

Proposal for Standardization of Financial Aid Award Letters and Net Price Calculators

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INTRODUCTION

This report presents a proposal for standardization of financial aid award letters and net price calculators, and discusses some of the issues associated with standardization. A key focus of this proposal is on improving the accuracy, clarity, consistency and comparability of information provided to students and their families in and with financial aid award letters. This report proposes 39 optional and 59 mandatory standards concerning financial aid award letters.

Certain standards for financial aid award letters must be mandatory, as the current voluntary best practices have not adequately addressed the needs of students and their families. Cost information in current financial aid award letters is often incomplete or absent. When it is included, however, the textbook, travel/transportation and off-campus housing costs are often significantly underestimated. Many financial aid award letters lack a clear distinction between loans and gift aid, use cryptic acronyms and abbreviations for loans and grants, and treat loans as though they cut college costs. The most important information about the loans, such as the interest rates, monthly payments and total payments, is often omitted from financial aid award letters and almost never appears adjacent to the loan amounts listed on the first page of the financial aid award letters. Finally, very few financial aid award letters report a true bottom line out-of-pocket cost to the family based on the difference between the cost of attendance and gift aid. This makes it difficult for families to compare financial aid award letters from different colleges. All this contributes to confusion about the real cost of college and affordability, ultimately leading to some students dropping out of college or graduating with excessive debt.

The author of this proposal solicited opinions and observations from students, parents, high school guidance counselors, college financial aid administrators, scholarship providers, public policy advocates, policymakers and others with an interest in improving the quality of consumer information regarding college costs and financial aid. This proposal is also based on the author's experience in reviewing financial aid award letters from more than 250 colleges over the past decade.

This proposal tries to strike an appropriate balance between the needs of families and the needs of colleges. However, some of the components in this proposed standard may meet with resistance because they require financial aid administrators to think outside the box and because they conflict with long-standing practices within the financial aid community. Nevertheless, the author believes that the changes embodied in the proposed standard will benefit both families and colleges and are necessary to help students and their families make informed choices about college costs.

EXECUTIVE SUMMARY

Existing voluntary standards and best practices concerning financial aid award letters have not adequately addressed the problems, as identified and demonstrated by a survey of students and parents in late 2010.

This document proposes a set of 39 recommended and 59 required standards concerning financial aid award letters. The following are summaries of about two dozen of the most important required standards from this proposal. The number in parentheses identifies the particular standard. These particular standards are highlighted in yellow throughout this report.

General Requirements

- Requirement that financial aid award letters provide accurate information about college costs and financial aid. (#1)
- Requirement that total cost of attendance, the expected family contribution (EFC), demonstrated financial need, total gift aid and out-of-pocket cost be listed prominently on the first page of the financial aid award letter. (#9)

Cost of Attendance

- Requirement that the financial aid award letter include the total cost of attendance and that this figure, along with total direct and indirect costs (and their breakdowns into major components), be displayed prominently on the first page of the financial aid award letter. (#19, #25)
- Definition of the direct cost of attendance as including tuition and required fees, room and board, and textbooks and supplies. (#21)
- Definition of the indirect cost of attendance as including travel and transportation, miscellaneous personal expenses, student health insurance, the cost of a computer and dependent care costs. (#22)
- Requirement that the financial aid award letter include a detailed breakdown of the direct and indirect cost of attendance figures. (#23, #24)
- Requirement that the financial aid award letter emphasize that costs are for just one year and not for the entire cost of the educational program. (#33)
- Requirement that room and board costs be based on actual average costs for similarly situated students. (#38)
- Requirement that textbook costs be realistic, such as the actual average amount spent by students at the college or university, preferably for students in the same field of study. (#42)

EFC, Financial Need and Out-of-Pocket Costs

- Requirement that the financial aid award letter list the current expected family contribution (EFC) under the federal methodology. Requirement that the financial aid award letter list the current EFC under the institutional methodology if it is used for awarding or denying financial aid. (#46)
- Requirement that the financial aid award letter list the financial need, defined as the difference between the cost of attendance and the expected family contribution. (#51)

- Requirement that the out-of-pocket cost, defined as the difference between the cost of attendance and gift aid (e.g., scholarships, grants, tuition waivers, free housing), be displayed prominently on the first page of the financial aid award letter. (#56)
- Requirement that net cost (the difference between the cost of attendance and all financial aid, including loans and student employment) and unmet need (the difference between financial need and all financial aid, including loans and student employment) not appear on the financial aid award letter, as such figures are misleading and misrepresent the family's true costs. (#59)

Financial Aid and Gift Aid

- Requirement that all financial aid awards be clearly identified according to type of award (e.g., grant, scholarship, student employment, loan, installment plan). (#60)
- Requirement that the financial aid award letter organize the awards according to type of award, with gift aid appearing first and more burdensome award types like loans listed last. (#61)
- Requirement that awards of the same type be grouped together on the financial aid award letter with a subtotal for each type of award. (#62)
- Requirement that awards be identified using standard names, not acronyms, abbreviations or other cryptic terms. (#64)
- Requirement that gift aid be separated from other award types by the calculation of the out-of-pocket cost. The other award types should be identified as options for paying for the out-of-pocket costs. Self-help aid should be listed after the out-of-pocket costs. (#65)
- Requirement that the financial aid award letter disclose if the college practices front-loading of grants and how the college's grants may differ in subsequent years. (#88)
- Requirement that the financial aid award letter provide information about the college's policies concerning the treatment of outside scholarships, such as how much of the outside scholarship will reduce the loan and work burden and how much will reduce gift aid and unmet need. (#89)

Loans

- Requirement that loans be clearly identified as loans, emphasizing that the loans must be repaid, usually with interest. Packaging of unsubsidized Stafford and PLUS loans is ok, so long as these loans are not characterized in a way that may confuse families as to the nature of the award. (#74)
- Requirement that loans be listed in order of cost per dollar borrowed, from least expensive to most expensive. The need-based nature of some loans is not an important distinction except insofar as the loans are more or less expensive than other types of loans. (#78)
- Requirement that loan listings include information about interest rates, fees, the loan term in years and the loan amount in close proximity to the name of the award, preferably in tabular format. Requirement that loan information be customized to the student's circumstances as much as possible, reflecting applicable annual and aggregate loan limits and the student's eligibility. (#80)
- Requirement that loan information include monthly payments and total payments over the life of each loan using a 10-year repayment term. (#81)
- Requirement that financial aid award letters include information about the student's previous cumulative education debt (including the principal balance, capitalized interest and accrued but unpaid interest) and the corresponding monthly loan payment under a 10-year repayment term.

The financial aid award letter should also include a projection of cumulative debt at graduation and the corresponding monthly loan payment under a 10-year repayment term. (#87)

These requirements do not represent a significant financial or administrative burden on colleges and universities, as they mainly involve modifying the templates used to produce financial aid award letters.

SURVEY CONCERNING FINANCIAL AID AWARD LETTERS

Fastweb conducted a survey of students and parents about financial aid award letters in November and December 2010.¹ The results of this survey informed the development of this proposed standard for financial aid award letters.

Key problems identified by the survey included:

- Almost seven-eighths (84%) of the students and parents said that financial aid award letters should be standardized to make them easier to understand and to compare.
- More than half (51%) of respondents said that it was difficult to compare financial aid award letters of different colleges.
- Almost a third (29%) of financial aid award letters did not mention the college's cost of attendance.
- Among the financial aid award letters with cost-of-attendance information only about two-fifths (42%) included a detailed breakdown of the cost of attendance, a breakdown that in most cases provided only partial information.
- More than one third of respondents said that the cost of attendance and financial aid information provided in and/or with the financial aid award letter was not clear and easy to understand.
- Almost three-quarters (73%) of respondents said that the dollar amount estimates for transportation were unrealistic.²
- Nearly two-thirds (62%) of respondents said that the dollar amounts listed for books and supplies were unrealistic.³
- Almost half (49%) of financial aid award letters mentioned the student's financial need, but only about a quarter (28%) compared the financial aid package with the student's financial need or reported the amount of unmet need.
- More than a fifth (21%) of colleges used the Federal Parent PLUS loan – a non-need-based loan – to meet financial need.
- More than three-fifths (61%) of financial aid award letters did not include basic information about loan terms, such as interest rates, loan term in years, monthly payment, total payments and total interest paid over the life of the loan.
- More than half of the financial aid award letters did not mention a net cost (55%) or an out-of-pocket cost figure (64%). Net cost is the difference between the cost of attendance and all need-

¹ Mark Kantrowitz, *Survey Concerning the Standardization of Financial Aid Award Letters*, December 8, 2010. www.finaid.org/educators/20101208financialaidawardletters.pdf

² Some colleges routinely underestimate travel and transportation costs, in some cases for competitive reasons. Underestimating the indirect costs lets a college present a lower cost of attendance figure than peer institutions.

³ Some colleges routinely underestimate textbook costs, in some cases for competitive reasons. Underestimating the indirect costs lets a college present a lower cost of attendance figure than peer institutions.

based aid. Out-of-pocket cost is the difference between the cost of attendance and gift aid (e.g., grants, scholarships, tuition waivers and free housing).

EXISTING STANDARDS

There are no existing formal standards concerning the information that should or must be included in a financial aid award letter or the format of a financial aid award letter. The National Association of Student Financial Aid Administrators (NASFAA) published an *Award Letter Evaluation Tool* as an informal set of best practices in January 2001.⁴ However, all of the problems noted by the Fastweb Financial Aid Award Letter Survey persist despite the availability of this set of best practices.

The author of this proposal wrote an op-ed in *Inside Higher Ed* in June 2007 calling for the standardization of financial aid award letters.⁵ That column discussed some of the potential requirements for such a standard. This op-ed followed up on an earlier article published in a publication of the Council on Law in Higher Education (CLHE) in March 2005.⁶ The CLHE article discussed statutory and regulatory requirements for financial aid award letters.

Financial aid award letters are also discussed on the FinAid web site,⁷ which includes calculators that families can use to analyze financial aid award letters.⁸

Consumers Union, the publisher of *Consumer Reports*, published a set of recommendations for improved student loan disclosures in July 2007.⁹ The second recommendation called for standardizing key components of financial aid award letters. The report identified several problems with financial aid award letters and proposed an improved design for financial aid award letters.

Kim Clark of *US News & World Report*¹⁰ created the *FinancialAidLetter.com* web site in June 2007 while serving as a fellow of the Kiplinger Program in Public Affairs Journalism at Ohio State University. This web site highlights problems with financial aid award letters by decoding six sample award letters.

Some of the national professional membership organizations for college financial aid and admissions personnel include a minimal requirement that college cost and financial aid information be accurate in their ethical standards.

- The American Association of Collegiate Registrars and Admissions Officers (AACRAO) includes the following requirement that financial aid and cost information be accurate as part of its *Statement of Professional Ethics and Practice*.¹¹

⁴ The author originally downloaded a copy from the NASFAA web site at www.nasfaa.org/PDFs/2001/awardlet.pdf on January 4, 2001. The NASFAA web site has since been redesigned and a similar document currently appears at www.nasfaa.org/EntrancePDF.aspx?id=482 but without the preamble found on the original.

⁵ Mark Kantrowitz, *Standardize Financial Aid Award Letters*, *Inside Higher Ed*, June 22, 2007.

www.insidehighered.com/views/2007/06/22/kantrowitz

⁶ Mark Kantrowitz, *Recommended Elements of Award Letters*, *Emerging Issues in Higher Education*, Council on Law in Higher Education, March 2005. www.finaid.org/educators/awardletterrequirements.phtml

⁷ www.finaid.org/fafsa/awardletters.phtml

⁸ www.finaid.org/calculators/awardletter.phtml and www.finaid.org/calculators/awardletteradvanced.phtml

⁹ Consumers Union, *Helping Families Finance College: Improved Student Loan Disclosures and Counseling*, July 2007. www.consumersunion.org/pdf/CU-College.pdf

¹⁰ Kim Clark is now at *Money Magazine*.

“Provide to prospective students and their families accurate interpretations of institutional admissions criteria, transfer credit policies, costs, financial aid availability, and educational offerings;”

- The National Association for College Admission Counseling (NACAC) includes the following requirement that financial aid information be accurate as part of its *Statement of Principles of Good Practice*.¹²

“Members will provide accurate admission and financial aid information to students, empowering all participants in the process to act responsibly.”

- The National Association of Student Financial Aid Administrators (NASFAA) does not currently include any requirements concerning the accuracy of financial aid and cost information as part of its *Statement of Ethical Principles*.¹³

STATUTORY REQUIREMENTS

There has been no federal requirement for a financial aid award letter since February 3, 1988, when colleges were last required to obtain a signed award letter indicating the student’s acceptance of campus-based awards. Colleges continue to produce financial aid award letters because families expect it and because the award letter can be used to satisfy several related federal information dissemination requirements. These requirements include Notice of Amounts and Types of Title IV Aid (34 CFR 668.165(a)(1)), Notice of Right to Cancel a Loan (34 CFR 668.165(a)(2)), Student Account Authorization (34 CFR 668.164(d) and 34 CFR 668.165(b)), Financial Assistance Information (34 CFR 668.42(a), (b) and (c) and sections 485(a) and (e) of the Higher Education Act of 1965), Institutional Information (34 CFR 668.43) and State Grant Assistance (section 487(a)(9) of the Higher Education Act of 1965).

Section 484 of the Higher Education Opportunity Act of 2008 (P.L. 110-315, August 14, 2008) requires the US Department of Education to “convene a group of students, families of students, secondary school guidance counselors, representatives of institutions of higher education (including financial aid administrators, registrars, and business officers), and nonprofit consumer groups” for the purpose of recommending improvements to “financial aid offer forms” within six months of enactment. The legislation also requires the US Department of Education to develop a standardized financial aid offer form and to provide recommendations to the House and Senate education committees within one year of enactment. The legislation also requires the US Department of Education to make the recommendations and standardized financial aid offer form widely available. None of these requirements have been completed more than two years after enactment.

¹¹ www.aacrao.org/about/ethics.cfm

¹² www.nacacnet.org/AboutNACAC/Policies/Documents/SPGP.pdf

¹³ www.nasfaa.org/Marketing/About/Association/Statement_of_Ethical_Principles.aspx

SHOULD THE STANDARD BE VOLUNTARY OR MANDATORY?

One could argue that a standard for financial aid award letters should be introduced as a voluntary set of best practices. But there are also good reasons for making the standard mandatory. This proposal takes a blended approach, identifying some components of the proposed standard as *Recommended* and some as *Required*.¹⁴ The required components of the proposed standard will in effect be a minimum standard.

This proposal for a standard for financial aid award letters includes 39 recommended and 59 required components. Roughly two dozen of the most important of the required components were summarized in the executive summary and are highlighted in yellow throughout this report.

Colleges serve a variety of diverse student populations and award aid differently according to the needs of the students and available funding. Accordingly, it is important that any standard contemplate the differences among colleges and provide for some degree of flexibility. Some of the more common differences include:

- Dependent Students vs. Independent Students (Traditional vs. Non-Traditional)¹⁵
- On-Campus vs. Off-Campus Housing
- Full-Time Enrollment vs. Part-Time Enrollment
- First-Time Students vs. Transfer Students
- Differences in Institutional Resources and Packaging Philosophies

Nevertheless, some aspects of the standard should be mandatory because the core benefits from a family perspective depend on universal adoption. These essential needs include:

1. Permitting a meaningful and consistent apples-to-apples comparison of costs among different colleges, to allow families to make prudent decisions about affordability
2. Providing clarity concerning the bottom-line cost of education (i.e., the out-of-pocket cost after subtracting grants, scholarships and other forms of gift aid from the total cost of attendance)
3. Providing clarity concerning the types and amounts of financial aid
4. Providing clarity concerning the total cost of education to help families plan for college costs

There is never any valid justification for obscuring the true cost of a college education, for characterizing a loan as though it were a grant or for presenting inaccurate and misleading information.

In addition, some components of a standard must be mandatory in order to protect the best interests of students and their families. The lack of a universal standard for required elements of financial aid award

¹⁴ One cannot avoid the need to have some required elements of a standard even if the standard is voluntary. For example, if a standard is proposed as a set of best practices, then financial aid award letters should be required to state whether or not they comply with the voluntary standard. Otherwise, how would families know whether they can rely on the information contained within the financial aid award letter? Thus the key question is how much of a standard should be required and how much should be voluntary.

¹⁵ The term “Non-traditional Student” is not well defined. Besides independent students, it may include first-generation college students, underrepresented minority students, older adult students, students retraining in a new field, high school dropouts, students with dependents, home-schooled students, part-time students, disabled students, foreign students, transfer students, working students, veterans, foster children, children of divorced parents, students abandoned by their parents and other types of at-risk students needing special assistance.

letters has contributed to practices at some colleges that cause consumer confusion concerning college costs and student aid. A college's pecuniary interests are not always perfectly aligned with the needs of students and their families. The persistence of problems with financial aid award letters despite the existence of NASFAA's informal set of best practices and prior critiques by this author, Kim Clark and Consumers Union demonstrates the need for a mandatory set of requirements.

Some of the more problematic practices cause a college's cost of attendance to appear to be less expensive than the actual cost, make the financial aid package seem more generous than it really is, misrepresent the net cost to the family or obscure the true cost of college. These include the following:

- Omitting the cost of attendance from financial aid award letters
- Presenting only a subset of the cost of attendance figures, such as just tuition
- Failing to define what is included in the total cost of attendance figure
- Underestimating variable costs that are under a family's discretionary control, such as textbooks, transportation and personal expenses
- Failing to update estimates for various allowances annually
- Presenting non-need-based loans, such as the Federal unsubsidized Stafford loan and Federal Parent PLUS loan, as though they are part of the need-based financial aid package
- Failing to adequately distinguish loans (which need to be repaid) from grants (which do not need to be repaid)
- Misleading families as to the amount, type and source of financial aid awarded
- Failing to include important information such as cost of attendance and tuition figures on the financial aid award letters, forcing families to search elsewhere for the information they need
- Characterizing loans as a form of financial aid that reduces the bottom line cost to the family even though the loans must eventually be repaid

Ethically, every college should provide families with enough information about the college's true cost of attendance and the bottom-line cost to the student to allow them make *informed decisions* about whether they can afford to enroll. It does neither the student nor the college any good to have a student enroll in a college he or she cannot afford. This often leads to students who drop out or who graduate with excessive debt. The college should also provide sufficient information about the types of financial aid, especially self-help awards,¹⁶ to help families make informed choices about how to pay for the out-of-pocket college costs.¹⁷ Clarity concerning college costs and financial aid will also enable more competition on price.

¹⁶ Self-help includes loans and student employment.

¹⁷ Out-of-pocket costs are the difference between the full cost of attendance and the gift aid received by the student. Gift aid is funding that doesn't need to be repaid, such as grants, scholarships and tuition waivers. The out-of-pocket cost is the amount of money the family will have to pay from savings and current income or borrow through loans to cover their share of college costs. It reflects the true bottom-line cost to the family.

GENERAL STANDARDS FOR FINANCIAL AID AWARD LETTERS AND NET PRICE CALCULATORS

The following are proposed general standards for financial aid award letters. More specific standards are discussed in later sections of this report.

Required (#1): The financial aid award letter should include accurate information about the cost of attendance and financial aid, and should accurately portray the student's real bottom-line costs to attend the college.

Recommended (#2): If an amount on the financial aid award letter varies significantly among students, it is best to report the actual figure that applies to the specific student, if possible. Otherwise variable amounts should be presented as an average for similarly situated students (or all students) along with a range from the 25th percentile to the 75th percentile.

Required (#3): If any figure is not an actual amount, the financial aid award letter should disclose that it is an average, estimate or projection, as appropriate. A footnote that appears on the same page as the figure is sufficient. Alternately, one could add "(average)" or "(estimated)" or "(projected)" at the end of the amount's label or prefix the label with a similar designation.

Recommended (#4): Colleges should seek to ensure that the total cost, total aid and net price figures reported on a financial aid award letter or net price calculator are within \$500 or 2% (whichever is less) of the actual figures the family will ultimately pay.

Recommended (#5): Standards for net price calculators should be the same as standards for financial aid award letters as much as possible. Net price calculators should be designed to yield net price figures that approximate the out-of-pocket cost of the financial aid award letter as closely as possible. Estimates calculated by a net price calculator should be consistent with the figures that will be later reported on the financial aid award letter. Most of the requirements for financial aid award letters also apply to net price calculators.

Recommended (#6): Financial aid award letters and net price calculators should be personalized to the particular student's situation as much as possible.

Required (#7): The financial aid award letter should provide the family with a telephone number and/or email address to contact if they have questions or concerns about the financial aid award letter.

Recommended (#8): Ideally, the financial aid award letter should fit on a single piece of paper. If the financial aid award letter is longer than a single sheet of paper, the most important information should appear on the first page of the financial aid award letter and preferably at the top of the letter. The financial aid award letter should try to achieve a proper balance between having too much detail and too little. Shorter financial aid award letters are more likely to be read than longer letters.

Required (#9): Certain elements of the financial aid award letter should be listed prominently on the first page of the financial aid award letter. This information should be boxed and positioned in

a standard location on the first page of the financial aid award letter (e.g., in the upper right hand corner of the first page) and in a larger font size to draw attention to the information. This will facilitate side-by-side comparisons of financial aid award letters from different colleges.

These elements include:

- The total cost of attendance
- All expected family contribution (EFC) figures used to determine aid eligibility
- The demonstrated financial need, defined as the difference between the total cost of attendance and the expected family contribution
- The total gift aid (e.g., grants, scholarships, tuition waivers and free housing)
- The out-of-pocket cost, defined as the difference between the total cost of attendance and the total gift aid
- The deadline, if any, to accept or decline the financial aid package, and the address to which the signed award letter should be sent¹⁸

All of these elements should also be repeated in the detail on the first page of the award letter. The first page of the award letter should also include the following information.

- The breakdown of the cost of attendance into direct and indirect costs, as defined below.
- Itemize the major components of the direct costs and the indirect costs, as defined below.

Recommended (#10): Information of secondary importance should be presented in separate documents that accompany the financial aid award letter. The most common types of supplemental materials include:

- Glossary and Definitions. (See #98 below for additional recommendations concerning the glossary.)
- A brochure that explains how to use and interpret the financial aid award letter.
- A check list of tasks for the family or a scavenger hunt to ensure that the students and parents have reviewed and understood the most important information on the financial aid award letter, such as the EFC, cost of attendance, out-of-pocket cost and loan information. It could also test understanding of the difference between the different types of financial aid. The test results may be used to target individual students for additional counseling.
- More in-depth explanations of the different types of aid and borrowing options.
- Comparison charts of different types of loans.
- Advice on choosing a loan or installment plan.
- A quick reference guide that lists deadlines, other financial aid resources, and important telephone numbers and web site addresses.

¹⁸ Some colleges do not require the family to sign the award letter. Also, some colleges use a secure web site instead of a paper letter to allow families to review and accept the various forms of financial aid included in the award letter. These online award letters often include dynamic contextual help, such as mouse overs, links and popup help windows, and can track which sections were read.

Recommended (#11): The U.S. Department of Education should revise the award letter template provided by EDEExpress to be consistent with this standard for financial aid award letters. The developers of other financial aid office administrative software systems should likewise provide sample templates based on this standard for financial aid award letters.

Recommended (#12): Financial aid award letters should include the date the award letter was prepared in the footer or header of the award letter. Similarly, net price calculators should include the date and time the calculator was used in the calculator's output page. The timestamp will provide implicit version identification.

Recommended (#13): Families are often unaware of the mechanisms available to alert the college to unusual financial circumstances and to request an adjustment of the financial aid package. They often express frustration with their inability to provide this information on financial aid applications. The financial aid award letter should include a brief summary of the professional judgment process, including common situations that are often addressed through professional judgment (e.g., recent job loss or salary reduction, unusually high unreimbursed medical expenses, private K-12 tuition, casualty losses, changes in marital status, death of a parent, etc.). If the college has a form that is used to solicit information about unusual circumstances, it could be included with the financial aid award letter.

Required (#14): The data and parameters used by a net price calculator to calculate net prices should be updated at least once a year.

Required (#15): The estimates for the various allowances included in financial aid award letters should be updated at least once a year.

Recommended (#16): Revisions to the financial aid award letter should include the original award amount side-by-side with the revised award amount, along with the amount of the increase or decrease. This will help families understand what changed in the financial aid award letter.

Recommended (#17): Financial aid award letters are intended to be read by both student and parents. While most students understand English, some parents do not necessarily understand English. Accordingly, colleges should consider providing families with the option of receiving the financial aid award letter and attachments translated into other languages, such as Spanish.

Required (#18): Most traditional colleges notify students about offers of admission in late March or early April, and the financial aid award letters arrive a few days later. However, financial aid award letters sometimes arrive several weeks after offers of admission, putting pressure on the family to accept the offer of admission without any information about affordability. The financial aid award letter should arrive at least two weeks prior to the reply deadline for the offer of admission.¹⁹ The date the family should expect to receive the financial aid award letter should also be noted in the college's admissions timeline.

¹⁹ This requirement assumes that the student met the college's deadlines for financial aid applications.

STANDARDS FOR COST OF ATTENDANCE ON FINANCIAL AID AWARD LETTERS

The basic purpose of a financial aid award letter is to provide families with information about affordability and the resources available to pay for college costs. It is, therefore, rather strange that many financial aid award letters do not currently include a cost of attendance figure. This makes it difficult for families to understand the cost of enrolling at the college. Even when a cost of attendance figure is included, it is often unclear what costs are included in the cost of attendance and what costs are not. Some colleges list just tuition and some list just direct institutional charges while others list the full itemization of the costs included in the student budget. Students often have difficulty understanding the concept of a student budget, and sometimes think that the only cost associated with enrolling in college is tuition. Families need clearer information about college costs.

Some colleges downplay or understate some costs because of a concern that it will invite comparisons with peer institutions. It is precisely because of the need to enable accurate comparisons of college costs that financial aid award letters must include cost of attendance and out-of-pocket cost information.

When the financial aid award letter does not include complete college cost information, the family often has to search for it on the college's web site. There is no centralized source for this information. The National Center for Education Statistics provides College Navigator²⁰ as a free consumer information tool to help families and educators obtain information about more than 7,000 US postsecondary institutions, including general information about college costs and financial aid. College Navigator is based on the Integrated Postsecondary Education Data System (IPEDS). While College Navigator is a good tool for comparing colleges, its main limitation is its dependency on IPEDS data. Many online college search tools are also based on IPEDS data. Unfortunately, IPEDS data is not updated in real time and is usually about two years old, making it unsuitable for helping families compare and evaluate *current* college costs.

The following are proposed standards concerning the cost of attendance.

Required (#19): The financial aid award letter should include the overall total cost of attendance, as defined by Section 472 of the Higher Education Act of 1965.²¹

Required (#20): In addition to the overall cost of attendance, the financial aid award letter should specify *two* additional cost figures, one for direct costs and one for indirect costs. Direct costs are usually billed by and paid to the college, while indirect costs are not. Direct costs are required, while the amount spent on indirect costs is usually under the family's discretionary control and may be to some extent optional. It should be made clear that financial aid is based on the combination of direct and indirect costs.²² The indirect costs should be itemized separately from the direct costs because indirect costs vary considerably among applicants and are often underestimated by the colleges, while direct costs are usually much more precise. Nevertheless, it is important for a financial aid award letter to provide information about indirect costs because

²⁰ nces.ed.gov/collegenavigator/

²¹ The full text of section 472 of the Higher Education Act of 1965 appears in the appendix.

²² Total cost of attendance information must be reported because it helps parents of dependent students understand the annual loan limit on a Parent PLUS loan. It also helps families understand how much of the college's total costs will be met through gift aid, how much through self-help aid including loans, and how much through the family's own resources.

families often do not realize that there may be additional costs associated with attendance. Families may also be confused about which costs are paid to the college and which costs are not paid to the college. Thus the financial aid award letter should provide families with guidelines and estimates to help them understand these additional costs.

Discussion: Many colleges do not provide any information about costs on the financial aid award letters, and even among those that do, the information is often incomplete and unclear. The motivation for excluding this information is often concern about the potential for sticker shock, where families will overlook a high-priced college despite the availability of need-based grants to reduce the cost to affordable levels.²³ But families get extremely frustrated when this information is not available up front and center, especially if they have to search elsewhere for this information. They also find it confusing when the cost information is not clear and understandable. It is misleading when a college fails to disclose complete and accurate cost of attendance information in the financial aid award letter because it prevents the family from understanding the true cost of college.²⁴ Disclosing the cost information on the college's web site is not sufficient. Cost information is important enough that it must be disclosed prominently in the financial aid award letter itself.

Required (#21): The direct cost of attendance figure should include tuition and required fees, room and board, and textbooks and supplies.²⁵ While textbook expenses are sometimes not paid to the college, they are more closely associated with the academic experience and are often required by the college and so should be reported as part of the direct costs. Perhaps the direct costs could be labeled as “primary costs” or “required costs” or “mandatory expenses.”

Required (#22): The indirect cost figure should include travel and transportation, miscellaneous personal expenses, student health insurance (as opposed to required student health fees) and the cost of a computer. These indirect costs are usually not required by the college but are associated with attending a college. (If the purchase of a computer is required by the college, however, then the cost of a computer should be included in the direct cost figure.) The indirect costs can also include dependent care costs, such as childcare and eldercare while the student is taking classes or studying. The cost figures should be based on typical spending in order to provide the family with a realistic estimate of their costs. These costs are also to some extent optional. For example, a

²³ Sticker shock, treating loans as a form of financial aid and similar phenomena are a direct consequence of the machinations used to mask the true cost of a postsecondary education. Instead of the high cost high aid model, why not simply charge lower tuition for lower income students and higher tuition for higher income students? College costs currently lack transparency.

²⁴ College financial aid administrators dislike comparisons to car dealerships. Yet the list price of a new car is clearly disclosed on the window sticker, providing consumers with more information about purchase price than do many colleges. The requirement for car dealerships to disclose certain information on the window sticker appears at 15 USC 1231-1233.

²⁵ Non-residential colleges argue against including room and board in the direct costs because these charges are not paid to the college. Because the typical student already pays such charges regardless of whether they enroll in college or not, this inflates the cost of college. This is one of the reasons why some colleges argue for reporting the difference between just tuition/fees and gift aid. However, if a student quits a job to return to school, the housing costs are real costs. Moreover, including housing costs in the direct costs is necessary to ensure an apples-to-apples comparison with residential colleges.

student can economize on the cost of college by minimizing the number of trips home during vacations. Perhaps the indirect costs could be labeled as “secondary costs” or “discretionary expenses.”

Required (#23): The financial aid award letter should also provide a detailed breakdown of the direct cost of attendance into the major components.

Required (#24): The financial aid award letter should also provide a detailed breakdown of the indirect cost of attendance into the major components.

Required (#25): The total cost of attendance figure, the total direct costs, the total indirect costs and the detailed breakdowns should be displayed prominently on the first page of the financial aid award letter.

Required (#26): Financial aid award letters should clearly indicate whether the costs are for full-time enrollment or part-time enrollment, specifying the enrollment status on the letter. Costs and aid should be reported in a manner that matches the student’s actual or expected enrollment status. If the actual or expected enrollment status is unknown, costs should be reported assuming full-time enrollment. If students sometimes enroll one semester on a part-time basis and the other semester on a full-time basis, the enrollment status should be disclosed in proximity to the cost and aid information for each semester.

Recommended (#27): Net price calculators should report all costs for full-time enrollment, consistent with the statutory requirements in section 132(a)(3) of the Higher Education Act of 1965, but may include an option for a student to request figures for less than full-time enrollment. In such a situation, the part-time enrollment figures should be listed adjacent to the full-time enrollment figures and be clearly labeled and distinguished from the full-time enrollment figures in a manner that permits comparison and an understanding of the difference between the costs associated with part-time and full-time enrollment.

Required (#28): Financial aid award letters should report actual cost figures for the upcoming academic year, not just an estimate of costs.

Required (#29): The statutory requirements for net price calculators in section 132(a)(2) of the Higher Education Act of 1965 do not currently specify whether the cost of attendance figures are based on the current academic year or the upcoming academic year.²⁶ The normal expectation of prospective students is that the net price calculator will report costs for the upcoming academic year. However, timing issues may affect the ability of a net price calculator to report figures for the upcoming academic year (e.g., if the college has not yet set the cost of attendance figures).²⁷ In such a situation, a college may use figures for the current academic year or an estimate of the figures for the upcoming academic year, but should update the calculator to report actual figures for the upcoming academic year as soon as possible after these figures are finalized. If a net price

²⁶ The NCES template provided in the US Department of Education’s net price calculator is based on prior year data.

²⁷ Families will typically use net price calculators in the fall when deciding where to apply. Many colleges do not set tuition for the upcoming academic year until the spring.

calculator does not report actual cost figures for the upcoming academic year, it should disclose whether the reported cost figures are for the current year or estimates of the cost figures for the upcoming year. The disclosure of the applicable year should be specified in terms of a specific year designation (e.g., “2011-12”) as opposed to non-specific descriptive language (e.g., “next year”). If the college uses figures for the current academic year instead of the upcoming academic year, it should include a warning that costs during the upcoming academic year may be higher.

Required (#30): The financial aid award letter should report totals for the cost and financial aid elements based on totals for a typical academic year, as opposed to shorter time periods. Academic year is defined in the regulations at 34 CFR 668.3. (If the program length is shorter than a full academic year, the totals should be reported based on the totals for the full program.)

Recommended (#31): The financial aid award letter should include subtotals by semester, trimester, quarter or other academic term, as appropriate. Alternately, subtotals could be included based on payment periods. If subtotals are included, they should be clearly distinguished from the overall total and the primary focus of attention should be directed at the overall totals to prevent consumers from misinterpreting the subtotals as totals.

Required (#32): Many families do not realize that the college costs may increase in subsequent years. Some colleges have guaranteed or level tuition rates, but most do not, and even then the cost of other components of the cost of attendance may still increase. College costs during the senior year in college are typically a fifth to a quarter higher than costs during the freshman year. The financial aid award letter should indicate the average annual percentage and/or dollar increase (whichever is a more realistic reflection of the rate of annual increase) in the total cost of attendance figure and in each of the major components of the cost of attendance figure as reported in the detailed breakdown of the cost of attendance. These increases should be based on the corresponding average increases during the last three years (i.e., spanning four academic years). Calculation of the percentage increase should be based on the following formula:

$$\left(\frac{\text{Current Year's Cost}}{\text{Cost from 3 Years Ago}} \right)^{1/3} - 1$$

The result should be presented as a percentage and rounded to the nearest 1/10th of a percent. Calculation of the dollar increase should be based on the following formula and rounded to the nearest whole dollar amount:

$$\frac{(\text{Current Year's Cost} - \text{Cost from 3 Years Ago})}{3}$$

For example, suppose that college costs were \$10,000 in 2010-11 (Current Year's Cost) and \$8,500 in 2007-08 (Cost from 3 Years Ago). Then the average rate of increase is 5.6% and the average dollar increase is \$500.

Required (#33): Some families do not realize that the financial aid award letter reports costs for just one year. To address this, financial aid award letters should emphasize that the costs are for

just one year and not for the entire cost of the educational program. (This requirement does not apply to programs with a total duration of one year or less.)

Recommended (#34): Colleges should consider including projected total program costs based on typical program length (e.g., total projected two-year costs for an Associate's degree program and total projected four-year or five-year costs for a Bachelor's degree program) on the financial aid award letter. The annual adjustments should be based on the same percentage or dollar rates of increase as disclosed in requirement #32, whichever yields the most realistic estimate of total program costs.

Recommended (#35): Public colleges should include a concise one-paragraph summary of the state residency requirements for in-state tuition, with a short link to a web page with additional in-depth information.

Standards for Specific Cost of Attendance Components

Required (#36): Tuition and required fees should be reported as a single combined figure. (Individual fees may be itemized separately, if desired, but the overall total should be reported.) Some colleges have advertised level or guaranteed tuition rates while at the same time increasing the fees every year as a proxy for a tuition increase. Optional and usage-based fees should be reported separately from the tuition and required fees figure.

Recommended (#37): Room and board figures should be disaggregated into separate housing and meal plan totals if the meal plan costs are discretionary or vary considerably. Otherwise they should be reported as a combined figure. If room and board is reported as a combined figure, the meal plan should be the most frequently used meal plan as opposed to the lowest cost or minimum required plan.

Required (#38): Room and board costs should be based on actual average costs for similarly situated students. For students living on campus, this should be based on the actual amounts charged for room and board in on-campus university housing. For students living off campus, this should be based on a rent survey for one-bedroom apartments in the vicinity of the college and/or the cost of university-owned off-campus housing.²⁸

Recommended (#39): If students can live either on or off campus, both figures should be listed. If only one figure is listed, it should be the more prevalent of the two figures.

Required (#40): The financial aid award letter should indicate any assumptions concerning the student's housing status, such as whether the student will live on campus, off campus or at home with the student's parents.

Recommended (#41): The most prevalent off-campus housing situation, usually a student living on his or her own in a one-bedroom apartment, should be the primary cost figure reported. However, the off-campus room and board costs may list additional options, such as the per-

²⁸ The type of apartment should be the type that is most reflective of typical living patterns for unmarried students without dependents. This can include a one-bedroom apartment or an efficiency, depending on which of the two types is more prevalent.

student cost of a two-bedroom or larger apartment when the costs are shared by one or more roommates, to help students economize. The assumptions behind the lower cost figure should be clearly disclosed (e.g., “per-student cost of a two-bedroom apartment with a roommate”).

Required (#42): Textbook costs should be realistic, such as the average amount spent by typical students at the college or university. According to the 2007-08 National Postsecondary Student Aid Study (NPSAS), the median student-reported textbook costs per year for students in Bachelor’s degree programs was \$749 and the average was \$831, with the 10th percentile at \$300, the 25th percentile at \$490, the 75th percentile at \$1,000 and the 90th percentile at \$1,400. The College Board reports average textbook costs at public 4-year colleges at \$1,137 in 2010-11.²⁹ But a disproportionate number of financial aid award letters list the annual cost of books and supplies at \$250 to \$350. Understating textbook costs to manipulate the cost of attendance is misleading.

Given the new statutory requirements to list ISBN numbers on course syllabi, colleges can potentially calculate the average cost per student by calculating the total cost of required textbooks for each class, weighting these figures by enrollment and multiplying by the average number of classes per student during the academic year.³⁰ If textbook costs vary according to field of study, the differences can be presented as a range of costs or by presenting major-specific costs in the financial aid award letter.

Required (#43): The travel and transportation costs should be based on where the student lives. If the student lives off campus, the commuting costs should be based either on the cost of public transportation to/from campus or on the product of the distance to campus and the IRS mileage rate. The IRS mileage rate is 51 cents per mile in 2011 and includes the cost of gas, maintenance and depreciation.³¹ This calculation should assume one round-trip per day classes are in session. For example, if the student lives 5 miles from campus, the transportation allowance should be

$$5 \frac{\text{miles}}{\text{trip}} \times 2 \frac{\text{trips}}{\text{day}} \times 5 \frac{\text{days}}{\text{week}} \times 30 \frac{\text{weeks}}{\text{year}} \times 51 \frac{\text{cents}}{\text{mile}} = \$765/\text{year}$$

Colleges may simplify the calculation by calculating transportation allowances based on zip code, provided that the zip code assumption is specified on the financial aid award letter.

If the student lives on campus and is from out of state, the travel costs should include the cost of four round trip tickets home per year, one for the fall break, one for the winter break, one for the spring break and one for the summer break. (Even if the student does not go home during these breaks, there are still costs associated with staying on campus, especially if dining and/or housing facilities shut down during breaks.)

²⁹ www.collegeboard.com/student/pay/add-it-up/482.html

³⁰ This requirement was enacted by Section 112 of the Higher Education Opportunity Act of 2008 (P.L. 110-315) and was effective with the 2010-11 academic year.

³¹ www.irs.gov/newsroom/article/0,,id=232017,00.html

Recommended (#44): Allowances for living and personal expenses should be updated annually and be based on regional or local costs, if possible. For example, apartment costs for a student living off campus should be based on an annual local rent survey, not national averages.

Required (#45): If it is not possible to update allowances annually, the previous year's allowances may be adjusted for inflation based on the Consumer Price Index (CPI-U), but for at most three consecutive years. After three years the potential error as compared with local conditions becomes too great to be considered reasonable.

STANDARDS FOR EXPECTED FAMILY CONTRIBUTION

The expected family contribution (EFC) is a measure of a family's financial strength. It is based on assessing a portion of discretionary income and discretionary net worth. Discretionary income is the income that remains after subtracting mandatory expenses from total income. Mandatory expenses include basic living expenses, such as food, clothing, shelter, transportation and health care, as well as federal, state, local and FICA taxes. Discretionary net worth includes liquid assets, such as cash and investments, but excludes the value of qualified retirement plans, the net worth of the family home and the value of small businesses owned and controlled by the family. The expected family contribution is usually expressed as a sum of a parent contribution and a student contribution, $EFC = PC + SC$.

A key concern about providing the expected family contribution on the financial aid award letter is that some colleges have two EFC figures, one according to the federal methodology and one according to an institutional methodology.³² Each EFC figure may control eligibility for different types of aid. Since the institutional aid is often treated as last dollar aid, it is often the institutional EFC that controls the overall total amount of aid received by the student.³³ But the existence of two EFC figures is also a primary source of confusion for many families. Failure to disclose and explain the significance of the EFC figures may contribute to this confusion.

The primary differences between the federal methodology and the institutional methodology for calculating the EFC are as follows:

- The institutional methodology considers more family assets than the federal methodology, such as a portion of net home equity for the family's principal place of residence. The institutional methodology does not ignore family assets for families with income less than \$50,000, unlike the simplified needs test in the federal methodology. The institutional methodology also considers assets in the name of siblings when the siblings are under age 19 and not enrolled in college.
- The institutional methodology assumes a minimum student contribution based on an expectation of earnings from summer employment.
- The institutional methodology removes paper losses that artificially reduce the adjusted gross income, such as depreciation, net operating loss carry-forwards, business/farm losses and capital

³² Most colleges use the federal methodology for awarding their own financial aid funds. However, about 250 colleges use the CSS/Financial Aid PROFILE form and other colleges supplement the data from the FAFSA with their own financial aid application forms.

³³ When a scholarship provider awards a scholarship based on the federal EFC, but the college's outside scholarship policy is based on an institutional EFC, the gap between the two EFC figures can cause problems.

losses. As a result, the institutional methodology is more focused on current cash flow than the federal methodology.

- The institutional methodology solicits information about some of the more common unusual circumstances instead of requiring the family to ask for a professional judgment review. These include medical and dental expenses and private K-12 tuition.
- The institutional methodology considers the finances of the non-custodial parent in divorce cases, in addition to the income and assets of the custodial parent (and the stepparent if the custodial parent remarried). The federal methodology ignores the finances of the non-custodial parent.
- The institutional methodology has a smaller reduction in the parent contribution when more than one child is enrolled in college at the same time.
- The institutional methodology subtracts allowances for cumulative education savings and an emergency reserve from assets.
- The institutional methodology has regional allowances for differences in cost of living.

For most families the institutional methodology will yield a higher EFC and a lower eligibility for need-based aid than the federal methodology. The institutional methodology is more focused on preventing wealthy families from looking poor and less on accurately assessing the financial circumstances of families who really are poor.

In addition, some families may misinterpret the EFC as a limit on their portion of college costs. In many cases, however, the true costs may be much higher. Some colleges practice gapping, leaving the families with unmet need. Even among colleges that meet full demonstrated financial need, the financial aid package often includes loans, which must be repaid. The total amount a family must pay through savings, income and loans is often much higher than the EFC. For this reason, it may be better to refer to the expected family contribution by its acronym, EFC, as that is less likely to create false expectations. Families often interpret the term “expected family contribution” literally, as an estimate of the amount they will have to contribute toward college costs and not as a student aid eligibility index.

The EFC is also an overestimate of ability to pay for many families. The federal and institutional need analysis formulas arbitrarily set the minimum EFC at zero, even when the family income is less than a minimal living expense standard like the income protection allowance or the poverty line. This effectively sets a cap on the amount of need-based aid for families with exceptional financial need. Moreover, the need analysis formulas do not consider many forms of consumer debt, especially unsecured debt,³⁴ such as credit cards, auto loans and even the student’s and parent’s education debt. It is a bit misleading for colleges to talk about meeting the family’s *full* demonstrated financial need when the EFC overstates the financial strength of many families.

Required (#46): The financial aid award letter should list the current federal Expected Family Contribution (EFC). If there is more than one EFC used for awarding financial aid, such as the federal methodology (FM) and the institutional methodology (IM), both should be listed.

³⁴ Specifically, debt that is secured by a reportable asset, such as a margin loan on a brokerage account, a business loan that is secured by the business’s assets or a mortgage on a vacation home, is subtracted from the asset value when calculating the net worth of the asset. Other debts, however, are ignored.

Required (#47): Each EFC provided on the financial aid award letter should be clearly identified according to the type of EFC and the sources of aid for which it controls eligibility. For example, an EFC calculated according to the federal methodology could be identified as “Federal EFC (federal and state aid)” and an EFC calculated according to the institutional methodology could be identified as “Institutional EFC (college’s own aid funds).”

Recommended (#48): If the financial aid award letter includes more than one EFC, each aid source should indicate whether it is based on the federal EFC or the institutional EFC. This could be disclosed through a footnote or other indication adjacent to the aid source (e.g., “FM” or “IM”).

Recommended (#49): The financial aid award letter should include a breakdown of the EFC into student contribution and parent contribution figures. Some colleges like to include such a breakdown because it helps make clear the responsibilities of student and parent. But given that the EFC does not necessarily match the total cost to the family, including a breakdown may lead to conflict and confusion. It may be better to present the EFC breakdown in terms of a percentage of college costs. But the split of student and parent contributions reflects the assessment of current resources according to the need analysis methodology, with no consideration of the potential contribution from future resources (e.g., future income through loans) or what the split should be. For example, parents have a greater ability to borrow to pay for college through the Federal Parent PLUS loan. A typical split has the student paying a quarter to a third of out-of-pocket college costs and the parents the rest, but the student portion is much lower at higher cost institutions and among higher income families (and much higher among low income families). Further study of the benefit of reporting such a breakdown is needed.

Required (#50): If the college’s financial aid policies assume a minimum student contribution, this should be disclosed on the financial aid award letter, including the amount of the minimum student contribution.³⁵

STANDARDS FOR FINANCIAL NEED ON FINANCIAL AID AWARD LETTERS

Financial aid is based on demonstrated financial need. A fundamental financial aid formula defines financial need as follows:

$$\text{Demonstrated Financial Need} = \text{Cost of Attendance (COA)} - \text{Expected Family Contribution (EFC)}$$

The following are a few standards relating to financial need.

Required (#51): Financial need should be listed on the financial aid award letter and calculated according to this formula as the difference between the cost of attendance and expected family contribution.

³⁵ Colleges should consider waiving minimum student contributions based on an expectation of summer employment for low income students. Low income students do work during the summer, but to support their families, not to pay college bills.

Required (#52): If there is more than one EFC listed, a financial need figure should be listed corresponding to each EFC. Each financial need figure provided on the financial aid award letter should clearly indicate whether it is based on the federal or institutional EFC.

Recommended (#53): If the two EFC figures differ by more than \$500, the financial aid award letter should provide a personalized explanation of the primary causes of the difference. This will help trigger professional judgment reviews when the difference relates to an unusual circumstance.

Recommended (#54): The formula defining financial need should be included on the financial aid award letter. Ideally the definition should be included alongside calculations that parallel the definition.

Recommended (#55): The financial aid award letter should show how and if the financial need is met. Specifically, financial need should be compared with gift aid (e.g., grants, scholarships, tuition waivers and free housing), showing the percentage of need that is met with gift aid. (See also the discussion of out-of-pocket cost below and the example financial aid award letter.)

STANDARDS FOR NET COST, OUT-OF-POCKET COST AND UNMET NEED

Net cost is defined as the difference between the cost of attendance and financial aid, including both gift aid (e.g., grants, scholarships, tuition waivers and free housing) and self-help aid (e.g., loans and student employment). Out-of-pocket cost is defined as the difference between the cost of attendance and just gift aid. Unmet need is the difference between the cost of attendance and the sum of financial aid and the expected family contribution.

The following formulas illustrate these definitions:

Financial Need	=	Cost of Attendance – EFC
Financial Aid	=	Gift Aid + Self-Help Aid
Net Cost	=	Cost of Attendance – Financial Aid
Unmet Need	=	Financial Need – Financial Aid
	=	Cost of Attendance – Financial Aid – EFC
Out-of-Pocket Cost	=	Cost of Attendance – Gift Aid

The primary difference between net cost and out-of-pocket cost is that net cost counts loans as a form of financial aid while the out-of-pocket cost does not. Loans may be a form of cash flow assistance that enables the family to pay the college costs, but they are not gift aid and are not considered to be financial aid by most families. Loans must be repaid, often with interest. They do not reduce a family's costs.³⁶ Accordingly, the out-of-pocket cost more accurately reflects the real bottom-line cost of college to the family, since it is the amount the family must pay out of past income (e.g., savings), current income and future income (e.g., loans).

³⁶ While loans reduce the amount the family must immediately pay from its own resources to cover college costs, they are not a discount on college costs and do not reduce the long-term amount the family must pay.

Required (#56): The out-of-pocket cost should be displayed prominently on the first page of the financial aid award letter. The out-of-pocket cost is the most important piece of information on the financial aid award letter and should be highlighted more prominently than other information.

Required (#57): Colleges should do the calculation of the out-of-pocket cost for the family, instead of providing them with worksheets to calculate it for themselves. Requiring the family to perform a calculation is just another way of obscuring differences in bottom-line college costs. This is especially true when the financial aid award letter does not include all of the information needed to calculate the out-of-pocket cost.

Recommended (#58): Colleges should consider including projected total out-of-pocket costs for the full program based on typical program length (e.g., two years of total out-of-pocket costs for an Associate's degree program and four or five years of total out-of-pocket costs for a Bachelor's degree program) on the financial aid award letter. Given the difficulty of accurately predicting several years of out-of-pocket costs, such projections should be accompanied by a disclaimer that the figures are estimates, are not guaranteed, may differ from actual costs and may change.³⁷

Net cost and unmet need are marketing concepts that mislead families as to the true cost to attend a college. These figures count loans as though they were a form of financial aid, even though the loans are part of the costs that the family must pay. Unmet need can also vary according to the EFC used by the college, yielding a gap that is defined in terms of the college's particular rationing system, not necessarily a measure of the family's reasonable contribution. The use of different EFC figures means that unmet need and net cost figures are not necessarily comparable among different colleges. Accordingly, net cost and unmet need are not accurate representations of the real cost to the family and can be a source of confusion. Characterizing the net cost as though it were the student's real cost to attend is misleading.

Required (#59): The net cost and unmet need figures as defined above should *not* be provided on financial aid award letters. These figures are misleading and misrepresent the family's true costs. Instead, the financial aid award letter should provide the out-of-pocket cost figure.

The definition of unmet need could perhaps be modified by making two changes:

- Replace the use of *Financial Aid* in the formula with *Gift Aid*
- Require the use of the federal methodology EFC³⁸

This yields the following new definition for unmet need:

$$\begin{aligned} \text{Unmet Need} &= \text{Financial Need} - \text{Gift Aid} \\ &= \text{Cost of Attendance} - \text{Gift Aid} - \text{EFC [FM]} \\ &= \text{Out-of-Pocket Cost} - \text{EFC [FM]} \end{aligned}$$

This new definition of unmet need measures the portion of the out-of-pocket cost that exceeds the EFC.

³⁷ It is difficult to project the current year's financial aid and costs, due to the uncertainty surrounding federal and state grants and state appropriations, let alone financial aid for the next four years.

³⁸ The definition is standardized on the federal methodology EFC to ensure that figures are comparable among colleges.

Redefining a term that is in widespread use is very difficult. This is one of the reasons why the author of this proposal originally coined the term “out-of-pocket cost” several years ago instead of attempting to redefine the term “net cost.” But if the term “unmet need” can be redefined according to this formula, or if a new term can be created as a label for the concept expressed by this formula, then that term could be used on financial aid award letters as this new definition of unmet need has some value. In the meantime, the gift aid to need ratio and gift aid to total cost ratio provide meaningful alternatives.³⁹

An additional concern is that some colleges may be underestimating the indirect costs. This could potentially be addressed by a variation on the out-of-pocket cost that subtracts total gift aid from just the direct costs. However, a better approach is to establish standards that prohibit colleges from underestimating these allowances.

GENERAL STANDARDS FOR FINANCIAL AID ON FINANCIAL AID AWARD LETTERS

Financial aid award letters often identify the awards using cryptic terminology. There is a need for clarity concerning which awards are loans, which are scholarships, which are grants and which are student employment, and the difference between the various types of financial aid. The requirements and recommendations in this section are more general in nature. More specific requirements and recommendations appear in later sections of this report.

Required (#60): All financial aid awards should be clearly identified according to the type of award. The various types of financial aid include grants and scholarships, student employment and work-study, loans and tuition installment plans. This can be accomplished by including relevant keywords as part of the name or by clustering the awards according to award type under a heading or subheading labeled with the award type.

Required (#61): The financial aid award letter should organize the awards according to type. Gift aid such as grants and scholarships should be listed first and should be listed on the first page of the financial aid award letter. The least burdensome type of awards should be listed first and the most burdensome last.

Required (#62): Awards of the same type should be grouped together on the financial aid award letter. For example, all gift aid should be listed together. A subtotal should be provided for each type of award.

Recommended (#63): Each type of award should be clearly identified, with a short definition of the difference. For example, grants and scholarships should be identified as awards that do not need to be repaid and loans should be identified as awards that must be repaid, usually with interest.

³⁹ Note, however, that these ratios can be manipulated by increasing tuition and giving every student a scholarship equal to the increase. Colleges are unlikely to deliberately manipulate these ratios, however, because it will lead to above-average tuition inflation and an increase in the discount rate. Nevertheless, some higher cost colleges tend to award many merit-based scholarships as a recruiting tool because the parents feel their child deserves something and because it gives the parents bragging rights.

Required (#64): Individual awards should be identified using standard names, not acronyms or abbreviations. For example, use FEDERAL SUBSIDIZED STAFFORD LOAN instead of FSUBSTAF, ADDNL FED UNSUB STAFF LN or XYZZY. Similarly, write SCHOLARSHIP, not SCH or SCHOL. Use of acronyms or abbreviations presupposes that the family is already familiar with each award, a bad assumption.

Required (#65): The gift aid should be separated from the other award types by a calculation of the out-of-pocket cost. The other award types should be identified as options for paying for the out-of-pocket costs. Gift aid should be listed before the out-of-pocket cost and the self-help awards listed afterward.

Required (#66): Conditions for the renewal and continued receipt of financial aid should be disclosed on the financial aid award letter along with important deadlines. This includes Satisfactory Academic Progress (SAP) requirements, minimum level of enrollment (e.g., at least half-time), minimum Grade Point Average (GPA) standards and entrance counseling requirements. This also includes the steps the student must take to receive the aid, such as documents that must be signed and resources for finding a work-study job or obtaining a loan. It would be helpful for the financial aid award letter to include or be accompanied by a list of action items.

The prominence and positioning of this information could be dynamic, based on the importance of the information. For example, if a student is at risk of losing eligibility for financial aid because of a potential failure to maintain satisfactory academic progress (e.g., the student's GPA is close to the 2.0 threshold on eligibility, say 2.3 or below), the student's GPA and the college's SAP policy could be highlighted in bold on the first page of the financial aid award letter.

Required (#67): The financial aid award letter should include brief summaries of related policies, such as the college's refund policy and the requirements for return of Title IV aid, as well as fulfilling various federal notice requirements.

Recommended (#68): The financial aid award letter can be used to obtain consent for various federal requirements, such as a FERPA waiver to permit sharing information with the student's parents, permission to apply federal aid to charges other than tuition and fees, permission to apply federal aid to prior year charges, etc.

Recommended (#69): The source of each type of financial aid should be identified on the financial aid award letter. The most common sources of financial aid include: federal, state, college, private and employer. Colleges may also wish to highlight which forms of financial aid are portable and which forms are not. The student's Pell Grant, for example, will be the same at most colleges, while the institutional grants and scholarships are more reflective of the generosity of the college.

STANDARDS FOR TUITION INSTALLMENT PLANS ON FINANCIAL AID AWARD LETTERS

Tuition installment plans spread out the college costs into equal monthly installments over a 9-12 month period, usually for an up-front fee without separate interest charges. This is in contrast with loans, which are typically repaid over a much longer term and which usually charge interest. Both, however, involve payment of college costs over time.

Recommended (#70): If a college offers a tuition installment plan or refers families to third party tuition installment plans, these should be listed on the financial aid award letter before loans, as they are often less expensive than education loans. Tuition installment plans should be clearly distinguished from loans.

Recommended (#71): Tuition installment plans should be listed with both the fee amount and the monthly cost. They should also specify the number of months of payments. Ideally the financial aid award letter should mention the total cost of the tuition installment plan (i.e., the sum of the fee and all monthly payments). Presenting the tuition installment plan as a monthly payment amount helps families visualize how they can afford the college costs.

Required (#72): Tuition installment plans should be clearly identified as optional, as one of several options for paying for the out-of-pocket costs.

STANDARDS FOR LOANS ON FINANCIAL AID AWARD LETTERS

Presenting a loan as a form of financial aid is a fiction. Loans do not reduce the costs that a student must pay to enroll in college. In fact, the interest charges increases the cost of college. The difference between a need-based loan and a non-need-based loan is a matter of degree. Both are loans that must be repaid, with interest. The cost of a need-based loan may be lower than the cost of a non-need-based loan, but it is still a loan. A loan is a loan is a loan, and should not be treated as though it is a grant.

Loans have a chilling effect on enrollment by low income students. Reductions in loan interest rates and the availability of subsidized interest have no impact on access to higher education, nor persistence or completion. These loan characteristics mainly affect the amount of debt and the cost of the debt after the student graduates. The amount of debt, however, does affect pipeline leakage between undergraduate and graduate school.⁴⁰ Students who graduate with no debt are almost twice as likely to enroll in graduate and professional school as students who graduate with some debt.

There are also problems with the way loans are presented on financial aid award letters. Often the loans are presented without any details other than the amount of the loan. Basic terms of the loans, such as interest rates and fees, are often omitted. This makes it more difficult for families to compare loan costs. This is especially problematic for institutional loans, which many families assume to be less expensive than federal, even though some institutional loans are as expensive as or even more expensive than private student loans. Labeling a loan as need-based or branding it with the college's name does not necessarily mean that the loan is less expensive or better than non-need-based loans.

⁴⁰ Mark Kantrowitz, *Undergraduate Debt Causes "Pipeline Leakage" from Undergraduate School to Graduate and Professional School*, November 22, 2010. www.finaid.org/educators/20101122gradpipelineleakage.pdf

Need-based and non-need-based loans should be identified as loans without any special significance attributed to a loan's status as need-based. All loans should be listed together and ranked according to cost per dollar borrowed, with the lowest cost loans appearing first. This will eliminate much of the debate concerning the practice of packaging PLUS and unsubsidized Stafford loans. Some people argue *in favor of* including these loans on the financial aid award letter because this helps make families aware of these loans as less expensive forms of education financing than private student loans. Some people argue *against* including these loans on the financial aid award letter because eligibility for these loans is not based on financial need and because families may be confused about the difference between need-based loans and non-need-based loans. In addition, if the Federal PLUS loan is not clearly identified as a loan, the family may think that the college is a lot more generous than it really is and the family may end up with excessive debt.⁴¹ Other arguments against packaging PLUS focus on the use of such loans to mask the gap when a college does not satisfy the student's full demonstrated financial need. The distinction between need-based and non-need-based loans is meaningless, as both types of loans are forms of education financing and must be repaid. Calling one type of loan financial aid and the other not is misleading. The only salient difference is that some loans are less expensive than others, and this can be addressed by listing the types of loans in order of cost per dollar borrowed.

Required (#73): Education loans should be clearly identified as optional, as one of several options for paying for the out-of-pocket costs.

Required (#74): Loans should always be clearly identified as loans. The financial aid award letter should emphasize that these loans must be repaid, with interest. A no-interest loan should not be identified as a no-cost loan, as this can confuse families concerning the need to repay the principal balance of the loan.

Required (#75): Loans may be presented as an option for paying the out-of-pocket cost, but they should never be represented as a form of financial aid, regardless of whether eligibility for the loan is based on financial need or not. Loans should be listed after the out-of-pocket cost calculation and not with the gift aid that is listed before the out-of-pocket cost calculation.

Required (#76): Financial aid award letters should provide information about all federal education loans that are available to the family, including the Federal Perkins loans and the Federal subsidized Stafford loans (if eligible), Federal unsubsidized Stafford loans and Federal PLUS loans. These loans should be clustered with other loans, such as institutional loans, state loans and hybrid products.

Required (#77): The TEACH Grant should be clearly identified as a forgivable loan and listed with other loans on the financial aid package. The words "(Forgivable Loan)" should appear immediately after the name of the award – namely "TEACH Grant (Forgivable Loan)" – in order to minimize the potential for confusion concerning the nature of this award. Most students receiving TEACH Grants will fail to fulfill the service requirements and so will have the grant retroactively turned into a Federal unsubsidized Stafford loan.

⁴¹ On several occasions families have said that they were getting a full ride from the college when in fact the financial aid award letter included a \$10,000 or \$20,000 Parent PLUS loan. It is extremely unfortunate when this causes students to forgo better offers at less expensive colleges, ending up at colleges they cannot afford.

Required (#78): Loans should be listed in order of cost per dollar borrowed, from least expensive to most expensive. For example, a subsidized Stafford loan is less expensive than an unsubsidized Stafford loan and an unsubsidized Stafford loan is less expensive than a PLUS loan. (The subsidized Stafford loan is temporarily less expensive than the Perkins loan in the 2010-11 and 2011-12 award years. In 2012-13 the Perkins loan will once again be the least expensive federal loan, unless Congress enacts President Obama’s proposal to reengineer the Perkins loan program.) Cost should be based on the interest rate, fees and whether the interest is subsidized during the in-school and grace periods. Evaluations of the cost of the loans should be based on a standard 10-year loan term in years, even if each loan has different repayment terms, in order to ensure an apples-to-apples ranking of costs.⁴²

Recommended (#79): When a college lists the Federal PLUS loan with a preset loan amount, this may encourage overborrowing or confuse the family as to the nature of the award. Some families do not realize that they can turn down loans or request a lower loan amount. There are a variety of ways of addressing this problem. Some of the more effective ways include:

- Listing a separate loan limit and providing a blank line or box at the location of the award amount
- Prefixing loan amounts with the words “up to”
- Including accept and/or decline checkboxes adjacent to the loan amounts
- Beginning the loan section of the award letter with a paragraph that identifies the loan amounts as limits, not targets, and encourages the families to minimize debt and borrow lower amounts if they do not need the full amount of available education financing.

Required (#80): All loans should include certain basic information in close proximity to the name of the award, preferably in a tabular format to permit easy comparison. The basic information includes the interest rate, fees, whether the interest is subsidized or unsubsidized, the loan term in years and the loan amount.

Information about loans on the financial aid award letter should be dynamic and customized as much as possible to the student’s particular circumstances. For example, loan amounts should be reduced by any applicable annual and aggregate limits.⁴³ If the student is not eligible for a particular type of loan, such as a need-based loan (e.g., Perkins or subsidized Stafford loans), or if the student has exhausted the loan limits, the loan should either be omitted from the award letter or the listing should identify the student as ineligible. Comparison charts may be static lists of all education financing options, but should include enough information about eligibility restrictions and loan limits for families to understand why the loans were not included in the financial aid package.

⁴² Ten years is a reasonable standard for comparing loan costs because it avoids having parents still repaying their own loans when their children enroll in college. Given the need to save for retirement and for their future children’s college education, amortization of college costs should be over as short a loan term as possible.

⁴³ Loan amounts should represent the student’s actual eligibility as much as possible.

Additional important loan terms should be listed on a separate sheet, such as a comparison chart. These terms include whether it is a student or parent obligation,⁴⁴ the availability of an in-school deferment (and similarly, any requirements to pay interest or other amounts during the in-school period), the length of the grace period, available repayment plans and loan forgiveness options, eligibility restrictions, and annual and aggregate loan limits (especially any differences in loan limits by grade level).

Required (#81): The loan information should include the monthly payments and total payments over the life of the loan using a 10-year repayment term.⁴⁵ The goal is to provide an abstract for each loan of the most important types of information that are currently required of education lenders by the Truth in Lending Act.

Recommended (#82): Ideally it would be helpful to provide the monthly and total payments as calculated under a 10-year repayment term and a 20-year repayment term (noting if the loan's term differs). This will enable comparison of loan costs on an apples-to-apples basis. It will also make clear to families the added cost of a longer loan term. This information can be included in a separate comparison chart.

Recommended (#83): What really matters to most families is how much money is applied to the college bills, how much they will have to pay each month and how much they will have to pay over the life of the loan. The ratio of the total amount repaid to the total net disbursements can provide a useful metric for comparing loan costs. For example, a borrower of an unsubsidized Stafford loan will repay 138% of the amount borrowed over a 10-year repayment term and 183% over a 20-year repayment term.

Required (#84): If the financial aid award letter includes a list of private student loans, they should be clearly distinguished from the federal loans and accompanied by a clear statement in close proximity that families should always borrow federal first. Federal student loans are cheaper, more available, have better repayment terms, more loan forgiveness options and better tools for dealing with financial difficulty. The interest rates on federal loans are fixed, while the interest rates on most private student loans are variable.

Required (#85): Some families do not realize that the loan amounts are for just one year. To address this, financial aid award letters should clearly state that the loan amount is for just one year and not for the entire educational program. (This requirement does not apply to programs with a total duration of one year or less.)

Recommended (#86): Colleges should consider including projected total indebtedness for the full program (e.g., two years worth of loans for an Associate's degree program and four or five years

⁴⁴ It would also be worthwhile to disclose whether the loan requires or usually involves a co-signer. Most private student loans require a co-signer these days. Parents often do not understand that a co-signer on a loan is really a co-borrower and not a contingent borrower. Delinquencies and defaults are reported on the credit history of both the student and the co-signer. Parents do not realize that the lender will start seeking repayment from them as soon as the student is even a few days late with any payment.

⁴⁵ It may also be helpful to include total interest paid over the life of the loan. Borrowers seem to become more sensitive to overborrowing and loan costs when the total interest exceeds the amount borrowed.

worth of loans for a Bachelor's degree program) on the financial aid award letter. The projection should be accompanied by a disclaimer that the figure is an estimate, not a commitment, and is not guaranteed.

Required (#87): Financial aid award letters can encourage students and their families to minimize education debt by making them aware of how much they are borrowing. Accordingly, financial aid award letters should present information about the student's previous cumulative education debt from federal and private student loans, including capitalized interest and accrued but unpaid interest as well as the principal balance. This debt figure should be accompanied by the corresponding monthly loan payment under a standard 10-year repayment term. Financial aid award letters should also provide a projection of the cumulative debt at graduation as recommended in #86, assuming that the family continues to borrow at the same rate (i.e., the average annual debt multiplied by the typical duration of the degree program), along with the corresponding monthly loan payment under a 10-year repayment term. This will help students avoid excessive debt.⁴⁶

For example, if a student borrowed \$10,000 as a freshman using a private student loan at 10% interest, capitalized monthly, with no fees and with equal disbursements in September and January, the projected debt at graduation would be \$49,535, consisting of \$40,000 in principal (four years at \$10,000 each) and \$9,535 in capitalized interest. The monthly loan payment under a 10-year repayment term would be \$655.

The debt information should be accompanied by advice to minimize debt, such as "Your debt at graduation should be less than your expected starting salary and ideally a lot less. Live like a student while you are in school so you don't have to live like a student after you graduate." If the projected debt at graduation exceeds a benchmark, such as \$45,000 for a Bachelor's degree and \$25,000 for an Associate's degree (or the average starting salaries for students majoring in the same field of study), the projected debt should be red flagged and the family encouraged to consult with the financial aid office for counseling about the amount of debt they are accumulating.

See related recommendation #90, which can add a bit of a counterweight to the requirement to provide an estimate of projected indebtedness.

STANDARDS FOR GIFT AID ON FINANCIAL AID AWARD LETTERS

Gift aid includes grants, scholarships, tuition waivers, free housing and other funding that does not need to be repaid.

Prospective students and their families are often concerned about whether the grants listed on the financial aid award letter will continue in subsequent years, assuming similar financial circumstances.

Some colleges practice front-loading of grants for sound public policy reasons, such as ensuring that students who drop out are not burdened by excessive debt. Other colleges practice front-loading of grants

⁴⁶ See also Mark Kantrowitz, *Improving Borrower Satisfaction and Compliance by Adopting a Better Communication Strategy*, December 23, 2010. www.finaid.org/educators/20101223lendercommunications.pdf

for competitive reasons, since front-loading of grants reduces a student's out-of-pocket costs at the college during the first year, making the college appear to be less expensive than its peer institutions. Other colleges practice front-loading of grants because federal student loan limits are lower during the first two years.

Required (#88): The financial aid award letter should disclose if the college practices front-loading of grants and how the college's grants may differ in subsequent years.

Students who win private scholarships are often concerned about how their need-based financial aid package will change. They worry that the college will use the outside scholarships to fully replace the college's grants, yielding no net financial benefit to the student. Scholarship providers are also concerned about college outside scholarship policies, since they invest in individual students, not institutions. They need to justify to their boards that the scholarship funds are yielding an improvement in outcomes for the recipients. But if a college fully displaces the outside scholarship, there may be no change in outcomes. Many scholarship providers want their funds to eliminate or reduce a student's loan and work burden.

Required (#89): Financial aid award letters should clearly and succinctly indicate the college's policies concerning the treatment of outside scholarships.⁴⁷ The most important question this policy summary should answer is how much of the outside scholarship will reduce the loan and work burden and how much will result in a reduction in gift aid and unmet need. This has a potential impact on the calculation of the out-of-pocket cost.

Recommended (#90): Financial aid award letters should present a projection of cumulative gift aid that the student will receive through graduation. This projection could be based on historical data, or it could assume that the family's financial circumstances and the college's financial aid policies will remain unchanged. The projection should be accompanied by a disclaimer that the figure is an estimate, not a commitment, and is not guaranteed. Ideally this projection should appear in close proximity to the cumulative debt figure from requirement #87.

STANDARDS FOR WORK-STUDY AWARDS ON FINANCIAL AID AWARD LETTERS

Students often complain about being unable to work the full number of hours awarded to them and about a lack of availability of desirable work-study jobs or other student employment.

Recommended (#91): The financial aid award letter should include a statement that work-study funds are not available until and unless earned by the student and that the payments are made as the funds are earned. The frequency of payments should also be disclosed on the financial aid award letter.

Recommended (#92): Financial aid award letters should indicate how many hours of work per week will be required to earn the full amount of the work-study award.

Required (#93): If the college has a minimum wage for work-study jobs, this should be noted on the letter. (Note that work-study jobs are subject to the federal minimum wage, currently \$7.25

⁴⁷ Such a policy is often referred to as an *outside scholarship policy*. Scholarship providers often refer to the reduction in need-based aid as *displacement*.

per hour. Nothing prevents a college from paying students a greater hourly wage.) Otherwise the letter should provide information about the average wage rate and/or the typical range of wage rates for jobs available on campus.

Required (#94): Often students have difficulty earning the full amount of their work-study award and this should be disclosed in the financial aid award letter to enable families to plan better for college costs. The financial aid award letter should also provide information on the likelihood of obtaining a work-study job if there are fewer jobs than interested and eligible students.

Required (#95): Work-study awards should be clearly identified as optional, as one of several options for paying for the out-of-pocket costs. Work-study should be considered a form of self help and not a form of gift aid. Work-study should be listed after the out-of-pocket cost calculation and not with the gift aid that is listed before the out-of-pocket cost calculation. Work-study should be listed before loans on the financial aid award letter.

Required (#96): If the college's financial aid policies assume a minimum amount of student employment during the academic year and/or summer, this should be disclosed on the financial aid award letter, including the amount of expected earnings.

Recommended (#97): Since low-income students often express dissatisfaction with their work-study job assignments, the financial aid award letter should clearly indicate that the particular assignment is not mandatory and that students may seek other employment opportunities on campus. The financial aid award letter should include contact information or instructions for how the student may apply for other student employment opportunities.

RECOMMENDATIONS FOR NATIONAL PROFESSIONAL ASSOCIATIONS

As noted earlier in this report, the American Association of Collegiate Registrars and Admissions Officers (AACRAO) and the National Association for College Admission Counseling (NACAC) include requirements that financial aid information be accurate as part of their best practices, while the National Association of Student Financial Aid Administrators (NASFAA) does not. In addition, AACRAO requires cost information to be accurate, while NACAC and NASFAA do not.

NACAC should consider adding a requirement that cost information be accurate to its *Statement of Principles of Good Practice*.

NASFAA should consider adding a requirement concerning the accuracy of financial aid and cost information to its *Statement of Ethical Principles*.

Such statements of best practices tend to be minimal in nature without any specifics. All three organizations should consider whether to adopt detailed standards concerning financial aid award letters.

ADDITIONAL RECOMMENDATIONS REGARDING NET PRICE CALCULATORS

Requirements concerning net price calculators are discussed elsewhere in this proposal, alongside similar requirements for financial aid award letters.

Families must currently search for the net price calculator on each college's web site and enter the data elements manually. It would be ideal if there were a central repository of links to each college's net price calculator. (The US Department of Education could facilitate this by requiring every college to provide the US Department of Education with the link to its calculator.) The user interfaces of the various net price calculators should be standardized as much as possible, using the same variable names for the same data elements. Even better, there should be a single interface that could be used to run net price calculations for multiple colleges simultaneously.

Another concern is that net price calculators are most likely to be used in the fall, when students are deciding where to apply for admission. But colleges tend to set tuition rates in the spring, meaning that the net price calculator will report a net price based either on the current year's costs or on a projection of costs during the next academic year. These results are likely to differ somewhat from the actual cost to the family. This raises questions concerning the potential accuracy of the net price calculators, a topic that is worth further study.

There is a tradeoff between accuracy and simplicity in net price calculators, especially concerning institutional merit-based aid, due to the complexity of the eligibility criteria for the college's merit-based aid and the college's packaging philosophy. Rather than have net price calculators that are as complicated as financial aid application forms, colleges may wish to produce a best estimate of the net price as opposed to getting the results exactly right. This may involve establishing a tolerance on the accuracy of the net price calculator results. Families will be upset if the financial aid award letter differs considerably from the figures reported by the net price calculator, but not if the differences are small.

RECOMMENDATIONS CONCERNING SCHOLAR SNAPP

The Michael and Susan Dell Foundation has developed an XML scholarship application data standard called Scholar Snapp in conjunction with the National Scholarship Providers Association (NSPA).⁴⁸ Scholar Snapp is an open data standard that can be easily adapted to financial aid award letters and net price calculators.

Developers of net price calculators should consider adopting the XML scholarship application data standard, available at www.scholarsnapp.org. This will make it easier for families to prefill the net price calculator with their financial and non-financial data, instead of having to retype it in each college's online calculator.

Colleges that provide online financial aid award letters should consider allowing families to export the financial aid award letter in a standard file format such as the XML scholarship application data standard. This will enable families to upload the data into financial aid award letter comparison tools. Scholarship

⁴⁸ The author of this report is a member of the board of directors of the National Scholarship Providers Association and served on the working group that developed the Scholar Snapp standard.

sponsors who provide last dollar awards would be able to upload the financial aid award letter data into their award management tools to facilitate calculation of award amounts.

STANDARDS FOR A FINANCIAL AID GLOSSARY

Financial aid involves its own language and an alphabet soup of acronyms, which can make a financial aid award letter difficult to interpret. The use of jargon and acronyms should be minimized, but some amount of technical terminology is unavoidable. To address the potential for confusion, the financial aid award letter should be accompanied by a glossary of basic financial aid terminology.

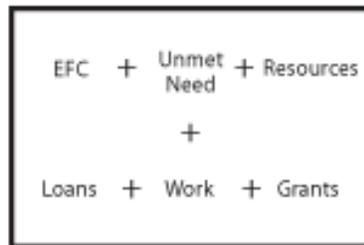
Recommended (#98): Financial aid award letters should include a short guide to understanding the financial aid award letter. This guide should include a glossary of commonly used terminology, such as the following:

- adjusted gross income (AGI)
- adjustment
- alternative student loan
- appeal
- APR
- board
- cancellation
- capitalization of interest
- consolidation loan
- co-signer
- cost of attendance (COA)
- default
- deferment
- Department of Homeland Security (DHS)
- dependent student
- Direct Loan
- discharge
- Education tax benefit
- Electronic Funds Transfer (EFT)
- entrance counseling
- exit counseling
- expected family contribution (EFC)
- Family Educational Rights and Privacy Act (FERPA)
- federal loan
- federal methodology (FM)
- Federal Work-Study (FWS)
- fees
- financial aid
- financial aid eligibility
- financial aid package
- financial need
- first dollar
- forbearance
- half-time enrollment
- housing
- Immigration and Naturalization Service (INS)
- independent student
- institutional methodology (IM)
- interest
- last dollar
- loan
- Master Promissory Note (MPN)
- merit-based
- need-based
- need analysis
- net cost
- net price
- out-of-pocket cost
- payment plan
- Pell Grant
- Perkins Loan
- PLUS Loan
- private student loan
- professional judgment (PJ)
- promissory note
- room and board
- Satisfactory Academic Progress (SAP)
- scholarship
- Selective Service
- self help
- Stafford Loan
- Supplemental Educational Opportunity Grant (SEOG)
- sticker price
- sticker shock
- Student Aid Report (SAR)

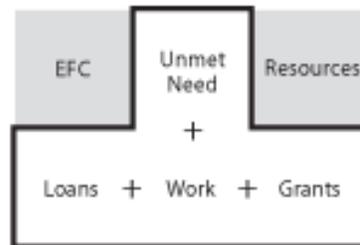
- forgiveness
- full-time enrollment
- Free Application for Federal Student Aid (FAFSA)
- gift aid
- grade point average (GPA)
- grace period
- grant
- subsidized loan
- tax credit
- tuition
- tuition installment plan
- unmet need
- unsubsidized loan
- verification
- withdrawal

The following “polyominoes” chart from page 218 of *Fastweb College Gold: The Step-by-Step Guide to Paying for College* (Harper Collins, 2006) visually illustrates the differences between some of the more important financial aid terms.

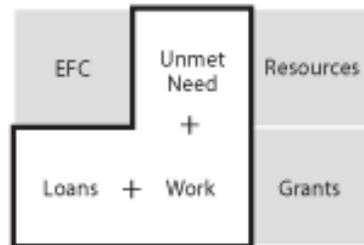
Cost of Attendance (COA)



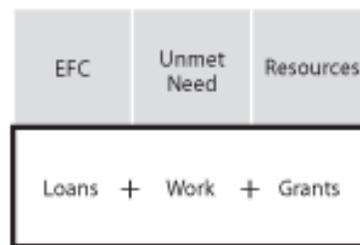
Financial Need



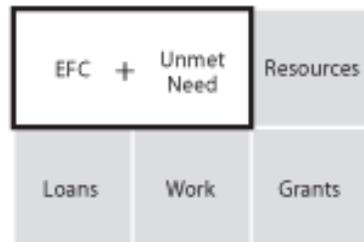
Self Help Level



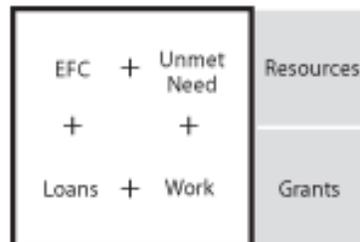
Financial Aid



Net Cost



Out of Pocket Cost



APPENDIX: SECTION 472 OF THE HIGHER EDUCATION ACT OF 1965

The term *cost of attendance* is defined by section 472 of the Higher Education Act of 1965 as amended [20 USC 1087I]:⁴⁹

For the purpose of this subchapter and part C of subchapter I of chapter 34 of title 42, the term "cost of attendance" means -

- (1) tuition and fees normally assessed a student carrying the same academic workload as determined by the institution, and including costs for rental or purchase of any equipment, materials, or supplies required of all students in the same course of study;
- (2) an allowance for books, supplies, transportation, and miscellaneous personal expenses, including a reasonable allowance for the documented rental or purchase of a personal computer, for a student attending the institution on at least a half-time basis, as determined by the institution;
- (3) an allowance (as determined by the institution) for room and board costs incurred by the student which -
 - (A) shall be an allowance determined by the institution for a student without dependents residing at home with parents;
 - (B) for students without dependents residing in institutionally owned or operated housing, shall be a standard allowance determined by the institution based on the amount normally assessed most of its residents for room and board; and
 - (C) for all other students shall be an allowance based on the expenses reasonably incurred by such students for room and board;
- (4) for less than half-time students (as determined by the institution), tuition and fees and an allowance for only -
 - (A) books, supplies, and transportation (as determined by the institution);
 - (B) dependent care expenses (determined in accordance with paragraph (8)); and
 - (C) room and board costs (determined in accordance with paragraph (3)), except that a student may receive an allowance for such costs under this subparagraph for not more than 3 semesters or the equivalent, of which not more than 2 semesters or the equivalent may be consecutive;
- (5) for a student engaged in a program of study by correspondence, only tuition and fees and, if required, books and supplies, travel, and room and board costs incurred specifically in fulfilling a required period of residential training;
- (6) for incarcerated students only tuition and fees and, if required, books and supplies;
- (7) for a student enrolled in an academic program in a program of study abroad approved for credit by the student's home institution,

⁴⁹ This text reflects all amendments through and including the Higher Education Opportunity Act of 2008 (P.L. 110-315), effective July 1, 2010.

- reasonable costs associated with such study (as determined by the institution at which such student is enrolled);
- (8) for a student with one or more dependents, an allowance based on the estimated actual expenses incurred for such dependent care, based on the number and age of such dependents, except that -
 - (A) such allowance shall not exceed the reasonable cost in the community in which such student resides for the kind of care provided; and
 - (B) the period for which dependent care is required includes, but is not limited to, class-time, study-time, field work, internships, and commuting time;
 - (9) for a student with a disability, an allowance (as determined by the institution) for those expenses related to the student's disability, including special services, personal assistance, transportation, equipment, and supplies that are reasonably incurred and not provided for by other assisting agencies;
 - (10) for a student receiving all or part of the student's instruction by means of telecommunications technology, no distinction shall be made with respect to the mode of instruction in determining costs;
 - (11) for a student engaged in a work experience under a cooperative education program, an allowance for reasonable costs associated with such employment (as determined by the institution);
 - (12) for a student who receives a loan under this or any other Federal law, or, at the option of the institution, a conventional student loan incurred by the student to cover a student's cost of attendance at the institution, an allowance for the actual cost of any loan fee, origination fee, or insurance premium charged to such student or such parent on such loan, or the average cost of any such fee or premium charged by the Secretary, lender, or guaranty agency making or insuring such loan, as the case may be; and
 - (13) at the option of the institution, for a student in a program requiring professional licensure or certification, the one-time cost of obtaining the first professional credentials (as determined by the institution).

MODEL FINANCIAL AID AWARD LETTER (FIRST PAGE)



College of Blue Belle

PO Box 2056

Cranberry Twp, PA 16066

Enrollment Status: Full-Time
 Housing Status: On Campus
 Period: Academic Year 2011-12
 Today's Date: 3/17/2011

1-724-538-4500

1-724-538-4502 fax

www.peterbaldcattery.com

Cost of Attendance	\$23,450
Total Gift Aid	- \$13,300
Out-of-Pocket Cost	\$10,150

Gift Aid/Cost Ratio 57%
 Gift Aid/Need Ratio 57%

Cost of Attendance	\$23,450
Federal EFC	\$0
Financial Need	\$23,450

Cost of Attendance	Fall Term	Spring Term	Full Year Total	Average Annual Increase
Required Expenses				
Tuition and Required Fees	\$5,000.00	\$5,000.00	\$10,000.00	5.6%
Room and Board	\$4,225.00	\$4,225.00	\$8,450.00	6.0%
Books and Supplies (Average)	\$500.00	\$500.00	\$1,000.00	6.9%
Subtotal Required Expenses	\$9,725.00	\$9,725.00	\$19,450.00	5.8%
Discretionary Expenses				
Travel and Transportation (Estimate)	\$750.00	\$750.00	\$1,500.00	3.2%
Health Insurance	\$500.00	\$500.00	\$1,000.00	13.1%
Miscellaneous / Personal (Estimate)	\$750.00	\$750.00	\$1,500.00	2.1%
Subtotal Discretionary Expenses	\$2,000.00	\$2,000.00	\$4,000.00	5.1%
TOTAL COST OF ATTENDANCE	\$11,725.00	\$11,725.00	\$23,450.00	5.5%

Gift Aid (Grants and Scholarships)	Source	Fall Term	Spring Term	Full Year Total	Average Annual Increase
Federal Pell Grant	Federal	\$2,775.00	\$2,775.00	\$5,550.00	0.8%
State Grant	State	\$125.00	\$125.00	\$250.00	-1.0%
University Merit Scholarship	College	\$2,500.00	\$2,500.00	\$5,000.00	0.0%
Private Scholarship	Private	\$1,250.00	\$1,250.00	\$2,500.00	0.0%
TOTAL GIFT AID		\$6,650.00	\$6,650.00	\$13,300.00	0.3%

OUT-OF-POCKET COST **\$5,075.00** **\$5,075.00** **\$10,150.00**

Options for Paying for Out-of-Pocket Cost	Rate	Fees	Duration	Full Year Total/Limit	Monthly Payment	Total Payments
Student Employment			10 hours/week			
Federal Work-Study	\$8.50/hour		for 30 weeks	\$2,550.00		
Payment Plans						
Tuition Installment Plan	\$1,128/month	\$100	9 months	\$10,250.00		
Education Loans (Need-Based)						
Perkins Loan	5.0%	0%	10 years	\$2,100.00	\$40.00	\$2,374.81
Subsidized Stafford Loan	3.4%	1%	10 years	\$5,500.00	\$55.17	\$6,620.94
Education Loans (Non-Need)						
Unsubsidized Stafford Loan	6.8%	1%	10 years	\$5,500.00	\$64.51	\$7,742.01
Parent PLUS Loan	7.9%	4%	10 years	\$10,150.00	\$127.72	\$15,326.52
Private Student Loan	10.0%	3%	15 years	\$10,150.00	\$112.45	\$20,239.26