

## Stimulus bill helps pay for college

Written by  
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Financing college is becoming a little easier, thanks to the 2009 economic stimulus bill. For 2009 and 2010 – perhaps longer, pending Congressional approval – several education assistance programs are being expanded by hundreds of millions of dollars.

Here are highlights:

**Pell Grant increases.** The maximum annual amount for Pell Grants (free scholarships for lower-income students) increases from \$4,731 to \$5,350 in 2009. Congress is considering President Obama's proposal to further boost the maximum to \$5,500 next year.

Pell Grants needn't be repaid and can be used for tuition, books and living expenses while enrolled at a participating institution. To apply, you'll need to complete the Free Application for Federal Student Aid (FAFSA) form at [www.fafsa.ed.gov](http://www.fafsa.ed.gov). Note that the federal deadline for FAFSA submission for the 2009-2010 school year is June 30, 2009.

**New tax credit.** The Hope Scholarship, an educational tax credit that reduces a student's or family's tax liability, is being replaced in 2009 and 2010 by the more robust American Opportunity Tax Credit. Enhancements include:

- Maximum credit amount increases from \$1,800 to \$2,500.
- Tax credits can now be claimed for all four years of college, instead of only the first two.
- Those with an adjusted gross income (AGI) of less than \$80,000 (\$160,000 for joint tax filers) qualify for the full credit – a significant increase over previous years. The credit gradually phases out for AGI between \$80,000 and \$90,000 (\$160,000 to \$180,000 for joint filers).
- Unlike Hope Scholarships, this credit is partially refundable, which means lower-income families paying for college can receive a refund of up to 40%, even if they owe no federal income tax.

**Federal Work Study Program expansion.** About \$200 million has been added to this program, which provides on-campus part-time jobs to students. Eligibility is determined by information provided in the FAFSA.

**Financing computers.** Tax-free withdrawals from 529 College Savings Plans are now allowed for computers, in addition to tuition, room and board, and books.

Many people turn to loans when grants, scholarships and tax credits can't cover all college-related costs. Government-sponsored loans include:

- Perkins loans – low-interest loans awarded to students who demonstrate exceptional financial need. Interest does not accrue until repayment begins nine months after graduation. (Current rate: 5%.)
- Subsidized Stafford loans – low-interest, needs-based loans where the government pays the interest that accrues while students are enrolled. (Current rates: 6% for undergraduate students; 6.8% for graduate students.)
- Unsubsidized Stafford loans – not based on financial need and students pay for interest that accrues while they're enrolled. (Current rate: 6.8%.)
- PLUS (Parent Loan for Undergraduate Students) loans – let parents borrow for their

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children's college expenses. (Current rate: 8.5%.) There is a loan origination fee.

- Keep in mind all interest rates above will readjust on July 1, 2009.
- To learn more, visit the Department of Education's website, [www.ed.gov](http://www.ed.gov) or the FAFSA site above.

Privately sponsored loans, including those from Sallie Mae, banks and other lenders are also available, but may have higher rates and different terms, so investigate your government-sponsored options first.

Thanks to these stimulus bill enhancements, financing a college education will be eased for millions more Americans.

Jason Alderman directs Visa's financial education programs. Sign up for his free monthly e-Newsletter at [www.practicalmoneyskills.com/newsletter](http://www.practicalmoneyskills.com/newsletter) .