

Survey Concerning the Standardization of Financial Aid Award Letters

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EXECUTIVE SUMMARY

Fastweb conducted a financial aid award letter survey from November 15, 2010 to December 2, 2010 to explore the need for standardization of financial aid award letters. College freshmen and sophomores and their parents were asked about the financial aid award letters they had received when they applied for college admission.

The survey results included the following key findings:

- Almost two-thirds of respondents said that the cost of attendance and financial aid information provided in and/or with the financial aid award letter was clear and easy to understand. But more than half of respondents said that it was difficult to compare the financial aid award letters of different colleges.
- Almost seven-eighths of the students and parents said that financial aid award letters should be standardized to make them easier to understand and to compare.
- Almost a third 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 included a detailed breakdown of the cost of attendance, a breakdown that was in most cases provided only partial information.
- Almost three-quarters of respondents said that the dollar amount estimates for transportation were not realistic.
- Nearly two-thirds of respondents said that the dollar amounts listed for books and supplies were not realistic.
- Almost half of financial aid award letters mentioned the student's financial need, but only about a quarter compared the financial aid package with the student's financial need or reported the amount of unmet need.
- More than a fifth of colleges used the Parent PLUS loan – a more expensive, non-need-based loan – to satisfy financial need.

- More than three-fifths 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 or an out-of-pocket cost figure. Net cost is the difference between the cost of attendance and all need-based aid. Out-of-pocket cost is the difference between the cost of attendance and just grants and scholarships.

RECOMMENDATIONS

The US Department of Education must develop a standardized financial aid award letter, as mandated by section 484 of the Higher Education Opportunity Act of 2008 (HEOA, P.L. 110-315, August 14, 2008). Congress should consider requiring all colleges and universities to use this standardized form.

The HEOA required 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 required 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 HEOA also required the US Department of Education to make the recommendations and standardized financial aid offer form widely available. None of this has occurred more than two years after enactment of the HEOA.

Besides convening focus groups to help design the standardized financial aid award letter, the US Department of Education should consider relying on user testing to evaluate aspects of the design of the standardized financial aid award letter. It would also be worthwhile for the US Department of Education to collect and analyze actual financial aid award letters from every US college and university.

Ideally, a standardized financial aid award letter should satisfy the following minimum requirements:

- The standardized financial aid award letter must include accurate information about the student’s cost of attendance at the college, including a detailed breakdown of the cost of attendance into the various major components listed in section 472 of the Higher Education Act of 1965, including separate figures for tuition and fees, room and board, books and supplies, transportation and personal expenses.
- The standardized financial aid award letter must also include information about all forms of financial aid, clearly distinguishing each major type of need-based financial aid (e.g., grants, scholarships, work-study, student employment, loans) and clearly distinguishing need-based loans from non-need-based loans.
- The standardized financial aid award letter must disclose the interest rates, loan term in years, monthly payments, total payments and total interest for each loan included in the financial aid award letter, providing an abstract of the most important information that is currently required of education lenders by the Truth in Lending Act.

- The standardized financial aid award letter must clearly and conspicuously display the student's expected family contribution (EFC), financial need¹ and out-of-pocket cost.² The financial aid award letter must also indicate the amount of unmet need.³ This will make it easier for students and their families to compare financial aid award letters from different colleges and to make informed decisions about college costs and education debt. This information should be boxed and positioned in a standard location on the first page of the financial aid award letter and in a standard font size to enable side-by-side comparisons of financial aid award letters.
- There must also be a clear standardized definition of the difference between need-based loans and non-need-based loans, as the current distinctions are often not meaningful. Some institutional and state education loans are awarded based on financial need but are more expensive than non-need-based loans such as the Federal unsubsidized Stafford loan.⁴

METHODOLOGY

Fastweb conducted a financial aid award letter survey from November 15, 2010 to December 2, 2010 to explore the need for standardization of financial aid award letters. The survey was included in newsletters to 391,892 college freshmen and sophomores and to 187,669 parents of college freshmen and sophomores. The survey was not incentivized and had a typical response rate for a survey that was not incentivized.

There were a total of 187 responses by the cutoff date, yielding a confidence interval of +/- 7.17% at the 95% confidence level. Of the responses, 103 were students and 84 were parents.

Of the colleges that accepted the students, only about three quarters (72%) provided the student with a financial aid award letter. Almost all of the respondents (94%) received at least one award letter and completed the rest of the survey about one of their award letters.

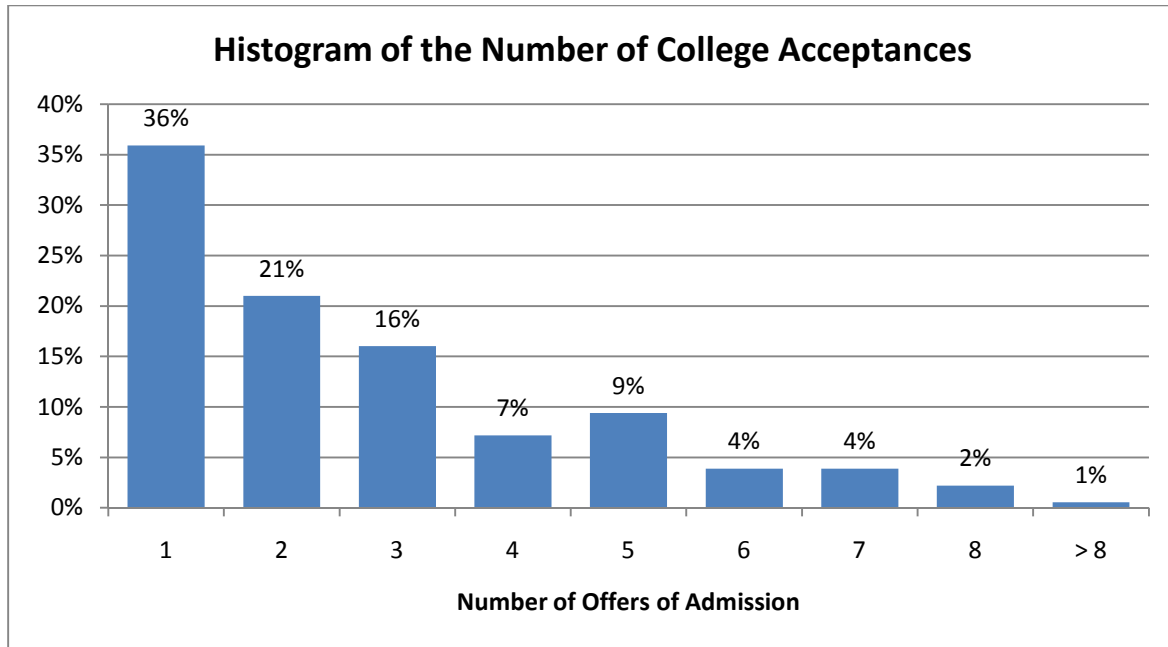
The average admissions rate was 2.7 colleges per student. The distribution of the number of college acceptances per student is illustrated in the following chart.

¹ Financial need should be defined as the difference between the cost of attendance and the federal expected family contribution (EFC). This differs from the definition in section 471 of the Higher Education Act of 1965, which is focused on the student's need for Title IV federal student aid as opposed to student aid in general.

² Out-of-pocket cost is more meaningful than net cost because it more closely corresponds to total education debt. Given a public policy goal of minimizing education debt, it is important that the standardized financial aid award letter be designed in a way that helps families understand the true bottom line cost of college and the amount they will need to borrow to pay for that education.

³ Unmet need should be defined as the difference between the financial need and the need-based financial aid, assuming a standardized definition of need-based financial aid.

⁴ One approach would involve calculating the discount rate at which the net present value of all payments on the loan equals the disbursements, including consideration of the in-school and grace periods in the computation. For a loan to be considered need-based, the discount rate would have to be 5% or less. This should distinguish the Perkins and subsidized Stafford loans from the unsubsidized Stafford loan, PLUS loan and most institutional, state and private student loans.



COST OF ATTENDANCE

More than two thirds (71%) of the award letters mentioned the college's cost of attendance, but almost a third (29%) did not.

Only 42% of the respondents said that the financial aid award letter included a detailed breakdown of the cost of attendance information.⁵ Almost all (99%) said that the cost of attendance information included tuition and fees. Two-thirds said that it included room and board (64%) and books and supplies (63%). Slightly more than a third said that it included transportation (36%) and personal expenses (37%). Only 8% reported that it included the cost of a personal computer. Underreporting the cost of attendance leads to lower than actual net and out-of-pocket cost figures, making it more difficult for families to compare college costs or choose a college they can afford.

But even when a college provided information about cost components other than tuition, fees, room and board, those costs were not necessarily realistic. Almost three-quarters (73%) said that the dollar amount estimates for transportation were not realistic, and nearly two-thirds (62%) said that the dollar amounts listed for books and supplies were not realistic. Some colleges underreport actual transportation and textbook costs, making the college's cost of attendance seem lower than the costs of its peer institutions.

Most financial aid award letters do not include details concerning the fees. Nearly two-thirds (62%) of respondents said that the cost of attendance did not include a detailed breakdown of the fees. Of the detailed fees that were listed, more than a third of respondents (36%) reported seeing a student activity fee (sometimes called a student center fee or student life fee). A third (34%) reported a technology fee, a quarter (23%) reported student health insurance, a fifth (18%) reported an athletic fee, a sixth (16%)

⁵ The survey did not evaluate whether the financial aid award letters that reported a cost of attendance figure without a detailed breakdown were reporting the full cost of attendance or a subset, such as just tuition and fees.

reported a health service or health clinic fee, a sixth (15%) reported a student body fee and a sixth (15%) reported a comprehensive fee.

FINANCIAL NEED

Three-fifths (60%) of respondents said that the financial aid award letter included their EFC and almost half (49%) reported that the financial aid award letter included their financial need. But only about a quarter (28%) said that the letter compared the financial aid package with the student's financial need.

FINANCIAL AID

Almost four-fifths (79%) of respondents said that the financial aid award letter distinguished between grants, scholarships, work-study, student employment and loans. Nearly three-quarters (71%) said that the letter distinguished between need-based loans (e.g., the subsidized Federal Perkins loan and subsidized Federal Stafford loan) and non-need-based loans (e.g., the unsubsidized Federal Stafford loan, the Federal PLUS loan and private student loans).

Some colleges mention the unsubsidized Stafford and PLUS loans on the award letter to help make families aware of them, even though these loans are not part of the need-based financial aid package. Almost three-fifths (58%) of respondents said that the letter included information about unsubsidized Stafford loans and more than two-fifths (41%) said that the letter included information about Parent PLUS loans.

Some colleges use non-need-based loans to mask gapping, when the need-based financial aid package falls short of the full demonstrated financial need. More than a fifth (21%) of respondents said that the Parent PLUS loan was used by the college to satisfy financial need.

Most colleges did not include basic information about loan terms with the financial aid award letter. More than three-fifths (61%) of respondents said that the financial aid award letter did not include any basic information about the loans, such as interest rates, loan terms and estimated payments. Less than a third (29%) said that the letter included information about interest rates and about a fifth (21%) said that the letter mentioned the loan term in years. Only 14% said that the letter included the total of all loan payments, 13% the monthly loan payment and 12% the total interest paid over the life of the loan.

About one-sixth (16%) of the respondents said that the financial aid award letter included information about specific lenders in connection with private student loan programs.

NET COST AND OUT-OF-POCKET COST

Almost three-quarters (72%) of respondents said that there was a gap (unmet need) between the financial aid package and the student's demonstrated financial need. But only about a quarter (27%) of the financial aid award letters mentioned the amount of unmet financial need. The average unmet need was \$8,000, based on data provided by the students and parents.⁶

⁶ Although unmet need was clearly defined in the survey, it is possible that some respondents reported a net cost or out-of-pocket cost instead of unmet need.

Less than half (45%) of the financial aid award letters mentioned the net cost (the difference between the cost of attendance and all need-based aid). Slightly more than a third (36%) of the financial aid award letters mentioned the out-of-pocket cost (the difference between the cost of attendance and just grants and scholarships). All of the financial aid award letters that mentioned the out-of-pocket cost also mentioned the net cost, meaning that more than half of the financial aid award letters did not mention either a net cost or out-of-pocket cost figure.

CLEAR AND EASY TO UNDERSTAND

Almost two-thirds of respondents (63%) said that the cost of attendance information on the financial aid award letter was clear and easy to understand. Similarly, almost two-thirds (65%) said that the financial aid information provided in and/or with the financial aid award letter was clear and easy to understand.

EASE OF COMPARISON

More than half (51%) of respondents said that it was difficult to compare the financial aid award letters of different colleges. More parents than students said that it was difficult to compare financial aid award letters, 60% vs. 44%, a statistically significant difference. Almost seven-eighths (84%) of respondents said that financial aid award letters should be standardized to make them easier to understand and to compare, with close agreement between students (86%) and parents (83%).

OTHER DIFFERENCES BETWEEN STUDENTS AND PARENTS

Generally, student and parent responses were in close agreement. There were only a few statistically significant differences. More than three-quarters (77%) of parents said that the financial aid award letter lacked details concerning the cost of loans, compared with almost half (48%) of students. Almost a third (31%) of parents said that the financial aid award letter mentioned a net cost figure, compared with more than half (55%) of students. Similarly, almost a quarter (24%) of parents said that the financial aid award letter mentioned an out-of-pocket cost figure, compared with almost half (46%) of students. More than a third (37%) of students said that the financial aid award letter compared the financial aid package with financial need, compared with about a sixth (17%) of parents. On the other hand, almost a third (31%) of parents said that the Parent PLUS loan was used to meet the student's financial need, compared with 13% of students. Similarly, almost half of parents (47%) said that the financial aid award letter mentioned the Parent PLUS loan, compared with more than a third (36%) of students. Fewer parents said that the financial aid award letter distinguished need-based loans from non-need-based loans, with a third (65%) of parents saying that the letter distinguished the two types of loans compared with three-quarters (76%) of students. Finally, the parents were much more likely to say that the financial aid award letter included room and board figures with three-quarters (74%) of parents and more than half (58%) of students. The remaining differences in the responses were not statistically significant.