spouse provided on the FAFSA. The formula is almost the same as the formula for the parents of a dependent student. There are three basic steps. First, the student's available income is determined. Then, the student's contribution from assets is calculated. Finally, the EFC is calculated using the available income, the contribution from assets, and the number in college.

Worksheets and tables that can be used to calculate the EFC for an independent student with dependents other than a spouse are given at the end of this chapter. For those items that are taken from the FAFSA, the worksheets indicate the corresponding FAFSA/SAR line numbers. On the worksheets for the simplified formula, the parts of the calculation that aren't used are grayed out.

Available income

Available income is calculated by subtracting certain allowances from the student's total income. These allowances account for certain

nondiscretionary expenses, such as taxes and basic living expenses. Once a minimum level of support has been provided for those expenses, the formula assumes that the remaining income is available for discretionary purposes, including paying for a postsecondary education. The available income can be a negative number.

▼ *Student's total income.* The student's total income is the sum of the student's and his or her spouse's (if the student is married) taxable and untaxed income, minus amounts reported in the income on the FAFSA but excluded from the formula (see Chapter 2 for more information on these exclusions). If the student and spouse are tax filers, AGI as reported on the FAFSA is the amount of taxable income used in the calculation. If the student and spouse are not tax filers, the calculation uses reported income earned from work. Note that "earned income credit" is included as part of total untaxed income and benefits only if the student and spouse are tax filers. Total income can be a negative number.

▼ *Allowances against income.* Total allowances are calculated by adding the following:

- **U.S. income tax paid.** Use the amount reported on the FAFSA. Non-tax filers don't receive this allowance. If this is a negative amount, it is set to zero.

- **State and other tax allowance.** Use Table C1. This allowance is a percentage of the total income and approximates the average amount paid in state and other taxes. The percentage varies according to the state and according to whether the total income is below $15,000 or is $15,000 or more. The state to be used is the student's state of legal residence reported on the FAFSA. If this item is blank or invalid, the state in the student's mailing address is used. If both items are blank or invalid, the rate for a blank or invalid state is used (3% for total income below $15,000; 2% for total income of $15,000 or more). If the allowance is a negative amount, it's set to zero.

- **Social Security tax allowance.** The student's and spouse's Social Security taxes are calculated separately by applying the tax rates shown in Table C2 to the student's income earned from work and the spouse's income earned from work in 2008 (as reported on the FAFSA). The total allowance for Social Security taxes is never less than zero.

- **Income protection allowance.** Use Table C3. This allowance provides for the basic living expenses of a family. It varies according to the number in the student's household and the number in college in 2009–10, as reported on the FAFSA. In general, a school can assume that 30% of the income protection allowance amount is for food, 22% for housing, 9% for transportation expenses, 16% for clothing and personal care, 11% for medical care, and 12% for other family consumption. The income protection allowance used for a particular student

is provided as one of the intermediate values in the FAA Information Section of the output document (labeled as "IPA").

- **Employment expense allowance.** Families with two working parents and one-parent families have extra expenses that must be considered, such as housekeeping services, transportation, clothing and upkeep, and meals away from home. This allowance recognizes those extra expenses. When both the student and spouse work, the allowance is 35% of the lesser of the student's income earned from work (question 39) or the spouse's income earned from work (question 40), but may not exceed $3,500. If the student isn't married, the allowance is 35% of the student's income earned from work, or $3,500, whichever is less. If a student is married and only the student *or* the spouse (but not both) reports an income earned from work, the allowance is zero. The employment expense allowance is never less than zero.

Contribution from assets

In the full formula, the assets of an independent student with dependents other than a spouse are considered in order to fully measure the family's ability to contribute toward postsecondary educational costs. The formula determines a "contribution from assets," an amount that is combined with available income to give an accurate picture of the family's financial strengths. In the simplified formula, the assets aren't counted at all.

First, the **net worth** of a student and spouse's assets is calculated by adding assets reported on the FAFSA. The net worth of a business or farm is adjusted to protect a portion of these assets. Use Table C4 to calculate the amount to be used.

Second, the student and spouse's **discretionary net worth** is calculated by subtracting the asset protection allowance (Table C5) from the net worth. The allowance increases with the age of the student as of December 31, 2009, which may be determined from the student's date of birth as reported on the FAFSA. This is done to protect a portion of assets that may be needed for purposes other than education, such as emergencies or retirement. Discretionary net worth can be less than zero.

Finally, the discretionary net worth is multiplied by 7% to obtain the **contribution from assets**, which is the portion of the value of the student's and spouse's assets considered to be available to help pay for the student's postsecondary education. If the contribution from assets is less than zero, it is set to zero.

Calculation of student's EFC

This is the final step in determining the EFC for the independent student with dependents other than a spouse. The available income and the contribution from assets are added together to obtain the adjusted available income. The adjusted available income can be a negative number. The total contribution from adjusted available

income is calculated from using Table C6. This is the total amount the student's family is expected to contribute toward family postsecondary educational costs. The rates in Table C6 increase from 22% to 47% as the adjusted available income increases. The rate is based on the principle that as income increases beyond the amount needed to maintain a basic standard of living, the portion used for family maintenance decreases, while the portion available for discretionary purposes increases. The larger the income, the easier it is for a family to contribute toward postsecondary educational costs with less effect on the maintenance of the family.

The EFC is calculated by dividing the total student's contribution from adjusted available income by the number in college in 2009–10, as reported on the FAFSA. The result is the EFC for the 2009–10 award period.

Alternate EFCs for other than nine-month enrollment

The standard EFC is for a nine-month enrollment period. If the student will be enrolled for less than nine months, the EFC is simply prorated by dividing it by nine and then multiplying the result by the number of months the student will be enrolled. For an enrollment of more than nine months, however, the EFC remains at the nine-month amount.

2009-2010 EFC FORMULA A : DEPENDENT STUDENT

REGULAR WORKSHEET Page 1 **A**

PARENTS' INCOME IN 2008	
1. Parents' Adjusted Gross Income (FAFSA/SAR #86) If negative, enter zero.	
2. a. Father's/stepfather's income earned from work (FAFSA/SAR #89) _____	
2. b. Mother's/stepmother's income earned from work (FAFSA/SAR #90) + _____	
Total parents' income earned from work =	
3. Parents' Taxable Income (If tax filers, enter the amount from line 1 above. If non-tax filers, enter the amount from line 2.)*	
4. Total untaxed income and benefits: (Total of FAFSA/SAR #95.a. through 95.i.) +	
5. Taxable and untaxed income (sum of line 3 and line 4) =	
6. Total additional financial information (Total of FAFSA/SAR #94.a. through 94.e.) –	
7. TOTAL INCOME (line 5 minus line 6) May be a negative number. =	

ALLOWANCES AGAINST PARENTS' INCOME	
8. 2008 U.S. income tax paid (FAFSA/SAR #87) (tax filers only) If negative, enter zero.	
9. State and other tax allowance (Table A1) If negative, enter zero. +	
10. Father's/stepfather's Social Security tax allowance (Table A2) +	
11. Mother's/stepmother's Social Security tax allowance (Table A2) +	
12. Income protection allowance (Table A3) +	
13. Employment expense allowance:	
• Two working parents: 35% of the lesser of the earned incomes, or $3,500, whichever is less	
• One-parent families: 35% of earned income, or $3,500, whichever is less	
• Two-parent families, one working parent: enter zero +	
14. TOTAL ALLOWANCES =	

*STOP HERE if the following are true:

Line 3 is $30,000 or less **and**

- The parents are eligible to file a 2008 IRS Form 1040A or 1040EZ (they are not required to file a 2008 Form 1040) or they are not required to file any income tax return **or**
- Anyone included in the parents' household size (as defined on the FAFSA) received benefits during 2007 or 2008 from any of the designated means-tested Federal benefit programs **or**
- Either one of the parents is a dislocated worker

If these circumstances are true, the Expected Family Contribution is automatically zero.

AVAILABLE INCOME	
Total income (from line 7)	
Total allowances (from line 14) –	
15. AVAILABLE INCOME (AI) May be a negative number. =	

PARENTS' CONTRIBUTION FROM ASSETS	
16. Cash, savings & checking (FAFSA/SAR #91)	
17. Net worth of investments** (FAFSA/SAR #92) If negative, enter zero.	
18. Net worth of business and/or investment farm (FAFSA/SAR #93) If negative, enter zero.	
19. Adjusted net worth of business/farm (Calculate using Table A4.) +	
20. Net worth (sum of lines 16, 17, and 19) =	
21. Education savings and asset protection allowance (Table A5) –	
22. Discretionary net worth (line 20 minus line 21) =	
23. Asset conversion rate ×	.12
24. CONTRIBUTION FROM ASSETS If negative, enter zero. =	

PARENTS' CONTRIBUTION	
AVAILABLE INCOME (AI) (from line 15)	
CONTRIBUTION FROM ASSETS (from line 24) +	
25. Adjusted Available Income (AAI) May be a negative number. =	
26. Total parents' contribution from AAI (Calculate using Table A6.) If negative, enter zero.	
27. Number in college in 2009-2010 (Exclude parents) (FAFSA/SAR #76) ÷	
28. PARENTS' CONTRIBUTION (standard contribution for nine-month enrollment)*** If negative, enter zero. =	

**Do *not* include the family's home.

***To calculate the parents' contribution for other than nine-month enrollment, see page 11.

continued on the next page

REGULAR WORKSHEET Page 2 **A**

STUDENT'S INCOME IN 2008		
29. Adjusted Gross Income (FAFSA/SAR #36) If negative, enter zero.		
30. Income earned from work (FAFSA/SAR #39)		
31. Taxable Income (If tax filer, enter the amount from line 29. If non-tax filer, enter the amount from line 30.)		
32. Total untaxed income and benefits (Total of FAFSA/SAR #47.a. through 47.j.)	+	
33. Taxable and untaxed income (sum of line 31 and line 32)	=	
34. Total additional financial information (Total of FAFSA/SAR #46.a. through 46.e.)	–	
35. TOTAL INCOME (line 33 minus line 34) May be a negative number.	=	

ALLOWANCES AGAINST STUDENT INCOME		
36. 2008 U.S. income tax paid (FAFSA/SAR #37) (tax filers only) If negative, enter zero.		
37. State and other tax allowance (Table A7) If negative, enter zero.	+	
38. Social Security tax allowance (Table A2)	+	
39. Income protection allowance	+	**3,750**
40. Allowance for parents' negative Adjusted Available Income (If line 25 is negative, enter line 25 as a positive number in line 40. If line 25 is zero or positive, enter zero in line 40.)	+	
41. TOTAL ALLOWANCES	=	

STUDENT'S CONTRIBUTION FROM INCOME		
Total income (from line 35)		
Total allowances (from line 41)	–	
42. Available income (AI)	=	
43. Assessment of AI	×	**.50**
44. STUDENT'S CONTRIBUTION FROM AI If negative, enter zero.	=	

STUDENT'S CONTRIBUTION FROM ASSETS		
45. Cash, savings & checking (FAFSA/SAR #41)		
46. Net worth of investments* (FAFSA/SAR #42) If negative, enter zero.		
47. Net worth of business and/or investment farm (FAFSA/SAR #43) If negative, enter zero.	+	
48. Net worth (sum of lines 45 through 47)	=	
49. Assessment rate	×	**.20**
50. STUDENT'S CONTRIBUTION FROM ASSETS	=	

EXPECTED FAMILY CONTRIBUTION		
PARENTS' CONTRIBUTION (from line 28)		
STUDENT'S CONTRIBUTION FROM AI (from line 44)	+	
STUDENT'S CONTRIBUTION FROM ASSETS (from line 50)	+	
51. EXPECTED FAMILY CONTRIBUTION (standard contribution for nine-month enrollment)** If negative, enter zero.	=	

*Do *not* include the student's home.

**To calculate the EFC for other than nine-month enrollment, see the next page.

Note: *Use this additional page to prorate the EFC only if the student will be enrolled for other than nine months and only to determine the student's need for campus-based aid, a subsidized Federal Stafford Loan, a subsidized Federal Direct Stafford/Ford Loan, an ACG, or a National SMART Grant. Do not use this page to prorate the EFC for a Federal Pell Grant or TEACH Grant. The EFC for the Federal Pell Grant Program is the nine-month EFC used in conjunction with the cost of attendance to determine a Federal Pell Grant award from the Payment or Disbursement Schedule.*

REGULAR WORKSHEET Page 3 **A**

Calculation of Parents' Contribution for a Student Enrolled LESS than Nine Months		
A1. Parents' contribution (standard contribution for nine-month enrollment, from line 28)		
A2. Divide by 9	÷	**9**
A3. Parents' contribution per month	=	
A4. Multiply by number of months of enrollment	×	
A5. Parents' contribution for LESS than nine-month enrollment	=	

Calculation of Parents' Contribution for a Student Enrolled MORE than Nine Months		
B1. Parents' Adjusted Available Income (AAI) (from line 25—may be a negative number)		
B2. Difference between the income protection allowance for a family of four and a family of five, with one in college	+	**4,380**
B3. Alternate parents' AAI for more than nine-month enrollment (line B1 + line B2)	=	
B4. Total parents' contribution from alternate AAI (calculate using Table A6)		
B5. Number in college (FAFSA/SAR #76)	÷	
B6. Alternate parents' contribution for student (line B4 divided by line B5)	=	
B7. Standard parents' contribution for the student for nine-month enrollment (from line 28)	–	
B8. Difference (line B6 minus line B7)	=	
B9. Divide line B8 by 12 months	÷	**12**
B10. Parents' contribution per month	=	
B11. Number of months student will be enrolled that exceed 9	×	
B12. Adjustment to parents' contribution for months that exceed nine (multiply line B10 by line B11)	=	
B13. Standard parents' contribution for nine-month enrollment (from line 28)	+	
B14. Parents' contribution for MORE than nine-month enrollment	=	

Calculation of Student's Contribution from Available Income (AI) for a Student Enrolled LESS than Nine Months*		
C1. Student's contribution from AI (standard contribution for nine-month enrollment, from line 44)		
C2. Divide by 9	÷	**9**
C3. Student's contribution from AI per month	=	
C4. Multiply by number of months of enrollment	×	
C5. Student's contribution from AI for LESS than nine-month enrollment	=	

*For students enrolled more than nine months, the standard contribution from AI is used (the amount from line 44).

Use next page to calculate total EFC for enrollment periods other than nine months

REGULAR WORKSHEET Page 4 **A**

Calculation of Total Expected Family Contribution for Periods of Enrollment Other than Nine Months	
Parents' Contribution—use ONE appropriate amount from previous page: • Enter amount from line A5 for enrollment periods less than nine months **OR** • Enter amount from line B14 for enrollment periods greater than nine months	
Student's Contribution from Available Income—use ONE appropriate amount from previous page: • Enter amount from line C5 for enrollment periods less than nine months **OR** + • Enter amount from line 44 for enrollment periods greater than nine months	
Student's Contribution from Assets • Enter amount from line 50 +	
Expected Family Contribution for periods of enrollment other than nine months =	

2009-2010 EFC FORMULA A: DEPENDENT STUDENT

SIMPLIFIED WORKSHEET Page 1 **A**

PARENTS' INCOME IN 2008	
1. Parents' Adjusted Gross Income (FAFSA/SAR #86) If negative, enter zero.	
2. a. Father's/stepfather's income earned from work (FAFSA/SAR #89) _____	
2. b. Mother's/stepmother's income earned from work (FAFSA/SAR #90) + _____	
Total parents' income earned from work =	
3. Parents' Taxable Income (If tax filers, enter the amount from line 1 above. If non-tax filers, enter the amount from line 2.)*	
4. Total untaxed income and benefits (sum total of FAFSA/SAR #95.a. through 95.i.) +	
5. Taxable and untaxed income (sum of line 3 and line 4) =	
6. Total additional financial information (sum total of FAFSA/SAR #94.a. through 94.e.) –	
7. TOTAL INCOME (line 5 minus line 6) May be a negative number. =	

ALLOWANCES AGAINST PARENTS' INCOME	
8. 2008 U.S. income tax paid (FAFSA/SAR #87) (tax filers only) If negative, enter zero.	
9. State and other tax allowance (Table A1) If negative, enter zero. +	
10. Father's/stepfather's Social Security tax allowance (Table A2) +	
11. Mother's/stepmother's Social Security tax allowance (Table A2) +	
12. Income protection allowance (Table A3) +	
13. Employment expense allowance:	
• Two working parents: 35% of the lesser of the earned incomes, or $3,500, whichever is less	
• One-parent families: 35% of earned income, or $3,500, whichever is less	
• Two-parent families, one working parent: enter zero +	
14. TOTAL ALLOWANCES =	

*STOP HERE if the following are true:

Line 3 is $30,000 or less **and**

- The parents are eligible to file a 2008 IRS Form 1040A or 1040EZ (they are not required to file a 2008 Form 1040) or they are not required to file any income tax return **or**
- Anyone included in the parents' household size (as defined on the FAFSA) received benefits during 2007 or 2008 from any of the designated means-tested Federal benefit programs **or**
- Either one of the parents is a dislocated worker

If these circumstances are true, the Expected Family Contribution is automatically zero.

AVAILABLE INCOME	
TOTAL INCOME (from line 7)	
TOTAL ALLOWANCES (from line 14) –	
15. AVAILABLE INCOME (AI) May be a negative number. =	

PARENTS' CONTRIBUTION FROM ASSETS	
16. Cash, savings & checking (FAFSA/SAR #91)	
17. Net worth of investments** (FAFSA/SAR #92) If negative, enter zero.	
18. Net worth of business and/or investment farm (FAFSA/SAR #93) If negative, enter zero.	
19. Adjusted net worth of business/farm (Calculate using Table A4.) +	
20. Net worth (sum of lines 16, 17, and 19) =	
21. Education savings and asset protection allowance (Table A5) –	
22. Discretionary net worth (line 20 minus line 21) =	
23. Asset conversion rate ×	.12
24. CONTRIBUTION FROM ASSETS If negative, enter zero. =	

PARENTS' CONTRIBUTION	
AVAILABLE INCOME (AI) (from line 15)	
CONTRIBUTION FROM ASSETS (from line 24) +	
25. Adjusted Available Income (AAI) May be a negative number. =	
26. Total parents' contribution from AAI (Calculate using Table A6.) If negative, enter zero.	
27. Number in college in 2009-2010 (Exclude parents) (FAFSA/SAR #76) ÷	
28. PARENTS' CONTRIBUTION (standard contribution for nine-month enrollment)*** If negative, enter zero. =	

**Do *not* include the family's home.

***To calculate the parents' contribution for other than nine-month enrollment, see page 15.

Note: Do not complete the shaded areas; asset information is not required in the simplified formula.

continued on the next page

SIMPLIFIED WORKSHEET Page 2 **A**

STUDENT'S INCOME IN 2008		
29. Adjusted Gross Income (FAFSA/SAR #36) If negative, enter zero.		
30. Income earned from work (FAFSA/SAR #39)		
31. Taxable Income (If tax filer, enter the amount from line 29. If non-tax filer, enter the amount from line 30.)		
32. Total untaxed income and benefits (Total of FAFSA/SAR #47.a. through 47.j.)	+	
33. Taxable and untaxed income (sum of line 31 and line 32)	=	
34. Total additional financial information (Total of FAFSA/SAR #46.a. through 46.e.)	–	
35. TOTAL INCOME (line 33 minus line 34) May be a negative number.	=	

ALLOWANCES AGAINST STUDENT INCOME		
36. 2008 U.S. income tax paid (FAFSA/SAR #37) (tax filers only) If negative, enter zero.		
37. State and other tax allowance (Table A7) If negative, enter zero.	+	
38. Social Security tax allowance (Table A2)	+	
39. Income protection allowance	+	**3,750**
40. Allowance for parents' negative Adjusted Available Income (If line 25 is negative, enter line 25 as a positive number in line 40. If line 25 is zero or positive, enter zero in line 40.)	+	
41. TOTAL ALLOWANCES	=	

STUDENT'S CONTRIBUTION FROM INCOME		
Total income (from line 35)		
Total allowances (from line 41)	–	
42. Available income (AI)	=	
43. Assessment of AI	×	**.50**
44. STUDENT'S CONTRIBUTION FROM AI If negative, enter zero.	=	

STUDENT'S CONTRIBUTION FROM ASSETS		
45. Cash, savings & checking (FAFSA/SAR #41)	+	
46. Net worth of investments* (FAFSA/SAR #42) If negative, enter zero.		
47. Net worth of business and/or investment farm (FAFSA/SAR #43) If negative, enter zero.	+	
48. Net worth (sum of lines 45 through 47)	=	
49. Assessment rate	×	**.20**
50. STUDENT'S CONTRIBUTION FROM ASSETS	=	

EXPECTED FAMILY CONTRIBUTION		
PARENTS' CONTRIBUTION (from line 28)		
STUDENT'S CONTRIBUTION FROM AI (from line 44)	+	
STUDENT'S CONTRIBUTION FROM ASSETS (from line 50)	+	
51. EXPECTED FAMILY CONTRIBUTION standard contribution for nine month enrollment. If negative, enter zero.**	=	

*Do not include the student's home.

**To calculate the EFC for other than nine-month enrollment, see the next page.

Note: Do not complete the shaded areas; asset information is not required in the simplified formula.

Note: *Use this additional page to prorate the EFC only if the student will be enrolled for other than nine months and only to determine the student's need for campus-based aid, a subsidized Federal Stafford Loan, a subsidized Federal Direct Stafford/Ford Loan, an ACG, or a National SMART Grant. Do not use this page to prorate the EFC for a Federal Pell Grant or TEACH Grant. The EFC for the Federal Pell Grant Program is the nine-month EFC used in conjunction with the cost of attendance to determine a Federal Pell Grant award from the Payment or Disbursement Schedule.*

SIMPLIFIED WORKSHEET Page 3 **A**

Calculation of Parents' Contribution for a Student Enrolled LESS than Nine Months		
A1. Parents' contribution (standard contribution for nine-month enrollment, from line 28)		
A2. Divide by 9	÷	**9**
A3. Parents' contribution per month	=	
A4. Multiply by number of months of enrollment	×	
A5. Parents' contribution for LESS than nine-month enrollment	=	

Calculation of Parents' Contribution for a Student Enrolled MORE than Nine Months		
B1. Parents' Adjusted Available Income (AAI) (from line 25—may be a negative number)		
B2. Difference between the income protection allowance for a family of four and a family of five, with one in college	+	**4,380**
B3. Alternate parents' AAI for more than nine-month enrollment (line B1 + line B2)	=	
B4. Total parents' contribution from alternate AAI (calculate using Table A6)		
B5. Number in college (FAFSA/SAR #76)	÷	
B6. Alternate parents' contribution for student (line B4 divided by line B5)	=	
B7. Standard parents' contribution for the student for nine-month enrollment (from line 28)	–	
B8. Difference (line B6 minus line B7)	=	
B9. Divide line B8 by 12 months	÷	**12**
B10. Parents' contribution per month	=	
B11. Number of months student will be enrolled that exceed 9	×	
B12. Adjustment to parents' contribution for months that exceed nine (multiply line B10 by line B11)	=	
B13. Standard parents' contribution for nine-month enrollment (from line 28)	+	
B14. Parents' contribution for MORE than nine-month enrollment	=	

Calculation of Student's Contribution from Available Income (AI) for a Student Enrolled LESS than Nine Months*		
C1. Student's contribution from AI (standard contribution for nine-month enrollment, from line 44)		
C2. Divide by 9	÷	**9**
C3. Student's contribution from AI per month	=	
C4. Multiply by number of months of enrollment	×	
C5. Student's contribution from AI for LESS than nine-month enrollment	=	

*For students enrolled more than nine months, the standard contribution from AI is used (the amount from line 44).

Use next page to calculate total EFC for enrollment periods other than nine months

SIMPLIFIED WORKSHEET Page 4 **A**

Calculation of Total Expected Family Contribution for Periods of Enrollment Other than Nine Months	
Parents' Contribution—use ONE appropriate amount from previous page: • Enter amount from line A5 for enrollment periods less than nine months **OR** • Enter amount from line B14 for enrollment periods greather than nine months	
Student's Contribution from Available Income—use ONE appropriate amount from previous page: • Enter amount from line C5 for enrollment periods less than nine months **OR** + • Enter amount from line 44 for enrollment periods greater than nine months	
Expected Family Contribution for periods of enrollment other than nine months =	

Table A1: State and Other Tax Allowance

for EFC Formula Worksheet A (parents only)

STATE	PERCENT OF TOTAL INCOME	
	$0-$14,999	$15,000 or more
Alabama	3%	2%
Alaska	2%	1%
American Samoa	3%	2%
Arizona	4%	3%
Arkansas	4%	3%
California	8%	7%
Canada and Canadian Provinces	3%	2%
Colorado	5%	4%
Connecticut	8%	7%
Delaware	4%	3%
District of Columbia	7%	6%
Federated States of Micronesia	3%	2%
Florida	3%	2%
Georgia	5%	4%
Guam	3%	2%
Hawaii	5%	4%
Idaho	5%	4%
Illinois	5%	4%
Indiana	4%	3%
Iowa	5%	4%
Kansas	5%	4%
Kentucky	5%	4%
Louisiana	3%	2%
Maine	6%	5%
Marshall Islands	3%	2%
Maryland	8%	7%
Massachusetts	7%	6%
Mexico	3%	2%
Michigan	5%	4%
Minnesota	6%	5%
Mississippi	3%	2%
Missouri	5%	4%
Montana	5%	4%
Nebraska	5%	4%
Nevada	3%	2%
New Hampshire	5%	4%
New Jersey	9%	8%
New Mexico	3%	2%
New York	9%	8%
North Carolina	6%	5%
North Dakota	3%	2%
Northern Mariana Islands	3%	2%
Ohio	6%	5%
Oklahoma	4%	3%
Oregon	7%	6%
Palau	3%	2%
Pennsylvania	6%	5%
Puerto Rico	3%	2%
Rhode Island	7%	6%
South Carolina	5%	4%
South Dakota	2%	1%
Tennessee	2%	1%
Texas	3%	2%
Utah	5%	4%
Vermont	5%	4%
Virgin Islands	3%	2%
Virginia	6%	5%
Washington	4%	3%
West Virginia	3%	2%
Wisconsin	7%	6%
Wyoming	2%	1%
Blank or Invalid State	3%	2%
OTHER	3%	2%

Multiply Parents' Total Income (EFC Formula Worksheet A, line 7) by the appropriate rate from the table above to get the "State and Other Tax Allowance" (EFC Formula Worksheet A, line 9). Use the parents' State of Legal Residence (FAFSA/SAR #72). If this item is blank or invalid, use the student's State of Legal Residence (FAFSA/SAR #18). If both items are blank or invalid, use the State in the Student's Mailing Address (FAFSA/SAR #6). If all three items are blank or invalid, use the rate for a blank or invalid state above.

Table A2: Social Security Tax

Calculate separately the Social Security tax of father, mother, and student.

Income Earned from Work*	Social Security Tax
$0 - $102,000	7.65% of income
$102,001 or greater	$7,803.00 + 1.45% of amount over $102,000

*Father's/stepfather's 2008 income earned from work is FAFSA/SAR #89.
Mother's/stepmother's 2008 income earned from work is FAFSA/SAR #90.
Student's 2008 income earned from work is FAFSA/SAR #39.
Social Security tax will never be less than zero.

Table A3: Income Protection Allowance

Number in parents' household, including student (FAFSA/SAR #75)	Number of college students in household (FAFSA/SAR #76)				
	1	2	3	4	5
2	$15,840	$13,130	———	———	———
3	19,730	17,030	$14,320	———	———
4	24,370	21,660	18,960	$16,250	———
5	28,750	26,040	23,340	20,630	$17,940
6	33,630	30,920	28,220	25,510	22,820

Note: For each additional family member, add $3,800.
For each additional college student (except parents), subtract $2,700.

Table A4: Business/Farm Net Worth Adjustment

for EFC Formula Worksheet A (parents only)

If the net worth of a business or farm is—	Then the adjusted net worth is—			
Less than $1	$0			
$1 to $115,000	40% of net worth of business/farm			
$115,001 to $340,000	$ 46,000	+	50%	of net worth over $115,000
$340,001 to $565,000	$158,500	+	60%	of net worth over $340,000
$565,001 or more	$293,500	+	100%	of net worth over $565,000

Table A5: Education Savings and Asset Protection Allowance

for EFC Formula Worksheet A (parents only)

*Age of older parent as of 12/31/2009**	Allowance if there are two parents	Allowance if there is only one parent	*Age of older parent as of 12/31/2009**	Allowance if there are two parents	Allowance if there is only one parent
25 or less ...	$0	$0	45	$48,700	$19,900
26	2,900	1,200	46	49,900	20,400
27	5,800	2,400	47	51,200	20,900
28	8,700	3,600	48	52,400	21,400
29	11,600	4,800	49	53,700	21,900
30	14,500	6,000	50	55,300	22,400
31	17,400	7,200	51	56,700	22,900
32	20,300	8,400	52	58,000	23,500
33	23,100	9,500	53	59,800	24,000
34	26,000	10,700	54	61,200	24,600
35	28,900	11,900	55	63,000	25,300
36	31,800	13,100	56	64,900	25,900
37	34,700	14,300	57	66,400	26,500
38	37,600	15,500	58	68,300	27,200
39	40,500	16,700	59	70,300	27,900
40	43,400	17,900	60	72,300	28,700
41	44,200	18,200	61	74,400	29,500
42	45,300	18,600	62	76,600	30,300
43	46,400	19,100	63	79,100	31,100
44	47,600	19,500	64	81,300	32,000
			65 or over ..	84,000	32,800

*Determine the age of the older parent listed in FAFSA/SAR #66 and #70 as of 12/31/09.
If no parent date of birth is provided, use age 45.

Table A6: Parents' Contribution from AAI

If parents' AAI is—	**The parents' contribution from AAI is—**
Less than -$3,409	-$750
-$3,409 to $14,200	22% of AAI
$14,201 to $17,800	$3,124 + 25% of AAI over $14,200
$17,801 to $21,400	$4,024 + 29% of AAI over $17,800
$21,401 to $25,000	$5,068 + 34% of AAI over $21,400
$25,001 to $28,600	$6,292 + 40% of AAI over $25,000
$28,601 or more	$7,732 + 47% of AAI over $28,600

Table A7: State and Other Tax Allowance

for EFC Formula Worksheet A (student only)

Alabama	2%
Alaska	0%
American Samoa	2%
Arizona	3%
Arkansas	3%
California	5%
Canada and Canadian Provinces	2%
Colorado	3%
Connecticut	4%
Delaware	3%
District of Columbia	6%
Federated States of Micronesia	2%
Florida	1%
Georgia	4%
Guam	2%
Hawaii	4%
Idaho	3%
Illinois	2%
Indiana	3%
Iowa	3%
Kansas	3%
Kentucky	4%
Louisiana	2%
Maine	4%
Marshall Islands	2%
Maryland	5%
Massachusetts	4%
Mexico	2%
Michigan	3%
Minnesota	4%
Mississippi	2%
Missouri	3%
Montana	3%
Nebraska	3%
Nevada	1%
New Hampshire	1%
New Jersey	4%
New Mexico	3%
New York	6%
North Carolina	4%
North Dakota	1%
Northern Mariana Islands	2%
Ohio	4%
Oklahoma	3%
Oregon	5%
Palau	2%
Pennsylvania	3%
Puerto Rico	2%
Rhode Island	4%
South Carolina	3%
South Dakota	1%
Tennessee	1%
Texas	1%
Utah	4%
Vermont	3%
Virgin Islands	2%
Virginia	4%
Washington	1%
West Virginia	2%
Wisconsin	4%
Wyoming	1%
Blank or Invalid State	2%
OTHER	2%

Multiply the student's total income (EFC Formula Worksheet A, line 35) by the appropriate rate from the table above to get the "state and other tax allowance" (EFC Formula Worksheet A, line 37). Use the student's state of legal residence (FAFSA/SAR #18). If this item is blank or invalid, use the state in the student's mailing address (FAFSA/SAR #6). If both items are blank or invalid, use the parents' state of legal residence (FAFSA/SAR #72). If all three items are blank or invalid, use the rate for a blank or invalid state above.

2009-2010 EFC FORMULA B: INDEPENDENT STUDENT
Without Dependent(s) Other than a Spouse

REGULAR WORKSHEET Page 1 **B**

STUDENT/SPOUSE INCOME IN 2008		
1. Student's and spouse's Adjusted Gross Income (FAFSA/SAR #36) If negative, enter zero.		
2. a. Student's income earned from work (FAFSA/SAR #39) _____		
2. b. Spouse's income earned from work (FAFSA/SAR #40) + _____		
Total student/spouse income earned from work	=	
3. Student/spouse Taxable Income (If tax filers, enter the amount from line 1 above. If non-tax filers, enter the amount from line 2.)		
4. Total untaxed income and benefits (sum total of FAFSA/SAR #47.a. through 47.j.)	+	
5. Taxable and untaxed income (sum of line 3 and line 4)	=	
6. Total additional financial information (sum total of FAFSA/SAR #46.a. through 46.e.)	–	
7. TOTAL INCOME (line 5 minus line 6) May be a negative number.	=	

ALLOWANCES AGAINST STUDENT/SPOUSE INCOME		
8. 2008 U.S. income tax paid (FAFSA/SAR #37) (tax filers only) If negative, enter zero.		
9. State and other tax allowance (Table B1) If negative, enter zero.	+	
10. Student's Social Security tax (Table B2)	+	
11. Spouse's Social Security tax (Table B2)	+	
12. Income protection allowance: • $7,000 for unmarried or separated student; • $7,000 for married student if spouse is enrolled at least 1/2 time; • $11,220 for married student if spouse is not enrolled at least 1/2 time.	+	
13. Employment expense allowance: • If student is not married or is separated, the allowance is zero. • If student is married but only one person is working (the student or spouse), the allowance is zero. • If student is married and both student and spouse are working, the allowance is 35% of the lesser of the earned incomes, or $3,500, whichever is less.	+	
14. TOTAL ALLOWANCES	=	

CONTRIBUTION FROM AVAILABLE INCOME		
TOTAL INCOME (from line 7)		
TOTAL ALLOWANCES (from line 14)	–	
15. AVAILABLE INCOME (AI)	=	
16. Assessment rate	×	**.50**
17. CONTRIBUTION FROM AI May be a negative number.	=	

STUDENT'S/SPOUSE'S CONTRIBUTION FROM ASSETS		
18. Cash, savings & checking (FAFSA/SAR #41)		
19. Net worth of investments* (FAFSA/SAR #42) If negative, enter zero.		
20. Net worth of business and/or investment farm (FAFSA/SAR #43) If negative, enter zero.		
21. Adjusted net worth of business/farm (Calculate using Table B3.)	+	
22. Net worth (sum of lines 18, 19, and 21)	=	
23. Asset protection allowance (Table B4)	–	
24. Discretionary net worth (line 22 minus line 23)	=	
25. Asset conversion rate	×	**.20**
26. CONTRIBUTION FROM ASSETS If negative, enter zero.		

EXPECTED FAMILY CONTRIBUTION		
CONTRIBUTION FROM AI (from line 17) May be a negative number.		
CONTRIBUTION FROM ASSETS (from line 26)	+	
27. Contribution from AI and assets	=	
28. Number in college in 2009-2010 (FAFSA/SAR #97)	÷	
29. EXPECTED FAMILY CONTRIBUTION for nine month enrollment. If negative, enter zero.**	=	

*Do *not* include the student's home.

**To calculate the EFC for less than nine-month enrollment, see the next page. If the student is enrolled for more than nine months, use the nine-month EFC (line 29 above).

Note: *Use this additional page to prorate the EFC only if the student will be enrolled for less than nine months and only to determine the student's need for campus-based aid, a subsidized Federal Stafford Loan, a subsidized Federal Direct Stafford/Ford Loan, an ACG, or a National SMART Grant. Do not use this page to prorate the EFC for a Federal Pell Grant or TEACH Grant. The EFC for the Federal Pell Grant Program is the nine-month EFC used in conjunction with the cost of attendance to determine a Federal Pell Grant award from the Payment or Disbursement Schedule.*

REGULAR WORKSHEET Page 2 **B**

Calculation of Expected Family Contribution for a Student Enrolled for Less than Nine Months		
Expected Family Contribution (standard contribution for nine-month enrollment, from line 29)		
Divide by 9	÷	**9**
Expected Family Contribution per month	=	
Multiply by number of months of enrollment	×	
Expected Family Contribution for less than nine-month enrollment*	=	

*Substitute the student's EFC for less than nine-month enrollment in place of the EFC for the standard nine-month enrollment (EFC Formula Worksheet B, line 29).

2009-2010 EFC FORMULA B: INDEPENDENT STUDENT
Without Dependent(s) Other than a Spouse

SIMPLIFIED WORKSHEET Page 1 **B**

STUDENT/SPOUSE INCOME IN 2008		
1. Student's and spouse's Adjusted Gross Income (FAFSA/SAR #36) If negative, enter zero.		
2. a. Student's income earned from work (FAFSA/SAR #39) _____		
2. b. Spouse's income earned from work (FAFSA/SAR #40) + _____		
Total student/spouse income earned from work	=	
3. Student/spouse Taxable Income (If tax filers, enter the amount from line 1 above. If non-tax filers, enter the amount from line 2.)		
4. Total untaxed income and benefits (sum total of FAFSA/SAR #47.a. through 47.j.)	+	
5. Taxable and untaxed income (sum of line 3 and line 4)	=	
6. Total additional financial information (sum total of FAFSA/SAR #46.a. through 46.e.)	–	
7. TOTAL INCOME (line 5 minus line 6) May be a negative number.	=	

ALLOWANCES AGAINST STUDENT/SPOUSE INCOME		
8. 2008 U.S. income tax paid (FAFSA/SAR #37) (tax filers only) If negative, enter zero.		
9. State and other tax allowance (Table B1) If negative, enter zero.	+	
10. Student's Social Security tax (Table B2)	+	
11. Spouse's Social Security tax (Table B2)	+	
12. Income protection allowance: • $7,000 for unmarried or separated student; • $7,000 for married student if spouse is enrolled at least 1/2 time; • $11,220 for married student if only the student is enrolled at least 1/2 time.	+	
13. Employment expense allowance: • If student is not married or is separated, the allowance is zero. • If student is married but only one person is working (the student or spouse), the allowance is zero. • If student is married and both student and spouse are working, the allowance is 35% of the lesser of the earned incomes, or $3,500, whichever is less.	+	
14. TOTAL ALLOWANCES	=	

CONTRIBUTION FROM AVAILABLE INCOME		
TOTAL INCOME (from line 7)		
TOTAL ALLOWANCES (from line 14)	–	
15. AVAILABLE INCOME (AI)	=	
16. Assessment rate	×	.50
17. CONTRIBUTION FROM AI May be a negative number.	=	

STUDENT'S/SPOUSE'S CONTRIBUTION FROM ASSETS		
18. Cash, savings & checking (FAFSA/SAR #41)		
19. Net worth of investments* (FAFSA/SAR #42) If negative, enter zero.		
20. Net worth of business and/or investment farm (FAFSA/SAR #43) If negative, enter zero.		
21. Adjusted net worth of business/farm (Calculate using Table B3.)	+	
22. Net worth (sum of lines 18, 19, and 21)	=	
23. Asset protection allowance (Table B4)	–	
24. Discretionary net worth (line 22 minus line 23)	=	
25. Asset conversion rate	×	.20
26. CONTRIBUTION FROM ASSETS If negative, enter zero.		

EXPECTED FAMILY CONTRIBUTION		
CONTRIBUTION FROM AI (from line 17) May be a negative number.		
CONTRIBUTION FROM ASSETS (from line 26)	+	
27. Contribution from AI and assets	=	
28. Number in college in 2009-2010 (FAFSA/SAR #97)	÷	
29. EXPECTED FAMILY CONTRIBUTION for nine-month enrollment. If negative, enter zero.**	=	

*Do *not* include the student's home.

**To calculate the EFC for less than nine-month enrollment, see the next page. If the student is enrolled for more than nine months, use the nine-month EFC (line 29 above).

Note: Do not complete the shaded areas; asset information is not required in the simplified formula.

Note: *Use this additional page to prorate the EFC only if the student will be enrolled for less than nine months and only to determine the student's need for campus-based aid, a subsidized Federal Stafford Loan, a subsidized Federal Direct Stafford/Ford Loan, an ACG, or a National SMART Grant. Do not use this page to prorate the EFC for a Federal Pell Grant or TEACH Grant. The EFC for the Federal Pell Grant Program is the nine-month EFC used in conjunction with the cost of attendance to determine a Federal Pell Grant award from the Payment or Disbursement Schedule.*

SIMPLIFIED WORKSHEET Page 2 **B**

Calculation of Expected Family Contribution for a Student Enrolled for Less than Nine Months		
Expected Family Contribution (standard contribution for nine-month enrollment, from line 29)		
Divide by 9	÷	**9**
Expected Family Contribution per month	=	
Multiply by number of months of enrollment	×	
Expected Family Contribution for less than nine-month enrollment*	=	

*Substitute the student's EFC for less than nine-month enrollment in place of the EFC for the standard nine-month enrollment (EFC Formula Worksheet B, line 29.)

Table B1: State and Other Tax Allowance

Alabama	2%
Alaska	0%
American Samoa	2%
Arizona	3%
Arkansas	3%
California	5%
Canada and Canadian Provinces	2%
Colorado	3%
Connecticut	4%
Delaware	3%
District of Columbia	6%
Federated States of Micronesia	2%
Florida	1%
Georgia	4%
Guam	2%
Hawaii	4%
Idaho	3%
Illinois	2%
Indiana	3%
Iowa	3%
Kansas	3%
Kentucky	4%
Louisiana	2%
Maine	4%
Marshall Islands	2%
Maryland	5%
Massachusetts	4%
Mexico	2%
Michigan	3%
Minnesota	4%
Mississippi	2%
Missouri	3%
Montana	3%
Nebraska	3%
Nevada	1%
New Hampshire	1%
New Jersey	4%
New Mexico	3%
New York	6%
North Carolina	4%
North Dakota	1%
Northern Mariana Islands	2%
Ohio	4%
Oklahoma	3%
Oregon	5%
Palau	2%
Pennsylvania	3%
Puerto Rico	2%
Rhode Island	4%
South Carolina	3%
South Dakota	1%
Tennessee	1%
Texas	1%
Utah	4%
Vermont	3%
Virgin Islands	2%
Virginia	4%
Washington	1%
West Virginia	2%
Wisconsin	4%
Wyoming	1%
Blank or Invalid State	2%
OTHER	2%

Multiply the total income of student and spouse (EFC Formula Worksheet B, line 7) by the appropriate rate from the table above to get the "state and other tax allowance" (EFC Formula Worksheet B, line 9). Use the student's State of Legal Residence (FAFSA/SAR #18) reported on the FAFSA. If this item is blank or invalid, use the State in the Student's Mailing Address (FAFSA/SAR #6). If both items are blank or invalid, use rate for blank or invalid state above.

Table B2: Social Security Tax

Calculate separately the Social Security tax of student and spouse.

Income Earned from Work*	Social Security Tax
$0 - $102,000	7.65% of income
$102,001 or greater	$7,803.00 + 1.45% of amount over $102,000

*Student's 2008 income earned from work is FAFSA/SAR #39.
Spouse's 2008 income earned from work is FAFSA/SAR #40.
Social Security tax will never be less than zero.

Table B3: Business/Farm Net Worth Adjustment

If the net worth of a business or farm is—	Then the adjusted net worth is—			
Less than $1	$0			
$1 to $115,000	40% of net worth of business/farm			
$115,001 to $340,000	$ 46,000	+	50%	of net worth over $115,000
$340,001 to $565,000	$158,500	+	60%	of net worth over $340,000
$565,001 or more	$293,500	+	100%	of net worth over $565,000

Table B4
Asset Protection Allowance

Age of student as of 12/31/09*	Allowance for— Married Student	Unmarried Student
25 or less ...	$0	$0
26	2,900	1,200
27	5,800	2,400
28	8,700	3,600
29	11,600	4,800
30	14,500	6,000
31	17,400	7,200
32	20,300	8,400
33	23,100	9,500
34	26,000	10,700
35	28,900	11,900
36	31,800	13,100
37	34,700	14,300
38	37,600	15,500
39	40,500	16,700
40	43,400	17,900
41	44,200	18,200
42	45,300	18,600
43	46,400	19,100
44	47,600	19,500
45	48,700	19,900
46	49,900	20,400
47	51,200	20,900
48	52,400	21,400
49	53,700	21,900
50	55,300	22,400
51	56,700	22,900
52	58,000	23,500
53	59,800	24,000
54	61,200	24,600
55	63,000	25,300
56	64,900	25,900
57	66,400	26,500
58	68,300	27,200
59	70,300	27,900
60	72,300	28,700
61	74,400	29,500
62	76,600	30,300
63	79,100	31,100
64	81,300	32,000
65 or over ..	84,000	32,800

*Determine student's age as of 12/31/09 from student's date of birth (FAFSA/SAR #9).

2009-2010 EFC FORMULA C: INDEPENDENT STUDENT
With Dependent(s) Other than a Spouse

REGULAR WORKSHEET Page 1 **C**

STUDENT/SPOUSE INCOME IN 2008		
1. Student's and spouse's Adjusted Gross Income (FAFSA/SAR #36) If negative, enter zero.		
2. a. Student's income earned from work (FAFSA/SAR #39) _____		
2. b. Spouse's income earned from work (FAFSA/SAR #40) + _____		
Total student/spouse income earned from work	=	
3. Student/spouse Taxable Income (If tax filers, enter the amount from line 1 above. If non-tax filers, enter the amount from line 2.)		
4. Total untaxed income and benefits (sum total of FAFSA/SAR #47.a. through 47.j.)	+	
5. Taxable and untaxed income (sum of line 3 and line 4)	=	
6. Total additional financial information (sum total of FAFSA/SAR #46.a. through 46.e.)	–	
7. TOTAL INCOME (line 5 minus line 6) May be a negative number.	=	

ALLOWANCES AGAINST STUDENT/SPOUSE INCOME		
8. 2008 U.S. income tax paid (FAFSA/SAR #37) (tax filers only) If negative, enter zero.		
9. State and other tax allowance (Table C1) If negative, enter zero.	+	
10. Student's Social Security tax (Table C2)	+	
11. Spouse's Social Security tax (Table C2)	+	
12. Income protection allowance (Table C3)	+	
13. Employment expense allowance: • Student and spouse both working: 35% of the lesser of the earned incomes, or $3,500, whichever is less • One-parent families: 35% of earned income, or $3,500, whichever is less		
• Student or spouse working (not both): zero	+	
14. TOTAL ALLOWANCES	=	

*STOP HERE if the following are true:

Line 3 is $30,000 or less **and**

- The student (and the student's spouse, if any) are eligible to file a 2008 IRS Form 1040A or 1040EZ (they are not required to file a 2008 Form 1040) or they are not required to file any income tax return **or**
- Anyone included in the parents' household size (as defined on the FAFSA) received benefits during 2007 or 2008 from any of the designated means-tested Federal benefit programs **or**
- The student (or the student's spouse, if any) is a dislocated worker

If these circumstances are true, the Expected Family Contribution is automatically zero.

AVAILABLE INCOME		
TOTAL INCOME (from line 7)		
TOTAL ALLOWANCES (from line 14)	–	
15. AVAILABLE INCOME (AI) May be a negative number.	=	

STUDENT'S/SPOUSE'S CONTRIBUTION FROM ASSETS		
16. Cash, savings & checking (FAFSA/SAR #41)		
17. Net worth of investments** (FAFSA/SAR #42) If negative, enter zero.		
18. Net worth of business and/or investment farm (FAFSA/SAR #43) If negative, enter zero.		
19. Adjusted net worth of business/farm (Calculate using Table C4.)	+	
20. Net worth (sum of lines 16, 17, and 19)	=	
21. Asset protection allowance (Table C5)	–	
22. Discretionary net worth (line 20 minus line 21)	=	
23. Asset conversion rate	×	.07
24. CONTRIBUTION FROM ASSETS If negative, enter zero.		

EXPECTED FAMILY CONTRIBUTION		
AVAILABLE INCOME (AI) (from line 15)		
CONTRIBUTION FROM ASSETS (from line 24)	+	
25. Adjusted Available Income (AAI) May be a negative number.	=	
26. Total contribution from AAI (Calculate using Table C6.) If negative, enter zero.		
27. Number in college in 2009-2010 (FAFSA/SAR #97)	÷	
28. EXPECTED FAMILY CONTRIBUTION for nine month enrollment. If negative, enter zero.***		

**Do *not* include the student's home.

***To calculate the EFC for less than nine-month enrollment, see the next page. If the student is enrolled for more than nine months, use the nine-month EFC (line 28 above).

Note: *Use this additional page to prorate the EFC only if the student will be enrolled for less than nine months and only to determine the student's need for campus-based aid, a subsidized Federal Stafford Loan, a subsidized Federal Direct Stafford/Ford Loan, an ACG, or a National SMART Grant. Do not use this page to prorate the EFC for a Federal Pell Grant or TEACH Grant. The EFC for the Federal Pell Grant Program is the nine-month EFC used in conjunction with the cost of attendance to determine a Federal Pell Grant award from the Payment or Disbursement Schedule.*

REGULAR WORKSHEET Page 2 **C**

Calculation of Expected Family Contribution for a Student Enrolled for Less than Nine Months		
Expected Family Contribution (standard contribution for nine-month enrollment, from line 28)		
Divide by 9	÷	**9**
Expected Family Contribution per month	=	
Multiply by number of months of enrollment	×	
Expected Family Contribution for less than nine-month enrollment*	=	

*Substitute the student's EFC for less than nine-month enrollment in place of the EFC for the standard nine-month enrollment (EFC Formula Worksheet C, line 28).

2009-2010 EFC FORMULA C: INDEPENDENT STUDENT
With Dependent(s) Other than a Spouse

SIMPLIFIED WORKSHEET Page 1 **C**

STUDENT/SPOUSE INCOME IN 2008	
1. Student's and spouse's Adjusted Gross Income (FAFSA/SAR #36) If negative, enter zero.	
2. a. Student's income earned from work (FAFSA/SAR #39) _____	
2. b. Spouse's income earned from work (FAFSA/SAR #40) + _____	
Total student/spouse income earned from work =	
3. Student/spouse Taxable Income (If tax filers, enter the amount from line 1 above. If non-tax filers, enter the amount from line 2.)	
4. Total untaxed income and benefits (sum total of FAFSA/SAR #47.a. through 47.j.) +	
5. Taxable and untaxed income (sum of line 3 and line 4) =	
6. Total additional financial information (sum total of FAFSA/SAR #46.a. through 46.e.) –	
7. TOTAL INCOME (line 5 minus line 6) May be a negative number. =	

ALLOWANCES AGAINST STUDENT/SPOUSE INCOME	
8. 2008 U.S. income tax paid (FAFSA/SAR #37) (tax filers only) If negative, enter zero.	
9. State and other tax allowance (Table C1) If negative, enter zero. +	
10. Student's Social Security tax (Table C2) +	
11. Spouse's Social Security tax (Table C2) +	
12. Income protection allowance (Table C3) +	
13. Employment expense allowance: • Student and spouse both working: 35% of the lesser of the earned incomes, or $3,500, whichever is less • One-parent families: 35% of earned income, or $3,500, whichever is less	
• Student or spouse working (not both): zero +	
14. TOTAL ALLOWANCES =	

*STOP HERE if the following are true:

Line 3 is $30,000 or less **and**

- The student (and the student's spouse, if any) are eligible to file a 2008 IRS Form 1040A or 1040EZ (they are not required to file a 2008 Form 1040) or they are not required to file any income tax return **or**
- Anyone included in the parents' household size (as defined on the FAFSA) received benefits during 2007 or 2008 from any of the designated means-tested Federal benefit programs **or**
- The student (or the student's spouse, if any) is a dislocated worker

If these circumstances are true, the Expected Family Contribution is automatically zero.

AVAILABLE INCOME	
TOTAL INCOME (from line 7)	
TOTAL ALLOWANCES (from line 14) –	
15. AVAILABLE INCOME (AI) May be a negative number. =	

STUDENT'S/SPOUSE'S CONTRIBUTION FROM ASSETS	
16. Cash, savings & checking (FAFSA/SAR #41)	
17. Net worth of investments** (FAFSA/SAR #42) If negative, enter zero.	
18. Net worth of business and/or investment farm (FAFSA/SAR #43) If negative, enter zero.	
19. Adjusted net worth of business/farm (Calculate using Table C4.) +	
20. Net worth (sum of lines 16, 17, and 19) =	
21. Asset protection allowance (Table C5) –	
22. Discretionary net worth (line 20 minus line 21) =	
23. Asset conversion rate ×	.07
24. CONTRIBUTION FROM ASSETS If negative, enter zero.	

EXPECTED FAMILY CONTRIBUTION	
AVAILABLE INCOME (AI) (from line 15)	
CONTRIBUTIONS FROM ASSETS (from line 24) +	
25. Adjusted available income (AAI) May be a negative number. =	
26. Total contribution from AAI (Calculate using Table C6.) If negative, enter zero.	
27. Number in college in 2009-2010 (FAFSA/SAR #97) ÷	
28. EXPECTED FAMILY CONTRIBUTION for nine month enrollment. If negative, enter zero.***	

**Do *not* include the student's home.

***To calculate the EFC for less than nine-month enrollment, see the next page. If the student is enrolled for more than nine months, use the nine-month EFC (line 28 above).

Note: Do not complete the shaded areas; asset information is not required in the simplified formula.

Note: *Use this additional page to prorate the EFC only if the student will be enrolled for less than nine months and only to determine the student's need for campus-based aid, a subsidized Federal Stafford Loan, a subsidized Federal Direct Stafford/Ford Loan, an ACG, or a National SMART Grant. Do not use this page to prorate the EFC for a Federal Pell Grant or TEACH Grant. The EFC for the Federal Pell Grant Program is the nine-month EFC used in conjunction with the cost of attendance to determine a Federal Pell Grant award from the Payment or Disbursement Schedule.*

SIMPLIFIED WORKSHEET Page 2 **C**

Calculation of Expected Family Contribution for a Student Enrolled for Less than Nine Months		
Expected Family Contribution (standard contribution for nine-month enrollment, from line 28)		
Divide by 9	÷	**9**
Expected Family Contribution per month	=	
Multiply by number of months enrollment	×	
Expected Family Contribution for less than nine-month enrollment*	=	

*Substitute the student's EFC for less than nine-month enrollment in place of the EFC for the standard nine-month enrollment (EFC Formula Worksheet C, line 28).

Table C1: State and Other Tax Allowance

STATE	PERCENT OF TOTAL INCOME		STATE	PERCENT OF TOTAL INCOME	
	$0-$14,999	$15,000 or more		$0-$14,999	$15,000 or more
Alabama	3%	2%	Missouri	5%	4%
Alaska	2%	1%	Montana	5%	4%
American Samoa	3%	2%	Nebraska	5%	4%
Arizona	4%	3%	Nevada	3%	2%
Arkansas	4%	3%	New Hampshire	5%	4%
California	8%	7%	New Jersey	9%	8%
Canada and Canadian Provinces	3%	2%	New Mexico	3%	2%
Colorado	5%	4%	New York	9%	8%
Connecticut	8%	7%	North Carolina	6%	5%
Delaware	4%	3%	North Dakota	3%	2%
District of Columbia	7%	6%	Northern Mariana Islands	3%	2%
Federated States of Micronesia	3%	2%	Ohio	6%	5%
Florida	3%	2%	Oklahoma	4%	3%
Georgia	5%	4%	Oregon	7%	6%
Guam	3%	2%	Palau	3%	2%
Hawaii	5%	4%	Pennsylvania	6%	5%
Idaho	5%	4%	Puerto Rico	3%	2%
Illinois	5%	4%	Rhode Island	7%	6%
Indiana	4%	3%	South Carolina	5%	4%
Iowa	5%	4%	South Dakota	2%	1%
Kansas	5%	4%	Tennessee	2%	1%
Kentucky	5%	4%	Texas	3%	2%
Louisiana	3%	2%	Utah	5%	4%
Maine	6%	5%	Vermont	5%	4%
Marshall Islands	3%	2%	Virgin Islands	3%	2%
Maryland	8%	7%	Virginia	6%	5%
Massachusetts	7%	6%	Washington	4%	3%
Mexico	3%	2%	West Virginia	3%	2%
Michigan	5%	4%	Wisconsin	7%	6%
Minnesota	6%	5%	Wyoming	2%	1%
Mississippi	3%	2%	Blank or Invalid State	3%	2%
			OTHER	3%	2%

Multiply the total income of student and spouse (EFC Formula Worksheet C, line 7) by the appropriate rate from the table above to get the "state and other tax allowance" (EFC Formula Worksheet C, line 9). Use the student's State of Legal Residence (FAFSA/SAR #18) reported on the FAFSA. If this item is blank or invalid, use the State in the Student's Mailing Address (FAFSA/SAR #6). If both items are blank or invalid, use the rate for blank or invalid state above.

Table C2: Social Security Tax

Calculate separately the Social Security tax of student and spouse.

Income Earned from Work*	Social Security Tax
$0 - $102,000	7.65% of income
$102,001 or greater	$7,803.00 + 1.45% of amount over $102,000

*Student's 2008 income earned from work is FAFSA/SAR #39.
Spouse's 2008 income earned from work is FAFSA/SAR #40.
Social Security tax will never be less than zero.

Table C3: Income Protection Allowance

Number in student's household, including student (FAFSA/SAR #96)	Number of college students in household (FAFSA/SAR #97)				
	1	2	3	4	5
2	$17,720	$14,690	———	———	———
3	22,060	19,050	$16,020	———	———
4	27,250	24,220	21,210	$18,170	———
5	32,150	29,120	26,100	23,070	$20,060
6	37,600	34,570	31,570	28,520	25,520

Note: For each additional family member, add $4,240.
For each additional college student, subtract $3,020.

Table C4: Business/Farm Net Worth Adjustment

If the net worth of a business or farm is—	Then the adjusted net worth is—
Less than $1	$0
$1 to $115,000	40% of net worth of business/farm
$115,001 to $340,000	$ 46,000 + 50% of net worth over $115,000
$340,001 to $565,000	$158,500 + 60% of net worth over $340,000
$565,001 or more	$293,500 + 100% of net worth over $565,000

Table C5: Asset Protection Allowance

Age of student as of 12/31/09*	Allowance for— Married Student	Allowance for— Unmarried Student	Age of student as of 12/31/09*	Allowance for— Married Student	Allowance for— Unmarried Student
25 or less ...	$0	$0	45	$48,700	$19,900
26	2,900	1,200	46	49,900	20,400
27	5,800	2,400	47	51,200	20,900
28	8,700	3,600	48	52,400	21,400
29	11,600	4,800	49	53,700	21,900
30	14,500	6,000	50	55,300	22,400
31	17,400	7,200	51	56,700	22,900
32	20,300	8,400	52	58,000	23,500
33	23,100	9,500	53	59,800	24,000
34	26,000	10,700	54	61,200	24,600
35	28,900	11,900	55	63,000	25,300
36	31,800	13,100	56	64,900	25,900
37	34,700	14,300	57	66,400	26,500
38	37,600	15,500	58	68,300	27,200
39	40,500	16,700	59	70,300	27,900
40	43,400	17,900	60	72,300	28,700
41	44,200	18,200	61	74,400	29,500
42	45,300	18,600	62	76,600	30,300
43	46,400	19,100	63	79,100	31,100
44	47,600	19,500	64	81,300	32,000
			65 or over ..	84,000	32,800

*Determine student's age as of 12/31/09 from student's date of birth (FAFSA/SAR #9)

Table C6: Contribution from AAI

If student's AAI is—	The student's contribution from AAI is—
Less than -$3,409	-$750
-$3,409 to $14,200	22% of AAI
$14,201 to $17,800	$3,124 + 25% of AAI over $14,200
$17,801 to $21,400	$4,024 + 29% of AAI over $17,800
$21,401 to $25,000	$5,068 + 34% of AAI over $21,400
$25,001 to $28,600	$6,292 + 40% of AAI over $25,000
$28,601 or more	$7,732 + 47% of AAI over $28,600

Verification

CHAPTER 4

Because students sometimes make errors on their application, colleges have procedures for verifying the reported information. The regulations include this verification as part of the FSA program requirements. The Department only requires that a portion of the FAFSA filers at your school be verified, as selected by the Central Processing System. However, you also have the authority—and may be required—to verify additional students.

Verification concerns applicants for most FSA programs, but it isn't required if the student will only receive a parent or graduate PLUS loan or an unsubsidized Stafford loan, because these loans are not based on the EFC. However, a student can't avoid verification by choosing to borrow an unsubsidized loan instead of a subsidized loan. If he tries to do this, the school is to continue with verification.

REQUIRED POLICIES

Your school must have written policies and procedures on the following verification issues:

- deadlines for students to submit documentation and consequences of the failure to meet those deadlines,
- a method of notifying students of award changes due to verification,
- required correction procedures for students, and
- standard procedures for referring overpayment cases to the Department.

Additionally, the school must give each applicant selected for verification a written statement explaining the following:

- **Documents required for verification.**
- **Student responsibilities**—including correction procedures, the deadlines for completing any actions required, and the consequences of missing the deadlines.
- **Notification methods**—how your school will notify a student if her award changes as a result of verification, and the time frame for such notification.

Required Verification Items:
34 CFR 668.56
1. Household size
2. Number in college
3. Adjusted gross income (AGI)
4. U.S. taxes paid
5. Certain types of untaxed income and benefits:
   - ➔Child support
   - ➔IRA/Keogh deductions
   - ➔Interest on tax-free bonds
6. All other untaxed income included on the U.S. income tax return, excluding information on the schedules

Verification regulations
34 CFR 668, Subpart E
Required policies—34 CFR 668.53

Online verification assessment module
http://ifap.ed.gov/qahome/qaassessments/fsaverification.html

Quality Assurance Program
Under the Title IV Quality Assurance (QA) Program, participating schools develop and implement a quality improvement approach to FSA program administration and delivery. QA schools are exempt from certain administrative and procedural requirements, including some verification requirements, though they are not exempt from resolving conflicting information. The QA Program provides QA schools with an alternative management approach to develop verification that fits their population. Currently, QA schools use the ISIR Analysis (IA) Tool to analyze the effectiveness of their institutional verification program. The tool shows which application elements changed when verified and reveals the impact that those changes have on the EFC. This tool is available to all schools on the main menu of FAA Access to CPS Online. See Volume 2: School Eligibility and Operations for more information.

APPLICATIONS TO BE VERIFIED

Applications are selected for verification either by the CPS or by the school. Under certain circumstances, a CPS-selected application may be excluded from required verification (see "30% Verification Option" and "Verification Exclusions" below).

Students' output documents show if their application was chosen by the CPS: the verification flag, which is in the *Financial Aid Office Use Only* section with the match flag results, will have a value of "Y." Also, next to the EFC will be an asterisk referring to a comment in the student section of page 1 that tells applicants they will be asked by their schools to provide copies of certain financial documents.

A school must verify any application information that it has reason to believe is incorrect [34 CFR 668.54(a)(3)] or discrepant [34 CFR 668.16(f)]. Students with these applications are considered to be selected for verification by the school even though it may not be verifying the same data as for CPS-selected applications.

The school may also select additional applications for verification beyond those required, and in these cases the school decides which items to verify: it can choose any that must be verified on CPS-selected applications, or it can choose different items.

Regardless of whether the CPS or the school selected the application for verification, all other verification requirements, such as deadlines and allowable tolerances and interim disbursement rules, apply equally to all students who are being verified.

If you want to learn more about verification results, you can use the ISIR Analysis Tool, which provides a variety of reports and analyses using current Web technology. The reports it generates can help you identify potentially faulty applications that discretionary verification or the CPS edits might be missing. They can also help you develop discretionary verification edits that focus on student changes that affect the EFC and Pell eligibility. See "Program Integrity" in the *School Eligibility and Operations* volume.

30% Verification option
34 CFR 668.54(a)(2)

30% Verification option

A school must verify all applications the CPS selects for verification, up to 30% of the school's total number of federal aid applicants in an award year. The school may choose to verify more than 30%, and if the CPS selects less than that, the school isn't required to reach 30%; it is not a quota. Applications a school selects and those with conflicting information don't count toward the 30% level.

Schools have the flexibility to define "applicant." For example, it can be anyone who applies to the school (i.e., they need not be enrolled), anyone who is enrolled, or, even more narrowly, anyone enrolled who is also eligible to receive an aid award. Whatever definition your school uses, the students you count toward the 30% limit must meet that definition.

30% Verification Examples

Frisson College has 1,000 applicants for federal student aid. The CPS selected 475 of the applications for verification. Bennet also selected 100 other applications based on its own criteria. To meet the 30% level, Bennet needs to verify at least 300 applications from the 475 the CPS selected; the 100 Bennet selected don't count toward the 30% requirement.

Brust Conservatory has 1,000 applicants for federal student aid, and the CPS selected 289 of the applications for verification. Brust must verify all 289 applications because that number isn't more than 30% of the total applicants, but it does not have to select 11 more applications to reach 30%.

Benoit Institute has 1,000 applicants for federal student aid, of which the CPS selected 300 for verification. Also, the school identified 40 additional applications as having conflicting information that Benoit must resolve. However, because the resolution of conflicting information is separate from CPS-selected verification, these 40 applications don't count toward the 30% level. Benoit must also verify all 300 applications that were selected for verification, because this number isn't more than 30% of the total applicants for federal student aid.

The verification tracking flag on the ISIR uses a four-digit number to prioritize applicants—the higher the number, the greater the potential for significant error. If you use the 30% option, this field will help you rank and choose applications for verification that potentially have the most significant mistakes.

Verification exclusions

A selected application may be exempt from some or all of the verification requirements due to unusual circumstances. Except in the case of the student's death, however, none of these exemptions excuse the school from the requirement to resolve conflicting information.

➔***Incarceration.*** A selected application does not have to be verified if the student is in jail or prison at the time of verification.

➔***Recent immigrant.*** A selected application does not have to be verified if the student is an immigrant who arrived in the United States during calendar years 2009 or 2010.

➔***Spouse unavailable.*** A school isn't required to verify spousal information (or to obtain the appropriate signature for verification purposes) if any of the following conditions apply:

- The spouse is deceased or mentally or physically incapacitated.
- The spouse is residing in a country other than the United States and can't be contacted by normal means.
- The spouse can't be located because his or her address is unknown, and the student can't obtain it.

You should document the basis for the exclusion. Because this exemption only applies to the spouse's data, the application must still be verified according to all other requirements.

Verification exclusions

34 CFR 668.54(b)

In addition to unsubsidized Stafford Loans and PLUS Loans, verification is not required—

- for Stafford Loans (subsidized or unsubsidized) received for study at eligible foreign schools.
- for the TEACH Grant Program
- for the Leveraging Educational Assistance Partnership (LEAP) and SLEAP (Special LEAP) Programs.
- for the Robert C. Byrd Honors Scholarship Program.

Also note that schools participating in the Quality Assurance Program can develop verification procedures different than those specified in the FSA regulations.

Immigrant example
Hector arrives in the United States in February 2009 and begins attending Guerrero University in September 2009. His 2009–10 application is selected for verification. Guerrero determines that it doesn't have to verify Hector's application because he arrived during the 2009 calendar year.

Spouse unavailable example
Ursula is attending Lem Community College, and her application is selected for verification. She provided her husband's information on the application, but now explains that her husband has recently moved out, and she can't locate him. Ursula also gives Lem some documents to show that she's tried to locate her husband. Lem determines that Ursula doesn't need to provide verification of her husband's tax and income information, but still needs to verify her own information.

➔***Parents unavailable.*** You don't have to verify a dependent student's application if any of the following conditions apply:

- The student's parents are deceased or mentally or physically incapacitated. (If both parents are dead, the student is an orphan and thus is an independent student. If the parents die after the student has applied, the student must update his or her dependency status, as discussed in Chapter 5.)
- The parents are residing in a country other than the United States and can't be contacted by normal means.
- The parents can't be located because their address is unknown, and the student can't obtain it.

➔***Death of the student.*** If you make an interim disbursement during verification and the student dies before it is completed, you don't have to continue verification to justify the first disbursement. You can't make any additional disbursements, except for FWS funds already earned, to any of the student's beneficiaries. You cannot originate a Direct loan, certify a FFEL, or deliver proceeds from either one for the student's beneficiaries. For more information see Chapter 2 of Volume 5.

➔***Applicant verified by another school.*** You don't have to verify the selected application of a student who completed verification for the current award year at another school before transferring. However, to document a student's eligibility for this exclusion, you must get a letter from the school that completed the verification. The letter must include:

- a statement that the student's application data have been verified,
- the transaction number of the verified application, **and**
- if relevant, the reasons why the school was not required to recalculate the student's EFC (for example, the application errors may have been within the allowable tolerance—see "Verification tolerance," page 94).

➔***Pacific Island resident.*** You don't have to verify the selected application of a student who is either

- a legal resident of Guam, American Samoa, or the Commonwealth of the Northern Mariana Islands, or
- a citizen of the Republic of the Marshall Islands, the Federated States of Micronesia, or the Republic of Palau.

To qualify for this exclusion, a dependent student's parents must also meet the same criteria. As documentation, you should note the permanent mailing address in the student's file.

➔***Not an aid recipient.*** You don't have to verify a student who won't receive FSA for reasons other than his failure to complete verification. This category includes students ineligible for aid from the FSA programs and those who withdraw without receiving aid.

REQUIRED VERIFICATION ITEMS

If the CPS selects an application for verification, you must verify five major data elements:

- household size,
- number enrolled in college,
- adjusted gross income (AGI),
- U.S. income tax paid, and
- certain untaxed income and benefits.

In addition to verifying these required items for CPS-selected students, you can choose to verify any other application items, requiring any reasonable documentation, in accordance with consistently applied institutional policies. You may decide which students must provide documentation for any additional data elements and what constitutes acceptable documentation.

General documentation requirements and the verification worksheets

This chapter includes the verification worksheets developed by the Department. Master copies are available on the IFAP website at **www.ifap.ed.gov**, and you may reproduce as many as you need. When a student completes a verification worksheet and attaches the appropriate tax forms or alternative documents, you will usually have enough information to complete verification.

However, you're not required to use the verification worksheets. Your school may use its own worksheet or none at all. You may require other documentation in addition to or instead of a completed verification worksheet. The chart on page 87 shows other forms of acceptable documentation for each required verification item.

If you require students to complete verification worksheets, you must provide the appropriate (dependent or independent) worksheets to the selected students. You should remind your students that they must submit the completed worksheet and copies of the relevant income tax returns or alternative documents to your financial aid office, not to the Department of Education.

When you receive the student's submission, you should make sure that the worksheet is signed, that all required sections are completed, and that the relevant tax returns or alternative documents are attached. As explained later in this section, copies (such as

Required verification items
34 CFR 668.56(a)

Timing of signature
Any required signatures, such as signatures on worksheets or on copies of tax returns, must be collected at the time of verification—they can't be collected after the verification deadline for that award year.

Verification following disasters
Dear Colleague Letter GEN-04-04 gives general guidance for when federally-declared disasters affect the awarding of aid. The DCL states that the Secretary will not enforce the verification requirements during the award year for applicants whose records were lost or destroyed because of a disaster. The school must document when it does not perform verification for this reason and use status code "S" when reporting the disbursement of Pell grants to affected students.

HEROES Act modifications
The Higher Education Relief Opportunities for Students (HEROES) Act provides for the modification and waiving of some statutory and regulatory provisions related to students who receive financial aid and who are on active duty during a war or other military operation or who reside or are employed in a declared disaster area. These adjustments apply to return of funds and signature requirements for verification and application, among other things. These waivers and modifications were due to expire on September 30, 2007, but on that date the law—and with it the Secretary's authority to issue the waivers and modifications—was made permanent. As a result, the above actions will remain in effect until September 30, 2012, unless the Secretary ends or changes them before then. For all the details on the Act and a list of the eligible students, see pages 69312–69318 of the Federal Register dated December 12, 2003.

Household size documentation and exceptions
Student assistance general provisions
34 CFR 668.57(b)
34 CFR 668.56(a)(3), (b), (c)

photocopies, faxes, digital images) of worksheets, tax returns, or other documents are acceptable. Unless specifically noted in this chapter, a signature on a copy is as valid as an original signature (i.e., a handwritten or "wet" signature). After checking the documentation against the student's application data, you may either disburse the student's award or make the necessary corrections and updates. (See "After documentation is complete," page 94.)

Household size

Steps 4 and 5 in Chapter 2 discuss household size. If the student completed the Department's verification worksheet, no further documentation for this item is required. Instead of the worksheet, you may accept a statement signed by the student (and, for dependent students, at least one of the parents) listing the names of the household members, their ages, and their relationship to the student.

You don't have to verify household size if any of the following apply:

- it's the same as reported and verified in the previous award year.
- you receive the student's ISIR or SAR within 90 days after the date the application was signed.
- for a dependent student, the household size reported for married parents is three—or two if the parent is single, divorced, separated, or widowed.
- the household size reported for a married independent student is two—or one if the student is single, divorced, separated, or widowed.

Number enrolled in college

Number in college—documentation and exceptions
Student assistance general provisions
34 CFR 668.57(c)
34 CFR 668.56(a)(4), (b), (d)

If the student completes the Department's verification worksheet, no further documentation for this item is required. Instead of the worksheet, you may accept a statement signed by the student (and at least one of the student's parents, for dependent students). The statement can be combined with the statement verifying household size and should include the names and ages of those enrolled and the names of the schools they plan to attend. If you have reason to doubt the enrollment information reported, you should require the student to obtain documentation from the other students and schools listed. (If other students in the family haven't enrolled yet, documentation from the other schools may not be available.)

You don't have to verify the number enrolled in college if any of the following conditions apply:

- the reported number enrolled is one (the student only).
- you receive the student's ISIR or SAR within 90 days after the date the application was signed.

Acceptable Documentation

	Verification Worksheet & Tax Return(s)	*Other Documentation in lieu of Worksheet or Tax Return (see the text for details)*
Household Size	✓	Signed statement
Number Enrolled	✓	Signed statement or institutional certification
AGI & Taxes Paid	✓	IRS tax transcript, other signed IRS forms with tax data, Form W-2, Form 4868, or a signed statement
Untaxed Income & Benefits	✓	Signed statement or official agency documentation

- the family members the student lists are enrolled at least half time at your school, and you have confirmed their enrollment through your school's own records.

Adjusted gross income (AGI) and U.S. income tax paid

You can usually verify AGI and U.S. income tax paid by getting a copy of the signed U.S. income tax return. The tax documents needed for verification may depend on the filing method—electronic or paper. Documents must have the signatures (or preparer's stamp or other official validation) and data required for verification. If all necessary data are not present, the student must provide additional documentation as described in this section.

AGI and income tax documentation
34 CFR 668.57(a)

To verify AGI and taxes paid, you must first identify everyone whose financial data was reported on the FAFSA and which tax returns, if any, they filed. You must check the tax returns for anyone whose financial data were reported on the FAFSA: the student and his spouse or parents if applicable. They should have reported on the FAFSA either what tax return they filed or that they were not required to file a return. The type of form reported on the FAFSA should match what the student and parents actually filed.

FAFSA tax return questions
For students, the tax return questions are 33–35 on the FAFSA. For parents, the tax return questions are 82–84.

The AGI figures reported on the FAFSA should always match the AGI figures that appear on the tax return, unless the FAFSA amount has been adjusted from a joint return due to divorce, separation, or professional judgment (see "Using a joint return to figure individual AGI and taxes paid," page 86). If the figures don't match, a correction may be needed, as discussed later in this chapter. For more information on how specific types and special categories of income should be reported on the FAFSA, see Chapter 2.

Tax documents: special situations and alternatives

There are certain situations, such as when the student filed a tax return electronically or earned foreign income, when the school may need to do something other than examine a 1040, 1040A, or 1040EZ form.

Electronic filing (e-file)

The IRS e-file program comprises two electronic filing methods. The taxfiler can go to an e-file provider who will send the return to the IRS, or he can use tax filing software on a home computer for submission to the IRS. The filer should always receive a paper copy of the return in some format. Software used on a home computer may allow the tax filer to print out a standard 1040, 1040A, or 1040EZ form that contains the information that was filed electronically. The e-file provider might print out a copy of the return using its own format. Any of these paper copies of the return are acceptable documentation for verification as long as they are signed by at least one of the tax filers. (When an electronic tax return is filed, the filer also submits IRS Form 8453, which doesn't have enough information and can't be used for verification.)

Returns in the e-file provider's format might not contain every line item, showing instead only the data the tax filer provided. For example, if Item 8a, "Taxable interest income," does not appear on such a return, that means no taxable interest income was reported.

Non-filers

An AGI figure won't be available for someone who isn't required to file a tax return. A non-filer would instead report on the FAFSA income earned from work, which includes any income reported on the individual's W-2 forms plus any other earnings from work not reported on those forms. Even if no taxes were paid on this income earned from work, it **should not** be reported as untaxed income on the FAFSA.

A properly completed federal verification worksheet sufficiently documents income earned from work. No further documentation is required. If the student doesn't complete a verification worksheet, the school must require from each non-filer a signed statement certifying his or her non-filer status and listing the sources and amounts of income.

Financial aid professionals are not expected to have special knowledge or expertise regarding the U.S. tax code. If someone whose data were required on the FAFSA submits a signed statement claiming non-filer status and you have reason to believe that person would have been required to file a U.S. tax return, this constitutes conflicting information and must be resolved. (For more on conflicting information, see Chapter 5.) For example, in such a case, you might require a letter from the IRS, a copy of the applicable tax provision, or other documentation supporting the claim to nonfiler status. **Conflicting information must be resolved before you can disburse federal student aid**.

Filing extensions

If any of the persons required to report information on the FAFSA will file but hadn't filed a tax return at the time of application, they would have used an estimated AGI on the FAFSA. At the time of verification, the necessary tax returns should have been filed and must be used for verification. If a return hasn't been filed by then and a filing extension was granted by the IRS, the school shall accept as alternative documentation copies of the W-2 forms, and, as proof that the IRS has granted a filing extension, either a copy of IRS Form 4868—Application for Automatic Extension of Time to File U.S. Individual Income Tax Return (automatically grants the taxpayer a six-month extension beyond the April 15 deadline) or a copy of the IRS approval of an extension beyond the automatic six-month extension.

In addition to supplying the above documentation, the student must submit a copy of the tax returns when filed. When you receive the completed tax returns, you may use them to re-verify the required data. A student who fails to submit a copy of the filed tax return or alternative documents before the deadline for verification is ineligible for FSA funds and is required to repay any aid disbursed.

Fiscal year tax returns

For a fiscal year return, as opposed to one for the calendar year, the student should report the AGI and U.S. income tax paid from the return that includes the greater number of months in the base year (see Chapter 2 for an example). Accordingly, you should use the tax return from that fiscal year for verification purposes.

Nonresident filers

1040NR is a special return filed by certain nonresidents, mostly individuals holding temporary visas (such as an F-1 or H-1). Such persons are neither permanent residents nor U.S. citizens. The 1040NR is acceptable documentation for verification purposes.

Foreign income

As noted in Step 2 in Chapter 2, information from non-IRS tax returns would be reported on the FAFSA, with the value of the foreign income and taxes reported in U.S. dollars, using the exchange rate at the time of application. For verification purposes, these returns would be considered equivalent to an IRS Form 1040. If the student (or the student's parents) earned foreign income but did not pay any taxes on that income, it should be reported as untaxed income.

If a tax return isn't available

If a copy of the tax return is not available, the student must instead submit a copy of any IRS form that lists tax information and provides the information needed for verification. The form **must** be signed by the student unless the IRS sent the form directly to the school.

A common form is the tax transcript. A student can order one by calling the IRS at 1-800-829-1040 and following the directions below or by completing and mailing Form 4506-T, Request for Transcript of Tax Return. If the transcript does not have as much financial information as the tax return, the student may have to provide additional documents to complete verification.

If the IRS can't provide a copy of the return or any form with tax account information, you must get a copy of the W-2 unless the filer is self-employed or a W-2 is otherwise unavailable; in those cases you can accept a signed statement from the filer certifying that his or her income and other appropriate information is correct.

Obtaining a tax transcript or a copy of a return

If a person wants a copy of a return, she must complete and mail a Form 4506; if she wants a tax transcript, she can either submit a Form 4506-T or she can call 1-800-829-1040 and use the automated system to request one. The steps in the automated system are generally: choose the option for "personal tax account," enter the SSN or EIN, choose "transcripts," enter the numbers of one's street address, and enter the year of the return requested.

Citations: 34 CFR 668.57(a)(4)(i)
34 CFR 668.57(a)(2)
34 CFR 668.57(a)(4)(ii), (a)(5)

The chart on page 91 shows the tax form line numbers for the most commonly reported items. This chart is a reference only; it is not a list of all the items the school must check on a tax return.

For verification purposes, you can accept a copy (such as a photocopy, fax, or digital image) of the original signed return filed with the IRS. If a fax, photocopy, or other acceptable copy was made of an unsigned return, the filer (or at least one of the filers of a joint return) must sign the copy. You can accept a tax form that has been completed to duplicate the filed return; this duplicate must contain at least one filer's signature. And you can also accept an electronic copy of the return that has been electronically signed by the person to whom the document belongs, provided your school's process for accepting an electronic signature complies with the E-Sign Act. But a signature on Form 8879, the IRS e-file Signature Authorization, is not an acceptable substitute for a signature on the tax return.

Instead of a return the filer has signed, you may accept a paper return on which the tax preparer has stamped, typed, signed, or printed her name (not the name of her company) and her SSN, EIN (Employer Identification Number), or PTIN (Preparer Tax Identification Number). You may also accept a copy of an IRS form with tax information that the IRS mailed directly to your school (otherwise at least one of the filers must sign the form). Documents from electronic returns must be signed by the filer as explained on page 82. In some cases you can waive the requirement for spouse information and signatures (see "Verification exclusions," page 83).

Untaxed income and benefits

The term "untaxed income" means any income excluded from federal income taxation under the IRS code. For an application selected for verification, you must verify up to three specific types of untaxed income and benefits:

- child support,
- IRA/Keogh deductions, and
- interest on tax-free bonds.

In addition, you must verify all other untaxed income reported on the U.S. individual income tax return (excluding schedules). Chapter 2 discusses the untaxed income and benefits that must be reported on the FAFSA.

Except for child support, the required items can be verified using the tax return or alternative tax documents. Non-filers should submit a signed statement confirming that they did not file a tax return and listing the amount and specific sources of untaxed income and benefits by name.

You're not required to verify any untaxed income and benefits received from a federal, state, or local government agency on the basis

of a financial need assessment. Also, "in-kind" income (see Chapter 2) is not reported on the FAFSA and does not have to be verified.

Child support documentation
34 CFR 668.57(d)(3)

✔ ***Verifying child support received***

You must verify child support if the student, student's spouse, or student's parents report receiving it, or if you have reason to believe it was received. Child support doesn't have to be verified if the amount reported is the same amount that was verified in the previous year.

A completed verification worksheet is sufficient to verify child support received. If you don't use the verification worksheet, you must require a statement confirming the amount of child support received for all children in the household. The student (and one parent, if the student is dependent) must sign this statement. If child support is paid through a government agency, a statement from that agency would also be acceptable. If you have reason to doubt the statement provided, you should request at least one of the following items:

- a copy of the divorce decree or separation agreement showing the amount of child support to be provided,
- a signed statement from the parent who provided the support showing the amount of child support provided, or
- copies of the canceled checks or money order receipts.

Untaxed income and benefits documentation
34 CFR 668.57(d)

✔ ***Verifying deductions for IRA and Keogh plans***

Deductible payments to IRA and Keogh plans can be verified using the tax return. The deducted amounts are reported on lines 28 and 32 of IRS Form 1040 or line 17 of IRS Form 1040A.

✔ ***Verifying interest on tax-free bonds***

Interest on tax-free bonds can be verified using the tax return. Refer to line 8b of IRS Form 1040 or to line 8b of IRS Form 1040A.

Line items from the 2008 tax return

	1040	*1040A*	*1040EZ*
AGI	37	21	4
Income Tax Paid	57	35	10
Deductible IRA/SEP	28 plus 32	17	
Tax-exempt Interest Income	8b	8b	
Untaxed Portions of IRAs and Pensions (excludes rollovers)	15a minus 15b and 16a minus 16b	11a minus 11b and 12a minus 12b	

Using a joint return to figure individual AGI and taxes paid

If the filer of a joint return has become widowed, divorced, or separated since filing the return, it may be necessary to determine the individual's income and taxes paid using the joint return and the relevant IRS W-2 forms. (If a filer is self-employed or if a W-2 is not available, the school may accept a signed statement from the filer that certifies the base year AGI and U.S. taxes paid.)

Add the income amounts from the individual's W-2 forms to any other income that can be extracted from the joint return. Any interest or business income earned on joint accounts or investments should be assessed at 50%. (The same procedure should be used to divide business or farm losses.) Also, if the AGI listed on the joint return was adjusted ("Adjustment to Income"), you should reduce the individual's AGI by the portion of the adjustment that applies solely to him or her. For example, if an adjustment was made for moving expenses (which applies to the couple jointly), only 50% of the adjustment amount can be applied against the individual's income. An AGI figure can be calculated for the individual filer, using a joint return; a signed statement from the filer certifying that the data from the joint return were accurately assessed is sufficient documentation for this method.

Use one of the following methods to figure the individual's taxes paid:

• **Tax table (preferred method).** Using the IRS Tax Table or Tax Rate Schedule for the appropriate year, calculate the amount of tax that would have been paid if a separate return had been filed. Use the deduction and number of exemptions the individual could have claimed if he or she had filed a separate return. (If itemized deductions were taken, count only the portion of those deductions that could have been claimed on a separate tax return.)

• **Proportional distribution.** Determine what percentage of the joint AGI was attributable to the individual and then assess the joint tax paid by that same percentage.

Example 1: Calculating individual AGI from joint return example

Eddy's application is selected for verification. He and his wife filed a joint return for 2008 and have since separated. The AGI on Eddy's FAFSA matches the AGI of $38,000 on the 2008 tax return, which means it's wrong because it includes his wife's income.

Eddy's W-2 shows that his income for 2008 was $14,900, and the tax return shows $200 in interest. Because it was interest on a joint savings account, the aid administrator adds $100 of it to Eddy's income and submits $15,000 as the corrected income via FAA Access.

Example 2: Calculating individual taxes paid from a joint return

The aid administrator determines that Eddy's part of the $38,000 AGI he and his wife reported is $15,000. Eddy and his wife claimed five exemptions on their tax return (themselves, two children, and Eddy's nephew). Eddy's wife has custody of the children and will claim them as her dependents when she files her tax return for 2009. Eddy's nephew still lives with him. Therefore, Eddy would have had two exemptions (himself and his nephew), totaling $6,100. In the new situation, Eddy's filing status is "head of household" instead of "married." Therefore, his standard deduction is $7,000 (instead of the $9,500 for married filers). Eddy's income of $15,000 minus the $6,100 for exemptions and the $7,000 standard deduction results in $1,900 in taxable income.

The aid administrator uses the tax table to determine how much tax Eddy would have paid on this amount, taking into account any applicable credits reported on the original return. With a taxable income of $1,900, the amount of tax paid from the tax schedule would be $191.

To use the proportional distribution method instead, the aid administrator figures out what percentage of the joint AGI Eddy's income represents. The percentage is 39% (15,000 divided by 38,000 is .3947). The aid administrator then multiplies the income tax paid as reported on the tax return ($1,323 for this example) by this percentage. Therefore, Eddy's income tax paid would be $516 (.39 x $1,323).

COMPLETING THE PROCESS

Unless receiving only PLUS funds or an unsubsidized Stafford loan, a student selected for verification must complete it. You have the authority—and in some instances are required—to withhold disbursement of any FSA funds until she does. Adopting this policy substantially reduces the incidence of overpayments. You can, however, make an interim disbursement before verification is finished. Remember that verification requirements apply to CPS- and school-selected students.

Disbursing unsubsidized and PLUS loans without verification

As already mentioned, verification isn't required for unsubsidized and PLUS loans. Therefore, schools can originate, certify, and disburse unsubsidized and PLUS loans regardless of a student's verification status.

Interim disbursements

You can make an interim disbursement of some Title IV funds before verification is complete **if you have no reason to believe the application information is inaccurate**. The limitations for each program are given below. Your school is liable for an interim disbursement if verification shows the student received an overpayment or if he fails to complete verification.

Interim disbursements

34 CFR 668.58

- ***Pell Grant, Perkins, and FSEOG.*** You can make one disbursement from each of these programs for the student's first payment period. If you make an interim Pell disbursement, you report the payment with a "W" verification status code. See "Verification status codes" later in this chapter.

- ***Federal Work-Study.*** You can employ a student under FWS for up to 60 *consecutive* days after he enrolls (or in summer employment for up to 60 days). After 60 days, if verification has not been completed, you can't continue to employ the student under FWS. If you later discover that the student has been overawarded, you should attempt to adjust the student's other aid. Otherwise, you must reimburse the FWS Program from school funds. Except in the case of proven student fraud, a student can't be required to repay FWS wages earned. (See *Volume 6: Campus-Based Programs.*)

- ***Stafford Loans.*** You can certify a FFEL Stafford loan application or originate a Direct Stafford loan for a student who hasn't completed verification, but you can't disburse the loan. See *Volume 4: Processing Aid and Managing FSA Funds* regarding loan disbursements and limits on how long your school can hold loan money before disbursing it or returning it to the lender.

Example: selection after disbursement

Owen is attending Guerrero University. His application isn't selected for verification, and he receives aid in the fall. In December, Owen submits a correction on his SAR that causes the ensuing transaction to be selected for verification. The aid administrator at Guerrero tells Owen he needs to submit verification documents if he wants his aid for the spring and if he wants to keep the Pell funds he received for fall, but Owen doesn't turn in the documents. Owen doesn't have to repay the Stafford loan he got in the fall, but he does have to return the Pell grant, and Guerrero must cancel his aid package for the spring.

Selection after disbursement

A student's application might be selected for verification after corrections are submitted and after the student has already been paid based on the previous unselected CPS transaction. (There is a change flag on the ISIR to call attention to this situation.) You must verify his application before making further disbursements. If verification does not justify aid already disbursed, then the student is responsible for repaying all aid for which he is not eligible, though he may keep any Stafford loan money he received and FWS wages he earned. See below for what happens if he fails to complete verification.

Items that must be updated

If the student is selected for verification, then household size and number in college must be updated to be correct at the time of verification. Dependency status must be updated if it changes during the award year (see Chapter 5).

Tolerance example

Emma originally reported on her FAFSA an AGI of $2,500, $500 in untaxed income, and $250 U.S. income tax paid. Verification shows that her AGI was actually $2,800, and she paid $281 in U.S. income tax.

Original: $2,500 (AGI) + $500 (untaxed income) – $250 (taxes paid) = $2,750

Corrected: $2,800 (AGI) + $500 (untaxed income) – $281 (taxes paid) = $3,019

Net Difference: $269 ($3,019 – $2,750)

Because the net difference is within tolerance, the school can award Emma's aid based on what she originally reported without requiring corrections or recalculation of the EFC.

Failure to submit documentation

Pell Grants—34 CFR 668.60(c)
C-B/Stafford—34 CFR 668.60(b)

After documentation is complete

When you've obtained all necessary verification documents from the student, you should compare them to the SAR or ISIR you are reviewing for payment. If all the student's information is correct and there are no outstanding issues or conflicting information, you may award and disburse aid for which the student is eligible.

If verification reveals errors or inconsistencies, the student may have to make corrections or update information (see Chapter 5).

Verification tolerance

Verification can sometimes uncover minor errors that won't significantly affect the student's eligibility, so the regulations provide a tolerance for verification changes.

This tolerance is $400: if the total difference between the incorrect and correct values for certain items is more than $400, the information must be corrected. To calculate the difference, first add the original (incorrect) AGI and untaxed income amounts. From that sum subtract the original U.S. income tax paid to get the uncorrected total. Do the same for the correct values: add the correct AGI and untaxed income and subtract the correct U.S. income tax paid to get the corrected total. If the difference between the uncorrected total and the corrected total is $400 or less, the errors are within tolerance; you may award the student aid without submitting a correction or recalculating the EFC. Using the tolerance is optional—you can always have the student submit corrections for reprocessing.

Note that there is no tolerance for errors in nondollar items. If the original application has an error in any nondollar item, such as household size, the student or school must correct it.

Deadlines and failure to submit documentation

A Pell applicant selected for verification must complete the process by the deadline published in the *Federal Register*. As of this writing the notice for 2009–10 has not been published, but the deadline is expected to be September 27, 2010, or 120 days after the last day of the student's enrollment, whichever is earlier. Campus-based and Stafford loan applicants must complete verification by the same deadline or by an earlier one established by your aid office.

Verification is complete when your school has all the requested documentation. Also, for Pell grants, the student must have corrected any errors or shown that the information is correct, and your school must have his valid correct ISIR or SAR. For Campus-based and Stafford loan funds, you must have an ISIR or SAR with an official EFC that shows the application data were processed through the CPS at least once while the student was enrolled.

If a student fails to provide the required documentation by the deadline:

- Do not disburse additional Pell, ACG, National SMART, FSEOG, or Perkins loan funds to the student.

- Do not continue the student's employment in an FWS job.

- Do not disburse Stafford loan funds to the student or certify (FFEL) or originate (DL) a Stafford loan application.

- Return to the lender (FFEL) or the Department (DL) any undelivered or undisbursed Stafford loan money.

- If the student already received Pell, ACG, National SMART, FSEOG, or Perkins money in a disbursement prior to being selected for verification, then he must return that money (see Volume 5 for information about overpayments that the student is responsible for). If he received it as an interim disbursement that you gave while waiting to complete verification, your school is responsible for returning the money to the programs.

Late disbursements
34 CFR 668.164(g)

Late disbursements

Generally a student ceases to be eligible for aid once he has finished the term and is no longer enrolled. However, he may submit verification documentation and receive a late disbursement after that time if the Department processed a SAR or ISIR with an official EFC while he was still enrolled. Also, if there was a change in his EFC due to verification completed after he was enrolled, any Pell grant awarded would be based on the higher EFC. For information regarding *post-withdrawal* disbursements, see Volume 5 of the Handbook.

Verification status codes

When you disburse a Pell grant, you must report through Common Origination and Disbursement (COD) the student's verification status even if he wasn't selected for verification.

V—You have verified the student. This includes students selected by the CPS and those your school chose to verify based on its own criteria.

W—The student was selected for verification by the CPS or your school, and you chose to pay a first disbursement of Pell without documentation. This code must be updated once verification is complete, or COD will reduce the Pell grant to zero.

S—The CPS selected the student for verification, but you did not verify him because you already reached the 30% verification threshold, because he satisfied one of the exclusions under 34 CFR 668.54(b) that are described earlier in the chapter, or because your school participates in the Quality Assurance Program and the student's application did not meet your school's verification criteria.

Blank—Report a blank if you have not performed verification because neither the CPS nor your school selected the student.

U.S. Department of Education

2009-2010 Verification Worksheet

Federal Student Aid Programs

Dependent

FORM APPROVED
OMB NO. 1845-0041

Your application was selected for review in a process called "Verification." In this process, your school will be comparing information from your application with signed copies of your and your parent(s)' 2008 Federal tax forms, or with W-2 forms or other financial documents. The law says we have the right to ask you for this information before awarding Federal aid. If there are differences between your application information and your financial documents, you or your school may need to make corrections electronically or by using your Student Aid Report (SAR).

Complete this verification form and submit it to your financial aid administrator as soon as possible, so that your financial aid won't be delayed. Your financial aid administrator will help you.

What you should do

1. Collect your and your parent(s)' financial documents (signed Federal income tax forms, W-2 forms, etc.).
2. Talk to your financial aid administrator if you have questions about completing this worksheet.
3. Complete and sign the worksheet—you and at least one parent.
4. Submit the completed worksheet, tax forms, and any other documents your school requests to your financial aid administrator.
5. Your financial aid administrator will compare information on this worksheet and any supporting documents with the information you submitted on your application. You or your school may need to make corrections electronically or by using your SAR.

A. Student Information

Last name _____ First name _____ M.I. _____

Social Security Number _____

Address (include apt. no.) _____

Date of birth _____

City _____ State _____ ZIP Code _____

Phone number (include area code) _____

B. Family Information

List the people in your *parent(s)' household*, including:

- yourself and your parent(s) (including stepparent) even if you don't live with your parents, and
- your parents' other children, even if they don't live with your parent(s), if (a) your parents will provide more than half of their support from July 1, 2009 through June 30, 2010, or (b) the children would be required to provide parental information when applying for Federal Student Aid, and
- other people if they now live with your parents, and your parents provide more than half of their support and will continue to provide more than half of their support from July 1, 2009 through June 30, 2010.

Write the names of all household members in the space(s) below. Also write in the name of the college for any household member, excluding your parent(s), who will be attending at least half time between July 1, 2009 and June 30, 2010, and will be enrolled in a degree, diploma, or certificate program. If you need more space, attach a separate page.

Full Name	Age	Relationship	College
Missy Jones (example)	*18*	*Sister*	*Central University*
		Self	

According to the Paperwork Reduction Act of 1995, no persons are required to respond to a collection of information unless it displays a valid OMB control number. The valid OMB control number for this information collection is 1845-0041. The time required to complete this information collection is estimated to average twelve minutes, including the time to review instructions, search existing data resources, gather the data needed, and complete and review the information collection. If you have any comments concerning the accuracy of the time estimate(s) or suggestions for improving this form, please write to: US Department of Education, Washington, DC 20202-5345.

C. Student's Tax Forms and Income Information (all applicants) Dependent

1. Check only one box below. Tax returns include the 2008 IRS Form 1040, 1040A, 1040EZ, a tax return from Puerto Rico or a foreign income tax return. If you did not keep a copy of your tax return, request a copy from your tax preparer or request an Internal Revenue Service form that lists tax account information.

☐ Check here if you are attaching a signed copy of your tax return.

☐ Check here if a signed tax return will be submitted to the school by _____(date).

☐ Check here if you will not file and are not required to file a 2008 U.S. Income Tax Return.

2. Funds received for child support and other untaxed income. (See Question 47 of the Free Application for Federal Student Aid (FAFSA).)

Sources of Untaxed Income	2008 Amount	Sources of Untaxed Income	2008 Amount
a. Child Support	$	d.	$
b. Workman's Compensation	$	e.	$
c. Untaxed Pensions	$	f.	$

3. If you did not file and are not required to file a 2008 Federal income tax return, list below your employer(s) and any income received in 2008 (use the W-2 form or other earnings statements if available).

Sources	2008 Income
	$
	$
	$

D. Parent(s)' Tax Forms and Income Information

1. Check only one box below. Tax returns include the 2008 IRS Form 1040, 1040A, 1040EZ, a tax return from Puerto Rico or a foreign income tax return. If your parent(s) did not keep a copy of their tax return, request a copy from the tax preparer or request an Internal Revenue Service form that lists tax account information.

☐ Check here if you are attaching a signed copy of your parents' tax return(s).

☐ Check here if a signed tax return(s) will be submitted to the school by _____(date).

☐ Check here if your parent(s) will not file and are not required to file a 2008 U.S. Income Tax Return.

2. Funds received for child support and other untaxed income. (See Question 95 of the FAFSA.)

Sources of Untaxed Income	2008 Amount	Sources of Untaxed Income	2008 Amount
a. Child Support	$	d.	$
b. Workman's Compensation	$	e.	$
c. Untaxed Pensions	$	f.	$

3. If your parent(s) did not file and are not required to file a 2008 Federal income tax return, list below your parent(s)' employer(s) and any income they received in 2008 (use the W-2 form or other earnings statements if available).

Sources	2008 Income
	$
	$
	$

E. Sign this Worksheet

Each person signing this form certifies that all the information reported on it is complete and correct. The student and at least one parent must sign and date.

WARNING: If you purposely give false or misleading information on this worksheet, you may be fined, be sentenced to jail, or both.

_____

Student **Date**

_____

Parent **Date**

Do not mail this worksheet to the Department of Education. Submit this worksheet to your Financial Aid Administrator at your school. Don't forget to sign your tax forms.

Independent

U.S. Department of Education

2009-2010 Verification Worksheet

Federal Student Aid Programs

FORM APPROVED
OMB NO. 1845-0041

Your application was selected for review in a process called "Verification." In this process, your school will be comparing information from your application with signed copies of your (and your spouse's, if you are married) 2008 Federal tax forms, or with W-2 forms or other financial documents. The law says we have the right to ask you for this information before awarding Federal aid. If there are differences between your application information and your financial documents, you or your school may need to make corrections electronically or by using your Student Aid Report (SAR).

Complete this verification form and submit it to your financial aid administrator as soon as possible, so that your financial aid won't be delayed. Your financial aid administrator will help you.

What you should do

1. Collect your (and your spouse's) financial documents (signed Federal income tax forms, W-2 forms, etc.).
2. Talk to your financial aid administrator if you have questions about completing this worksheet.
3. Complete and sign the worksheet.
4. Submit the completed worksheet, tax forms, and any other documents your school requests to your financial aid administrator.
5. Your financial aid administrator will compare information on this worksheet and any supporting documents with the information you submitted on your application. You or your school may need to make corrections electronically or by using your SAR.

A. Student Information

Last name | First name | M.I.

Social Security Number

Address (include apt. no.)

Date of birth

City | State | ZIP Code

Phone number (include area code)

B. Family Information

List the people in *your household*, including:

- yourself, and your spouse if you have one, and
- your children, if you will provide more than half of their support from July 1, 2009 through June 30, 2010, even if they do not live with you, and;
- other people if they now live with you, and you provide more than half of their support and will continue to provide more than half of their support from July 1, 2009 through June 30, 2010.

Write the names of all household members in the space(s) below. Also write in the name of the college for any household member, excluding your parent(s), who will be attending at least half time between July 1, 2009 and June 30, 2010, and will be enrolled in a degree, diploma, or certificate program. If you need more space, attach a separate page.

Full Name	Age	Relationship	College
Martha Jones (example)	*24*	*Wife*	*City University*
		Self	

According to the Paperwork Reduction Act of 1995, no persons are required to respond to a collection of information unless it displays a valid OMB control number. The valid OMB control number for this information collection is 1845-0041. The time required to complete this information collection is estimated to average twelve minutes, including the time to review instructions, search existing data resources, gather the data needed, and complete and review the information collection. If you have any comments concerning the accuracy of the time estimate(s) or suggestions for improving this form, please write to: US Department of Education, Washington, DC 20202-5345.

C. Student's Tax Forms and Income Information (all applicants) Independent

1. Check only one box below. Tax returns include the 2008 IRS Form 1040, 1040A, 1040EZ, a tax return from Puerto Rico or a foreign income tax return. If you did not keep a copy of your tax return, request a copy from your tax preparer or request an Internal Revenue Service form that lists tax account information.

- ☐ Check here if you are attaching a signed copy of your tax return.
- ☐ Check here if a signed tax return will be submitted to the school by _____(date).
- ☐ Check here if you will not file and are not required to file a 2008 U.S. Income Tax Return.

2. Funds received for child support and other untaxed income. (See Question 47 of the Free Application for Federal Student Aid (FAFSA).)

Sources of Untaxed Income	2008 Amount	Sources of Untaxed Income	2008 Amount
a. Child Support	$	d.	$
b. Workman's Compensation	$	e.	$
c. Untaxed Pensions	$	f.	$

3. If you did not file and are not required to file a 2008 Federal income tax return, list below your employer(s) and any income received in 2008 (use the W-2 form or other earnings statements if available).

Sources	2008 Income
	$
	$
	$

D. Spouse's Tax Forms and Income Information (if student is married)

1. Check only one box below. Tax returns include the 2008 IRS Form 1040, 1040A, 1040EZ, a tax return from Puerto Rico or a foreign income tax return. If your spouse did not keep a copy of the tax return, request a copy from the tax preparer or request an Internal Revenue Service form that lists tax account information.

- ☐ Check here if you are attaching a signed copy of your and your spouse's joint tax return.
- ☐ Check here and attach spouse's signed tax return if your spouse filed a separate return.
- ☐ Check here if a signed spouse's tax return will be submitted to the school by _____(date).
- ☐ Check here if your spouse will not file and is not required to file a 2008 U.S. Income Tax Return.

2. Funds received for child support and other untaxed income. (See Question 47 of the FAFSA.)

Sources of Untaxed Income	2008 Amount	Sources of Untaxed Income	2008 Amount
a. Child Support	$	d.	$
b. Workman's Compensation	$	e.	$
c. Untaxed Pensions	$	f.	$

3. If your spouse did not file and is not required to file a 2008 Federal income tax return, list below your spouse's employer(s) and any income received in 2008 (use the W-2 form or other earnings statements if available).

Sources	2008 Income
	$
	$
	$

E. Sign this Worksheet

Each person signing this form certifies that all the information reported on it is complete and correct. If married, spouse's signature is optional.

WARNING: If you purposely give false or misleading information on this worksheet, you may be fined, be sentenced to jail, or both.

_____

Student **Date**

_____

Spouse **Date**

Do not mail this worksheet to the Department of Education. Submit this worksheet to your Financial Aid Administrator at your school. Don't forget to sign your tax forms.

Corrections, Updates, and Adjustments

CHAPTER 5

There are situations where the original application information may need to be changed: when errors need to be corrected; when dependency status, household size, or number in college must be updated; and when an aid administrator makes an adjustment based on professional judgment. This chapter discusses how to make these changes to application information.

Students and schools can *correct* items that were incorrectly reported on the original FAFSA submission, but because the FAFSA is considered to be a "snapshot" of the family's financial situation as of the date the application was submitted, only a few answers from the FAFSA can be *updated* to reflect changes after the FAFSA was signed. Also, as an aid administrator you have the discretion to use your professional judgment to *adjust* the student's reported information to account for special circumstances.

TYPES OF CHANGES

Corrections
➔ Application errors

Updates
➔ Changes to dependency status, household size, or number in college under certain conditions

Professional judgment [1]
➔ Override dependency status
➔ Adjust data elements

[1] Aid administrators only

CORRECTING ERRORS

Errors can occur if the student submits the wrong information or if the information she provided was not scanned or entered correctly. In general, your school must have correct data before it can pay the student, which in some cases means that you or the student must submit corrections for reprocessing. However, there are other cases where you can pay the student without waiting for corrections to be reprocessed—for instance, if the aid amount doesn't change or, for the Campus-based and Stafford/PLUS programs, if you base the award on your recalculation of the EFC. For students selected for verification, there are additional situations where corrections aren't required (see Chapter 4 of this publication).

Even if the EFC or award amount doesn't appear to change, corrections must be submitted to the CPS (or otherwise resolve the discrepancy) if the Social Security number is wrong or if there were problems with other application questions that are subject to data matches, such as the citizenship questions.

Regulations on corrections and updating
Corrections for Pell Grants
34 CFR 690.14
Verification and updating, interim disbursements, options for payment, etc.
668.55, 668.58-.61

Options if error doesn't affect eligibility

If there would be no change to the **Pell, AC, or National SMART Grant**, the student doesn't have to submit corrections for reprocessing unless something such as a data match item must be changed. When submitting payment information in such a case, you must be sure to use the verified transaction. The rule is similar for the **Campus-based** and **Stafford loan programs**—you can award aid based on the original data if your recalculation of the EFC shows the correction would not

Correction if misreported as graduate

Any student who reports on the FAFSA that she is a graduate student can't receive Pell funds. Therefore, a student who incorrectly reported that she is a graduate student must correct that information, even if there are no errors that affect the EFC.

Examples—errors not affecting EFC

Stanislaw reported $1,000 for cash, savings, and checking accounts, and also reported $1,000 for the net worth of investments. He reported no other assets. He actually should have reported $2,500 for the net worth of investments. However, because his asset protection allowance is $4,700, making the correction won't change his EFC at all. Therefore, he can receive aid from any of the programs without submitting a correction, based on the data he originally reported.

Eric reported an AGI of $20,000 but forgot to report untaxed income of $120. Eric's EFC was 846. The FAA at Frisson College determines that making the correction would change Eric's EFC to 874. For an EFC of 846, the scheduled award is $2,900, as it is for an EFC of 874, so the college can pay Eric's Pell without requiring him to make a correction. When Frisson submits the origination record for Eric, it uses the original EFC of 846. (The college will need to either use its recalculated EFC or submit a correction for aid from the campus-based, Direct Loan, or FFEL programs; see "Options if correction decreases eligibility.")

Correction increases eligibility, Pell grants

34 CFR 668.59(b)(2)(ii)(A)

Verification completed within 120-day period for Pell

34 CFR 668.60(c)(1)

change the student's award amount. Of course, for any program you can still require corrections to be submitted for reprocessing.

Options if correction increases eligibility

For **Pell, AC, and National SMART Grants**, if the scheduled award would increase and if the student completes verification and submits no corrections, you may use the original EFC and grant amount. Otherwise, you must pay the student the increased amount by submitting the corrections to the CPS for reprocessing. If the student was selected for verification, you can make a first payment based on the original EFC and adjust the second payment upon receipt of the reprocessed ISIR/SAR, or you can wait until you receive the new EFC before you pay the student. If the student wasn't selected for verification, you must wait until you receive the reprocessed EFC before making a payment.

There's an important limitation when a student completes verification while no longer enrolled but within the subsequent 120-day period allowed for verification. In such cases you **must always use the higher EFC,** even if it was the original and incorrect EFC (refer to the regulation cited in the margin).

For the **Campus-based** and **Stafford loan programs**, if your recalculation shows that the student's eligibility will increase, you can either pay the student based on your recalculation or you or the student can submit a correction and use the new EFC from the CPS. Remember that your school will be liable for any overpayment if your recalculation is incorrect.

Options if correction decreases eligibility

If the student would be eligible for less aid based on the correct information, you can't use the incorrect EFC to award FSA aid.

For **Pell, AC, and National SMART Grants**, if the scheduled award would decrease, the data must be corrected and submitted to the CPS. You can't make any grant payments to the student until you receive the new output document.

For the **Campus-based** and **Stafford loan programs**, when your recalculation of the EFC shows that the corrections would decrease the student's aid, you can either pay the student based on your recalculation or require the student to submit a correction and use the new EFC from the CPS.

UPDATING

Generally, a student cannot update information, such as income or assets, that was correct as of the date the application was signed. For example, if the student's family sold some stock after she signed the FAFSA and spent the money on a non-reported asset such as a car, she can't update her information to show a change in the family's assets. However, three items—household size, number in college, and dependency status—must be updated in certain circumstances.

Dependency status

A student must update his dependency status any time during the award year unless it changed because his marital status changed. This update is required whether or not he was selected for verification. For the Pell Grant Program, the updated information must be submitted to the CPS for reprocessing. For the Campus-based and Stafford/PLUS loan programs, you can recalculate the student's EFC based on the updated dependency status and use that recalculated EFC. Remember that your school will be liable for any overpayment due to recalculation errors.

Once you've originated or certified a Stafford loan, the DL origination record or FFEL certification record can't be changed to reflect a change in dependency status. However, you can use the updated status and recalculated EFC to originate or certify additional loans if the student qualifies.

Household size and number in college

Unlike dependency status, household size or number in college **cannot** be updated unless the student is selected for verification. If he is selected, these items **must** be updated to be correct at the time of verification unless they changed due to a change in the student's marital status, in which case updating is not permitted.

For **Pell Grants**, the student doesn't have to submit updated information for reprocessing if the scheduled award will increase or remain the same; you can disburse Pell funds using the original EFC. But in order for the student to get the increased grant amount, the updated information must be submitted to the processor. You can make a first payment based on the original EFC, adjusting the second payment upon receipt of the reprocessed output document, or you can wait until you receive the new EFC before paying the student. If the award will decrease, the updated information must be submitted to the processor. You can't make any payments until you have the new output document with the updated information.

For the **Campus-based** and **Stafford/PLUS programs**, you can require the student to submit the updated information for the CPS to recalculate the EFC, or you can recalculate the student's EFC yourself. Remember that your school will be liable for any overpayment due to recalculation errors.

Effect on previous disbursements

If you paid a student based on information that is updated later, you must use the revised EFC to determine the correct award and adjust future disbursements or require a repayment by the student if necessary.

HOW TO SUBMIT CORRECTIONS AND UPDATES

Corrections and updates can be submitted by the student on the SAR or the Web or by the school using FAA Access to CPS Online.

Example: correction increases eligibility

Chris's EFC is 616. He correctly reported his household size of three but incorrectly reported the number in college as one. The FAA at Benoit Institute determines that correcting the number in college to two would change Chris's EFC to 534. This would increase his Pell award by $100. Benoit can disburse Pell to Chris on the lower scheduled award but not on the higher award unless he sends in a correction and receives a new output document. Benoit could use the recalculated EFC for awarding under the Campus-based, Direct Loan, or FFEL programs without any corrections being submitted.

Example: correction decreases eligibility

On the application, Chavo reported his $6,000 in income as taxes paid instead of income earned from work. Making the correction will increase Chavo's EFC, so his eligibility will be reduced. Because Chavo will still qualify for a Pell, the FAA at Sarven Technical Institute sends the correction to the CPS for recalculation. Chavo can't receive any Pell payments until Sarven receives the corrected ISIR. However, Sarven could recalculate his EFC and disburse campus-based aid, Direct Loans, or FFELs to Chavo before it receives the corrected data from the CPS.

Parent remarriage after applying

While the applicant does not update household size or number in college because of a change in his marital status, if he is a dependent student and his parent remarries between application and verification, he must update household size to include the new stepparent. However, the student would not count the new stepparent's income and assets. The school could use professional judgment to include the stepparent's income or to otherwise account for the change.

HEA Sec. 475(f)(3)
34 CFR 668.55(b)

Making corrections and updates

FAFSA on the Web
www.fafsa.ed.gov

FAA Access to CPS Online
www.fafsa.ed.gov/FOTWWebApp/faa/faa.jsp
by the school aid office

Student aid report
paper corrections sent by mail

By phone
Change schools listed or student address (DRN required)
Federal Student Aid Information Center (FSAIC)
1-800-4-FED-AID (1-800-433-3243)

Using FAFSA on the Web (FOTW)

Any student who has a PIN—regardless of how he originally applied—may correct any of his own data, except SSN, by using the FAFSA on the Web site at **www.fafsa.ed.gov**. If dependent students need to change parental data, a parent must either sign electronically with her own PIN or print out and sign a signature page.

Submitting changes via FAA Access to CPS Online

Your school can submit corrections and updates electronically through FAA Access to CPS Online even if the original application wasn't submitted with that method. If your school isn't listed on the transaction you want to correct, the student will have to give you the DRN printed on the SAR or SAR Acknowledgement so that you can add your school in the next available institution field and then get electronic access to the resulting corrected transaction. If all the fields are filled, the student will have to tell you which school to replace with yours.

If you send a correction or update for a student using FAA Access, you must first have signed documentation from the student and parent. This can be signatures on Part 2 of the SAR, a signed copy of the correction or update, or a signed verification document. Unlike those for the original application, these do not have to be wet signatures. See Chapter 2 for more on signature requirements.

The CPS will process the change, send an ISIR to the school, and send the student a one-page SAR acknowledgement or, if the CPS has her e-mail address, an e-mail with a link to her SAR information on the Web.

Using the Student Aid Report (SAR) to make corrections

Students who received a paper SAR may make corrections or updates on it, then sign and return it to the FAFSA processor at the address given at the end of the SAR (of course, students with PINs can instead use FOTW). One parent must also sign if the student is dependent, unless the only corrections are to the institution or housing codes, the address, or telephone number.

If the student applied electronically through a school or received an e-mail link to SAR information on the Web but would like to make corrections with a paper SAR, she can have one mailed to her by calling the FSAIC at 1-800-433-3243 and providing her name, SSN, and date of birth.

Adding schools and changing a student's address

As with other changes, a student can add schools or change her address, e-mail address, or telephone number on the Web or on a paper SAR. But she can also update these items over the phone by calling 1-800-4-FED-AID and providing her DRN. You can submit those changes for her through FAA Access, though, as noted before, if your school was not listed on the student's application, you will need her DRN to add your school.

The FAFSA has limited space for a student to list schools that will receive the application data: four schools can appear on the paper application, ten with either FAFSA on the Web or FAA Access. If the student wants information sent to more schools, he can use any of the methods listed above to replace some or all of the original schools, though the replaced schools will not receive an ISIR. For example, if the student originally listed ten schools on the application and then used FOTW to replace two schools with two new ones, those that were replaced would not receive an ISIR from this correction or any subsequent correction on which they did not appear.

PROFESSIONAL JUDGMENT

An aid administrator may use professional judgment (PJ), on a case-by-case basis only, to alter the data used to calculate the EFC. This alteration is valid only at the school making it. You submit a PJ change electronically, via FAA Access to CPS Online or third-party software, and you may do it without a signature from the student or parent.

The reason for the adjustment must be documented in the student's file, and it must relate to the special circumstances that differentiate him—not to conditions that exist for a whole class of students. You can also use professional judgment to adjust the student's cost of attendance. You must resolve any inconsistent or conflicting information shown on the output document *before* making any adjustments. An aid administrator's decision regarding adjustments is final and cannot be appealed to the Department.

The statute states that nothing within it shall be construed as limiting the authority of aid administrators to make data adjustments for some situations. However, the law gives some examples of special circumstances, such as elementary or secondary school tuition, medical or dental or nursing home expenses not covered by insurance, unusually high child care costs, being homeless or a dislocated worker, recent unemployment of a family member, or other changes in the family's income or assets. Use of professional judgment is neither limited to nor required for the situations mentioned.

Another situation where you might want to use professional judgment involves Roth IRAs. When someone converts a regular IRA into a Roth IRA by transferring funds, the amount converted has to be reported as taxable income on the tax return. So the income reported on the FAFSA will be higher than without the Roth conversion, even though the family doesn't actually have additional income or assets available. You can use professional judgment to reduce the income and taxes paid to the amount that would have been reported if there was no Roth conversion if you think the adjustment is warranted for a student. As with the specific special circumstances listed in the law, you're not required to make an adjustment in this situation.

The law doesn't allow you to modify either the formula or the tables used in the EFC calculation; you can only change the cost of attendance or the values of specific data elements used in the EFC

Corrections by phone limited to processor errors

As we've discussed, a student with a DRN can change his address and school listings by calling the Federal Student Aid Information Center.

Most other corrections can't be made over the phone—they have to be done on the SAR or through FOTW or FAA Access. There is only one exception, and that's when the information the student submitted on a paper FAFSA or SAR was not scanned or input correctly.

If a student contacts the FSAIC and an operator can verify by viewing the image file of the document that an answer to an item was not correctly recorded by the FAFSA processor, the operator can correct that error.

The correction will be transmitted to the CPS, a corrected ISIR will be available to the student's schools within 72 hours, and he will receive a corrected SAR in the mail within 10 days. The student doesn't have to sign for this correction because he has already signed the original paper document that has the correct information.

Refusing or reducing a loan

Remember that the discretion of FAAs extends to refusing or reducing FFEL or DL funds as long as the reason is documented and given in written form to the student and is not due to discrimination against the student on the basis of race, national origin, religion, sex, marital status, age, or disability.
HEA Sec. 479A(c)

Professional judgment

HEA Sec. 479A(a) IN GENERAL—Nothing in this part shall be interpreted as limiting the authority of the financial aid administrator, on the basis of adequate documentation, to make adjustments on a case-by-case basis to the cost of attendance or the values of the data items required to calculate the expected student or parent contribution (or both) to allow for treatment of an individual eligible applicant with special circumstances. However, this authority shall not be construed to permit aid administrators to deviate from the contributions expected in the absence of special circumstances. Special circumstances may include tuition expenses at an elementary or secondary school, medical, dental, or nursing home expenses not covered by insurance, unusually high child care or dependent care costs, recent unemployment of a family member or an independent student, a student or family member who is a dislocated worker (as defined in section 101 of the Workforce Investment Act of 1998), the number of parents enrolled at least half time in a degree, certificate, or other program leading to a recognized educational credential at an institution with a program participation agreement under section 487, a change in housing status that results in an individual being homeless (as defined in section 103 of the McKinney-Vento Homeless Assistance Act), or other changes in a family's income, a family's assets or a student's status. Special circumstances shall be conditions that differentiate an individual student from a class of students rather than conditions that exist across a class of students. Adequate documentation for such adjustments shall substantiate such special circumstances of individual students. In addition, nothing in this title shall be interpreted as limiting the authority of the student financial aid administrator in such cases (1) to request and use supplementary information about the financial status or personal circumstances of eligible applicants in selecting recipients and determining the amount of awards under this title, or (2) to offer a dependent student financial assistance under section 428H or a Federal Direct Unsubsidized Stafford Loan without requiring the parents of such student to file the financial aid form prescribed under section 483 if the student financial aid administrator verifies that the parent or parents of such student have ended financial support of such student and refuse to file such form. No student or parent shall be charged a fee for collecting, processing, or delivering such supplementary information.

calculation. In addition, you can't adjust data elements or the cost of attendance solely because you believe the tables and formula are not adequate or appropriate. The data elements that are adjusted must relate to the student's special circumstances. For example, if a family member is ill, you might modify the AGI to allow for lower earnings in the coming year or might adjust assets to indicate that family savings will be spent on medical expenses.

Professional judgment can't be used to waive general student eligibility requirements or to circumvent the intent of the law or regulations. For instance, you cannot use professional judgment to change FSEOG selection criteria. Nor can you include post-enrollment activity expenses in the student's COA. For example, professional licensing costs to be incurred after the enrollment period would not be includable (though one-time licensing costs incurred during the enrollment period may be—see *Cost of Attendance* in Volume 3).

Occasionally aid administrators have made decisions contrary to the professional judgment provision's intent. These "unreasonable" judgments have included, for example, the reduction of EFCs based on recurring costs such as vacation expenses, tithing expenses, and standard living expenses (related to utilities, credit card expenses, childrens' allowances, and the like). Aid administrators must make "reasonable" decisions that support the intent of the provision. Your school is held accountable for all professional judgment decisions and for fully documenting each decision.

An FAA should keep in mind that an income protection allowance (IPA) is included in the EFC calculation to account for modest living expenses. Before adjusting for an unusual expense, consider whether it is already covered by the IPA. It is reasonable to assume that approximately 30% of the IPA is for food, 22% for housing, 9% for transportation expenses, 16% for clothing and personal care, 11% for medical care, and 12% for other family consumption. The income protection allowance is one of the intermediate values in the FAA Information section of the output document (labeled as "IPA"). See Chapter 3 for the IPA values.

If you use professional judgment to adjust a data element, you must use the resulting EFC consistently for all FSA funds awarded to that student. For example, if for awarding the student's Pell grant you adjust a data element that affects the EFC, that new EFC must also be used to determine the student's eligibility for aid from the Campus-based and Stafford loan programs.

CONFLICTING INFORMATION

In addition to reviewing application and data match information from the CPS, a school must have an adequate internal system to identify conflicting information—regardless of the source and regardless of whether the student is selected for verification—that would affect a student's eligibility, such as information from the admissions office as to whether the student has a high school diploma or information from

other offices regarding academic progress and enrollment status. The school must resolve all such conflicting information, except when the student dies during the award year.

If your school has conflicting information concerning a student's eligibility or you have any reason to believe a student's application information is incorrect, you **must** resolve the discrepancies before disbursing FSA funds. If you discover discrepancies *after* disbursing FSA funds, you must still reconcile the conflicting information and take appropriate action under the specific program requirements.

Adjustment example

Kitty's mother had income earned from work of $25,000 in 2008 but is no longer employed. After receiving documentation confirming this, the FAA at Krieger College decides to adjust the AGI reported for Kitty's parents to take into account their reduced income. The FAA also reduces the income earned from work for Kitty's mother to zero.

Subsequent ISIRs

You are required to review all subsequent transactions for a student for the entire processing year, even if you have already verified an earlier transaction. First determine if the EFC or the "C" flag has changed or if there are new comments or NSLDS information that impacts eligibility for aid. Also check any updates or corrections. If the EFC has not changed and there are no changes in the "C" flag or NSLDS information, generally no action is required. If the EFC does change but it either doesn't affect the amount and type of aid received or the data elements that changed were already verified, no action is required. But if the EFC changes and the pertinent data elements were not verified, then you must investigate. Of course, any time the "C" flag changes or NSLDS data have been modified, you must resolve any conflicts.

IPA percentage example

In 2008 Allen had $2,250 in medical expenses that weren't covered by insurance. He's married and has two children, and he's the only member of his household in college, so his IPA is $23,560. Because Allen's expenses are less than the amount for medical expenses already included in the IPA (11% of $23,560 is $2,592), the aid administrator at Sarven Technical Institute does not make an adjustment to Allen's FAFSA information.

Discrepant tax data

We have already stated that financial aid administrators do not need to be tax experts, yet there are some issues that even a layperson with basic tax law information can evaluate. Because conflicting data often involve such information, FAAs must have a fundamental understanding of relevant tax issues that can considerably affect the need analysis. You are obligated to know: (1) whether a person was required to file a tax return, (2) what the correct filing status for a person should be, and (3) that an individual cannot be claimed as an exemption by more than one person.

Online review of PJ practices

http://ifap.ed.gov/qadocs/FSAVeriModule/activity5verif.doc

Publication 17 of the IRS, *Your Federal Income Tax*, is a useful resource for aid administrators. You can view it on the Web at **www.irs.gov** or you can call the IRS at 1-800-829-3676 to order a copy. It addresses pertinent tax issues on these pages: the filing requirements—i.e., who is required to file a return—are on pages 5–8; the instructions on which form a person should file are on pages 8–9; and the filing status requirements are on pages 20–25.

Requirement to identify and resolve discrepant information

34 CFR 668.16(f)

For example, an FAA noticing that a dependent student's married parents have each filed as "head of household" (which offers a greater tax deduction than filing as single or married) must question whether that is the correct filing status. Publication 17 explains on pages 22–24 the criteria a person must meet to file as head of household. Resolution of the conflict may be a reasonable explanation of why there appears to be a conflict but is none, or the parents may refile and submit a copy of the amended return.

Requirement to verify questionable data

34 CFR 668.54(a)(3)

"If an institution has reason to believe that any information on an application used to calculate an EFC is inaccurate, it shall require the applicant to verify the information that it has reason to believe is inaccurate."

IRS Publication 17
The IRS's Publication 17 is a large document, but so that you won't be daunted by its size, we have included the page numbers you might need to refer to.

Online review of conflicting information policies
http://ifap.ed.gov/qadocs/FSAVeriModule/activity4verif.doc

OIG referrals
34 CFR 668.16(g)

Resolution of conflicting information

You may not disburse aid until you have resolved conflicting information, which you must do for any student as long as he is at your school. Even if the conflict concerns a previous award year, you must still investigate it. You have resolved the matter when you have determined which data are correct; this might simply be confirming that an earlier determination was the right one. Of course, you must document your findings in the student's file and explain why, not simply assert that, your decision is justified.

REFERRAL OF FRAUD CASES

If you suspect that a student, employee, or other individual has misreported information or altered documentation to fraudulently obtain federal funds, you should report your suspicions and provide any evidence to the Office of Inspector General. See also Volume 2.

OIG Address and Phone Numbers

Regional Offices	*Telephone No.*	*National Hotline*
Boston, MA	(617) 289-0174	Inspector General's Hotline Office of Inspector General U.S. Department of Education 400 Maryland Avenue, SW Washington, DC 20202-1510 1-800-MIS-USED Email: oig.hotline@ed.gov Web: http://www.ed.gov/about/offices/list/oig/hotline.html
New York, NY	(646) 428-3861	
Philadelphia, PA	(215) 656-6900	
Atlanta, GA	(404) 562-6460	
Chicago, IL	(312) 730-1620	
Dallas, TX	(214) 661-9530	
Denver, CO	(303) 844-0058	
Kansas City, MO	(816) 268-0530	
Long Beach, CA	(562) 980-4141	
San Juan, PR	(787) 766-6278	
Washington, DC	(202) 245-6911	

Applying for Stafford and PLUS loans

CHAPTER 6

This chapter explains the process of making a loan and describes what information is required of the student, parent, and school. There will be some variations from school to school and between the FFEL and Direct Loan programs, but this chapter discusses the requirements that are common to schools and the loan programs.

APPLYING FOR AID & COMPLETING THE MPN

A student who wishes to receive a Stafford loan must complete a Free Application for Federal Student Aid (FAFSA) and a master promissory note (MPN). Depending on the loan program, she may obtain an MPN from a school, a lender, guaranty agency, or ED. An MPN can be used to make multiple loans over several years of borrowing.

In the traditional paper process, a student might complete a Stafford MPN at the school and submit it to the lender or school. In other cases, the school certifies or originates the loan based on the student's acceptance of the aid package. The lender, the school, or ED sends the MPN to him for his signature. Regardless of the method used, the *Borrowers' Rights and Responsibilities Statement* must be provided to the student with the MPN. Also, if you receive the MPN, you must ensure its accuracy based on the information you have available.

Schools may also offer borrowers the option of completing and signing an electronic MPN, but they may not require borrowers to use an electronic MPN. A borrower who wishes to complete a paper MPN must be given that option. In most cases the promissory note will be completed through a website, and the site owner is responsible for authenticating the borrower and obtaining the borrower's electronic signature. In the Direct Loan Program, schools can opt out of the electronic MPN process or choose that ED only accept electronic MPNs. These options can be set on the eMPN Web site. Student and parent borrowers can complete the MPN for Direct Stafford and PLUS loans at http://dlenote.ed.gov.

If your school participates in the FFEL program, you should make arrangements with participating lenders or another intermediary (such as a guarantor website or Education Loan Management Resources) for the receipt of electronic documents.

In the FFEL program, electronic completion of the MPN does not always include electronic signatures. A school or borrower may demand a "wet" signature even if the MPN is otherwise completed

Paper MPNs

Copies of the Master Promissory Note are provided to borrowers and schools by lenders and guarantors (for FFEL) or the Department (for Direct Loans). Ordering instructions for Direct Loan schools are on the ED Pubs website at http://edpubs.ed.gov.

FFEL: 34 CFR 682.401(d)
DL: 34 CFR 685.402(f) and definition of master promissory note 34 CFR 685.102

For your reference, sample copies of the MPN and related materials are available online :
FFEL Stafford Loan and addenda
http://ifap.ed.gov/dpcletters/FP0608.html
http://ifap.ed.gov/dpcletters/FP0802.html
Direct Stafford and PLUS loans
http://www.ed.gov/DirectLoan/mpn.html
DL MPN on the Web
http://dlenote.ed.gov

Power of attorney and completing the MPN

A third party with power of attorney for the borrower may sign the promissory note if the borrower is unable to sign. Use of a power of attorney when signing an MPN limits the use of the MPN to one loan. If the borrower submits his or her MPN through the school, the school must retain a copy of the original power of attorney and submit a copy with the MPN to the loan holder. A photocopy or a fax of the power of attorney is acceptable.

If the note is signed with a power of attorney, the student must authorize the school in writing to credit the loan funds to his or her account at the school. In addition, the school must pay any remaining balance to the student for living expenses.

See Volume 3 for further discussion of ED approval needed to use a power of attorney for disbursements.

Consumer information for the borrower

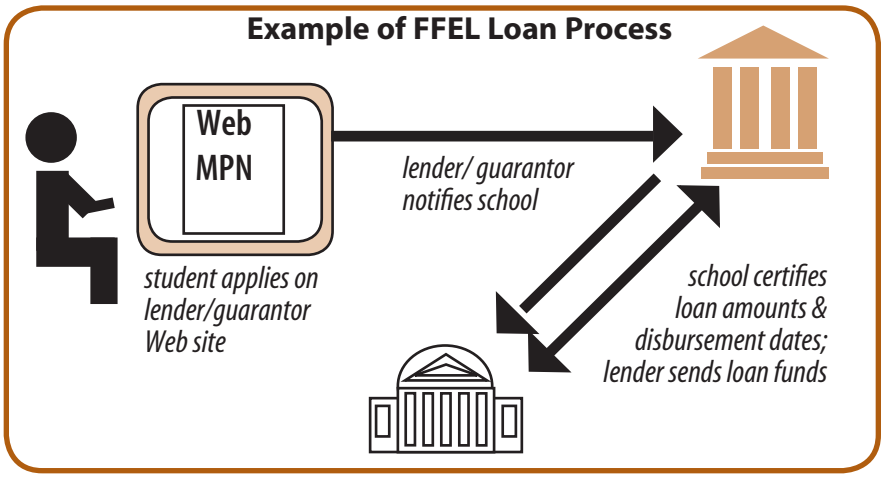
Borrowers need to be fully advised on the costs and responsibilities of borrowing.

Accordingly, the law requires that the borrower receive the following information:
1. At the same time as the MPN, a Borrower's Rights and Responsibilities Statement.
2. At or prior to the first disbursement, a disclosure statement with specific information about that borrower's loans (usually provided by the lender or by ED).
3. For any subsequent loans provided under an existing MPN, a Plain Language Disclosure (PLD) provided by the lender or ED. (The PLD is an abbreviated version of the Borrower's Rights and Responsibilities Statement that was provided along with the MPN.)

Some of this information should be reviewed with the borrower as a part of entrance and exit counseling (see Volume 2, School Eligibility and Operations).

electronically. In the Direct Loan Program, a borrower who wishes to complete an electronic MPN must sign the MPN electronically. If a school or borrower does not want an MPN signed electronically, a paper MPN is required.

If a borrower is completing and signing the promissory note on the Web using the Department's PIN or an alternate signature process provided by the intermediary's website, the borrower's rights and responsibilities statement must be included in the process. In most cases the intermediary operating the website will notify you when a student completes the promissory note online and designates your school.



Required borrower information on MPN

The MPN collects identifying information for the borrower, including name, permanent address, date of birth, Social Security number, driver's license number, and two references with U.S. addresses. Some of this information may be preprinted on the MPN. The borrower must read, sign, and date the MPN.

In completing the FFEL MPN, the borrower must also provide the name of a lender. As a convenience, many schools give their borrowers a list of lenders who make loans to students at the school. **However, a borrower has the right to choose her lender, even if that lender is not one that the school previously used, and a school may not refuse to certify a loan based on a borrower's choice of lender or guarantor.**

MULTI-YEAR MPN AND WHEN A NEW MPN IS REQUIRED

When used as a multi-year document, the MPN enables student and parent borrowers to get additional loans without signing a new MPN.

There are several circumstances that require a borrower to complete a new MPN. It is required if the borrower's FFEL lender changes, unless the change is a result of a merger or acquisition. A new MPN is also required in certain transfer situations where:

- the borrower transfers to a school that is not eligible to use, or chooses not to use, the multi-year feature of the MPN.
- the borrower transfers from an FFEL school to a Direct Loan school, and there's no valid Direct Loan MPN on file with ED. Similarly, a borrower needs a new MPN if transferring from a Direct Loan to an FFEL school, unless there is a valid MPN on file with the lender that the borrower uses. (New MPNs are also required if the school itself changes from using DL to FFEL or vice versa.)
- a school's lender requests that a school no longer use the multi-year feature of the MPN.

Also, borrowers may request an annual MPN, or may request that no additional loans be made using their current multi-year MPN. Requests that no additional loans are made using current multi-year MPNs must be in writing.

In some cases, a new MPN has to be executed because the maximum period for use of the MPN has expired. At Direct Loan schools, additional loans may no longer be made under an MPN after the earlier of:

- the date ED or the school receives the borrower's written notification that no further loans be made;
- if no disbursement is made during the 12-month period after the date ED received the MPN; or
- ten years after the date ED received the MPN. If a portion of a loan is made on or before the 10-year limit, remaining disbursements of that loan can be made.

Although the Direct Loan Program regulations allow the second and third expiration conditions to be based either on the date the borrower signed the MPN or the date ED receives the MPN, the COD system currently uses the date the MPN is received.

Using the MPN for multiple loans within an academic year

Note that the MPN may be used to make multiple loans within the same academic year. Even schools that are not authorized or choose not to use the multi-year feature of the MPN can make more than one loan under an MPN within the same academic year.

Lenders declining loans

An FFEL lender is prohibited from discriminating against an applicant on the basis of race, national origin, religion, sex, marital status, age, or disability. However, a lender may decline to make loans to students who do not meet the lender's credit standards, to students at a particular school because of the school's default rate, or to students enrolled in a particular program of study. A lender may also decline to make FFELs for less than a specified amount, for example, $500.

Special notes about Direct PLUS MPNs for graduate/professional borrowers:

Graduate and professional student borrowers completing a Direct PLUS master promissory note (MPN) electronically should select ***Complete New MPN for Student Loans*** on the left-hand side of the page on the Direct Loan eMPN Web site (www.dlenote.ed.gov) then choose the Graduate PLUS option.

Graduate and professional borrowers completing a paper Direct PLUS MPN do not have to complete the U.S. Citizenship Status box, Question 7, in Section A of the form.

Lender of Last Resort
A student who is otherwise eligible for a subsidized Stafford loan and, after not more than two rejections, who has been unable to find an FFEL lender willing to make such a loan, should contact the guaranty agency in his state of residence or the guaranty agency in the state in which his school is located. The guaranty agency either must designate an eligible lender to serve as a lender of last resort (LLR) or must itself serve in that capacity and must respond to the student within 60 days. An LLR cannot make a loan that exceeds the borrower's need, and it is not required to make a loan for an amount less than $200. The LLR, as with any other lender, may refuse to make the loan if the borrower fails to meet the lender's credit standards.

Each guaranty agency is required to develop rules and procedures for its LLR program.

Lender of last resort
34 CFR 682.401(c)

FFEL lender/guarantor approval
The lender or guarantor will match the information included by the school on the certification (electronic or paper) to the MPN by comparing the borrower's identifying information. The lender or guarantor should check the permanent address information on the MPN to see if it has changed. The school must supply the borrower's cost of attendance, EFC, and estimated financial assistance to the lender or guarantor upon request.

The lender will also check to make sure that the school is eligible to use the multi-year feature of the MPN. If a borrower transfers to an eligible foreign school that is not eligible to participate in the multi-year process and continues to use the same lender, the lender is responsible for obtaining a new signed MPN for each loan at the new school.

At FFEL Program schools, additional loans may not be made under an MPN after the earlier of:

- the date the lender receives the borrower's written notification that no further loans be made;
- if no disbursement is made during the 12-month period after the date the borrower signed the MPN; or
- ten years from the date the student signs the MPN. If a portion of a loan is made on or before the 10-year limit, remaining disbursements of that loan can be made.

The confirmation process

A crucial step in multi-year use of the MPN is the confirmation process. Confirmation helps the student or parent maintain control over the borrowing process. The confirmation process may be designed to be part of the required notices and disclosures (discussed in chapter 2), or it may be a separate process that supplements those notices and disclosures.

To help ensure student borrower control over the borrowing process, a student borrower must accept, either actively or passively, the loan amount offered.

- Active confirmation—a school does not disburse the loan until the borrower affirmatively requests or accepts the proposed loan type and amount or requests changes to the proposed loan package.
- Passive confirmation—a school does not disburse the loan until the borrower is notified of his or her proposed loan package, and the time given to the borrower to respond has elapsed. (The notification can come from the school, lender and/or guarantor.) The borrower only needs to take action if he or she wants to decline the loan or make adjustments to the type or amount of the loan.

  For example, your school's award letter may be used as part of either an active or passive confirmation process. For active confirmation, the borrower would be asked to confirm the loan amount offered by responding to your school's offer. For passive confirmation, the borrower would be asked to respond only if he or she wanted to cancel or reduce the loan amount offered.

Declining the use of the multi-year MPN

Schools are not required to use the multi-year feature of the MPN. You may decide that you want some or all of the borrowers at your school to sign a new MPN each year. If this is the case, you should notify your lenders. (Also note that lenders have the option to require a new MPN for each loan.) If you're at a Direct Loan school and don't

want to use the multi-year feature for any of your students, contact the COD School Relations Center. See Direct Loan Bulletin DLB-03-02.

Student loan borrowers may decline to use the multi-year feature of the MPN. Borrowers may also cancel authorization for subsequent loans to be made under an MPN after the first loan is made by notifying the school or lender (for FFEL) in writing. Direct Loan borrowers may send their written notification to the Direct Loan Servicing Center (DLSC) or to their school to forward to COD. The effective date is the date the school, lender, COD, or DLSC receives the written cancellation request. If the borrower cancels the multi-year authorization on a loan that is not completely disbursed, the school may make remaining disbursements on existing loans, unless the borrower tells the school to cancel or adjust the disbursements. To obtain additional loans, the borrower will need to complete a new MPN.

PLUS borrowers
Unless otherwise noted, "PLUS borrower" refers to both parents and graduate/professional students who borrow PLUS loans.

Determination of Stafford eligibility required
34 CFR 682.603(d), 34 CFR 685.301(a)

Initial PLUS loan counseling required
34 CFR 682.604(f)(2) & 34 CFR 685.304(a)(2)

PLUS MPN

Parents and graduate/professional students applying for a PLUS loan must complete a PLUS Application and Master Promissory Note. All student PLUS borrowers must complete a FAFSA. A parent borrower must complete a FAFSA if required by their child's school. All PLUS borrowers must receive the Borrowers' Rights and Responsibilities Statement with the loan application.

At U.S. domestic schools a parent may obtain additional loans for the same dependent student based on the original MPN for up to 10 years after the date the parent first signed it under the same conditions discussed for the Stafford Loan MPN under Multi-year use of the MPN and When a new MPN is required. A separate PLUS MPN is required for each dependent student, or if both parents want to borrow individually on behalf of the same student. A new PLUS MPN would also be required under the same conditions discussed for the Stafford Loan MPN under Multi-year use of the MPN and When a new MPN is required. A graduate or professional student PLUS borrower may also obtain additional loans under the original MPN for up to 10 years after the date the MPN was signed.

If a graduate or professional student PLUS borrower is also a parent who is borrowing a PLUS Loan for one or more dependent students, the borrower must sign one PLUS MPN to borrow for himself/herself and a separate PLUS MPN to borrow for each dependent student. As with parent PLUS borrowers, a student PLUS borrower may choose to sign a new PLUS MPN for each new PLUS loan even if that would not otherwise be required. A school or lender may also require a new PLUS MPN for each new PLUS loan.

Establishing Grad/Professional Eligibility

Before certifying a PLUS loan application for a graduate or professional student, a school must determine her eligibility for a Stafford loan. If the student is eligible for a Stafford loan but has not requested the maximum amount she can receive, the school must notify her of that and give her the opportunity to request the maximum amount.

Establishing a Confirmation Process for Your Students

As long as regulatory requirements and the Department's guidelines are met, schools, lenders, and guarantors are free to establish their own confirmation process — for example, a process that combines elements of active and passive confirmation and/or a shared responsibility among the school, lender and/or guarantor. Schools and the lending community have considerable discretion in setting up these processes, including the timing of confirmation, provided the goals of the confirmation process are accomplished.

For example, confirmation could take place when students apply for aid, when aid is packaged, when loan funds are disbursed or at some other appropriate time. The confirmation process could cover the entire loan for the academic year or loan period or, instead, could require that the student confirm each loan disbursement. DCL GEN 98-25 provides examples of each of these confirmation approaches.

The most effective processes will likely vary among schools. Participants are encouraged to use and test various technologies in this process. Some technologies suggested include the Internet, email, card technologies and voice response.

Generally, schools (in both the Direct Loan and FFEL programs) should use the same confirmation process for all borrowers. However, in some cases, a school may want to establish more than one confirmation process to accommodate existing administrative procedures, or because the school believes that it can best inform borrowers of their loan obligations if it uses different confirmation processes for different groups of students. For example, a school could have a policy that requires active confirmation for undergraduate students and passive confirmation for graduate students.

Regardless of the process(es) used, schools and FFEL lenders must document their confirmation procedures. A school (and lenders in the FFEL Program) must retain a description of the process(es) in effect for each academic year in which it makes second or subsequent loans under MPNs. The documentation of the process may be kept in paper or electronic format and need not be kept in individual borrower files. The documentation must be kept indefinitely, because it must be submitted to the Department, upon request, if a borrower challenges the enforceability of a loan.

We recommend that schools include a description of the confirmation process in their student consumer information just as they do for other school policies, such as refunds and academic progress.

The school must also provide the student with a comparison of:

- the maximum interest rate for Stafford and PLUS loans;
- the periods when interest accrues on Stafford and PLUS loans; and
- when Stafford and PLUS loans enter repayment.

A graduate or professional student is not required to accept a Stafford loan as a condition for receiving a PLUS loan, nor can a school require that.

Unless the borrower has received a FFEL or Direct PLUS loan before, a school must conduct initial loan counseling prior to the first disbursement of a graduate/professional PLUS loan. Loan counseling requirements do not apply to parent PLUS borrowers.

PLUS borrower certification

Because a parent or graduate/professional student may borrow up to the student's cost of attendance minus other estimated financial assistance for the loan period, it is important that the borrower specify how much he wants to borrow. Each school and lender must establish and document the process by which one of the parties will collect the requested loan amount from the borrower. A PLUS loan may not be made for more than what the borrower requests.

Your school must collect this information before certifying the PLUS loan and may use various means such as the PLUS Certification form (for FFEL, see the margin note), a borrower response section on your financial aid award letter, a separate PLUS form, documented telephone or electronic requests, or other means. If your school participates in the FFEL program, you may also make arrangements with the lenders for them to collect this information from borrowers before approving the loan.

Whether your school or the lender collects the information, you must establish and document how the PLUS borrower's loan amount request will be collected. You (or the lender) also must maintain a record of any requests (written, electronic, or by phone) from the borrower for any adjustment to the loan amount.

For parent PLUS applicants, before certifying the loan, you must determine the FSA eligibility of the dependent student for whom the parent is borrowing. Moreover, because a parent may not borrow on behalf of a student who is ineligible for FSA funds, or if the parent is ineligible for FSA funds, for a parent PLUS loan, you must not certify the application until you have obtained the dependent student's complete financial aid history. Also, when certifying a parent PLUS loan, you must certify the parent's and dependent student's enrollment status and anticipated completion/graduation date.

Your school must confirm the student's dependency status when determining whether a parent is eligible to borrow under the PLUS

PLUS MPN approval for foreign schools

Foreign schools must get approval from ED to be able to use the multi-year feature of the PLUS MPN. If the foreign school does not have this approval, the parent will have to sign a new PLUS MPN for each new loan period.

Grad PLUS MPN at foreign schools

A graduate or professional student attending an eligible foreign institution will only be able to use the multi-year feature of the PLUS MPN if the school has been expressly approved by the Department to have its student and parent borrowers do so. No eligible foreign institution is approved for this purpose at the current time. As a result, until the Department approves foreign institutions for this purpose, a graduate or professional student PLUS borrower attending an eligible foreign institution will need to sign a new PLUS MPN for each new loan period.

PLUS Certification Form (FFEL only)

The Department has developed a paper Federal PLUS Loan Information and School Certification (PLUS Certification form) to be used by FFEL schools that do not complete loan certification electronically. This form was approved as part of the PLUS MPN documents package and is printed and distributed by lenders and guaranty agencies.

The PLUS Certification form includes a Borrower and Student Information section. If you elect to secure the loan information and initiate the process, you may send the Certification form to the borrower for completion of the borrower/student information. Alternatively, if the lender or guarantor secures this information, the borrower/student section would be pre-filled and you would only secure the borrower's signature and provide the school certification data.

Adverse Credit History

Adverse credit is defined in the regulations as the applicant being 90 days or more delinquent on a debt or having been subject in the last five years to a default determination, bankruptcy discharge, foreclosure, repossession, tax lien, wage garnishment or write-off of an FSA debt. The absence of any credit history is not considered adverse credit. FFEL lenders may establish more restrictive credit standards for determining adverse credit.

When determining whether a borrower is ineligible for a PLUS Loan based on an adverse credit history, the lender, or the Department for Direct loans, must obtain a credit report on the borrower from at least one national credit bureau. To provide a more accurate determination of adverse credit, the report must be obtained within a timeframe reasonably related to the loan period. If the PLUS borrower requests additional funds for an existing loan period (resulting in a loan amount adjustment, not a new loan), the lender is not required to obtain a new credit report but may do so.

Additional eligibility for dependent students whose parents cannot borrow PLUS

If at least one of a dependent student's parents has not been able to borrow a PLUS loan, the student may be eligible for higher unsubsidized Stafford borrowing limits. See Volume 3, Chapter 4.

Program or the dependent student is eligible for additional unsubsidized Stafford loan limits.

If your school participates in the FFEL program and is eligible to use the multi-year PLUS MPN, the borrower's PLUS loan request for subsequent years is sufficient documentation to make additional loans—there is no separate confirmation process for PLUS loans—but the borrower's PLUS loan amount request must be secured for each loan made using an MPN. Direct Loan schools using the PLUS loan MPN as a multi-year note are required to have an active confirmation process.

Adverse credit history & use of endorser

To borrow a PLUS loan, a person must not have an adverse credit history, but if he has such a history, he may still receive a PLUS loan by using an endorser who does not have an adverse credit history. In these cases a separate endorser addendum is required for each PLUS loan. Any loan that requires an endorser must be made under a new PLUS MPN with a new endorser addendum because the endorser is liable only for the specific loan or loans she agrees to endorse. The addendum includes the requested loan amount; any increase to that amount by the parent borrower must be approved by the endorser and requires a new MPN and endorser addendum.