

Prepare for College Funding Emergencies Before One Happens

In a tough economy, it's not hard to imagine students young or old facing shortfalls in money for tuition and living expenses. It's good to have a battle plan in place in case cash gets tight during the school year.

Keep in mind that many schools – even the top schools in the country – are still digging out of their own massive financial crisis. The value of university endowments fell an average of 23 percent in the five months ending last Nov. 30, according to reports released in January by the National Association of College and University Business Officers and Commonfund Inc., a Connecticut nonprofit. Endowments are a primary source of on-campus financial aid for students in need.

The best time to plan for emergencies is during the summer months or breaks when the student gets a chance to earn money to put into an emergency fund for the school year. Indeed, that's the first step in safeguarding against financial problems in school – establishing an emergency fund that can cover at least three months of living and school expenses. It's not a bad idea to set up a meeting with a financial planning professional before the school year starts to learn how to effectively manage your money from the start.

Here are some other ideas:

Set up a budget: Even if it's freshman year and there's no track record of actual spending habits at college, it's important to start tracking what the student has in the bank in anticipation of what spending occurs. Younger students should coordinate this effort with their parents or legal guardian. It's important to use all the information both have at their disposal -- the amount of spending money the student has in his or her own accounts, any money supplemented by parents or any other source. And keep track of all this data on financial planning software or another reliable system. Why is this an emergency measure? Because when spending and saving is tracked, it's easier to solve problems before they become serious.

Learn about all financial aid options: Major financial aid applications are due in July, but it's important to keep in touch with the financial aid office to see if there are any special sources of funding throughout the year. For parents who aren't sending their kids to college for at least a year, it definitely makes sense to learn about the Free Application for Federal Student Aid (FAFSA). The FAFSA assesses the student and parents' income, investments, and other financial resources, and arrives at something called an EFC number, short for Expected Family Contribution. Additionally, some colleges (particularly private) gather information to see if the student qualifies for nonfederal (institutional) financial aid. Theoretically, the shortfall between what the family is expected to pay and the total cost of that institution is made up by financial aid. Also, it's important for parents to fill out the FAFSA even if they're not applying for aid but fear a pay cut or a possible job loss. By filling out the FAFSA, a student becomes eligible for a Stafford loan, part of the federal loan program. These loans can be separated into loans directly from the U.S. government (via participating colleges) and loans from private lenders, which have federal guarantees. They can then be split into subsidized and unsubsidized loans.

Keep track of private scholarships: Though private scholarships are usually small – under \$2,000 – they’re worth keeping track of because that’s money that doesn’t have to be paid back. A parent’s professional organizations might offer small college scholarships to members or children of members for general use or specific purposes – textbooks, room and board, etc. It makes sense to bookmark every possible group or organization back home or on campus that’s doling out free money because a student needs to be prepared.

Come up with a variety of earning possibilities: Work-study jobs are important sources of income, but if the student has a salable skill – like computer repair – it makes sense to develop that as a side business that can bring in more cash when necessary. Students can attract clients through a website and can even accept credit and debit card payments through handheld devices, though such services carry fees.

Resist reliance on credit cards: Though new federal legislation has put new limits on credit card marketing on campus, it’s important for students to resist trying to solve short-term problems with plastic.

-30-

October 2009 — This column is produced by the Financial Planning Association® (FPA®), the leadership and advocacy organization connecting those who provide, support and benefit from professional financial planning. Please credit FPA if you use all or part of this column. To connect with a member of FPA for your story, call FPA’s Public Relations Department at 800.322.4237, ext. 7172.

The Financial Planning Association® (FPA®) is the leadership and advocacy organization connecting those who provide, support and benefit from professional financial planning. FPA demonstrates and supports a professional commitment to education and a client-centered financial planning process.

Based in Denver, Colo., FPA has 96 chapters throughout the country representing more than 25,000 members involved in all facets of providing financial planning services. Working in alliance with academic leaders, legislative and regulatory bodies, financial services firms and consumer interest organizations, FPA is the community that fosters the value of financial planning and advances the financial planning profession. For more information about FPA, visit www.FPAnet.org or call 800.322.4237.