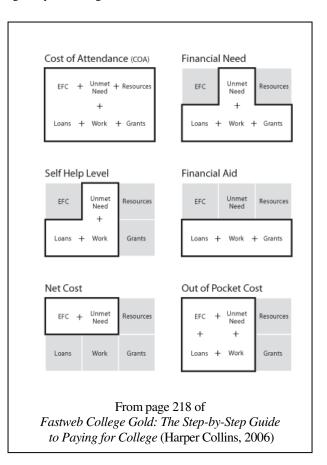


Mark Kantrowitz Publisher of Fastweb and FinAid

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

Findings:

- In a December 2010 survey conducted by Fastweb, 84% of 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%) said that it was difficult to compare financial aid award letters of different colleges.
- Cost information in current financial aid award letters is often incomplete or absent. Even when a financial aid
 award letter includes some cost-of-attendance information, the cost information may be limited to just tuition or
 fail to provide a detailed breakdown. It is often unclear what costs are included in the cost of attendance and what
 costs are not. Variable costs that are under a family's control, such as textbook costs, travel and transportation
 costs, personal expenses and off-campus housing costs, are often significantly underestimated.
- Families sometimes misinterpret the expected family contribution (EFC) as a limit on their portion of college costs. Actual costs are often higher due to unmet need and the inclusion of loans in the financial aid package.
- Many financial aid award letters lack a clear distinction between loans (which must be repaid) and gift aid (which
 does not need to be repaid). Many financial aid award letters use cryptic acronyms and abbreviations for loans and
 grants. Many financial aid award letters treat loans as though they cut college costs.
- Loans often mask the existence of unmet need. While
 practices such as packaging PLUS may have valid
 public policy justifications (e.g., to increase awareness
 of lower-cost federal education loans), a lack of clarity
 concerning the nature of the loan sometimes confuses
 families into believing that the PLUS loan is a grant.
- The most important information about loans, such as interest rates, monthly payments and total payments, is omitted.
- Very few financial aid award letters report a true bottom line out-of-pocket cost based on the difference between the total cost of attendance and just gift aid. The out-of-pocket cost is the amount of money the family must pay or borrow to enroll at the college.
- These problems contribute to confusion about affordability and the real cost of college, ultimately leading to some students dropping out of college or graduating with excessive debt.
- Net price calculators are often used in the fall, before colleges have set the tuition rates and student aid budget for the next year. This limits the accuracy and usefulness of net price calculators in estimating the actual cost to the family. Basing aid on prior-prior year need analysis might address this limitation.



March 17, 2011 2

Recommendations:

Better information about college costs, financial aid and bottom-line costs will help families make informed decisions about affordability. Accordingly, it is important that clear, accurate and complete information be made available to families at key decision points, such as (1) during the initial selection of colleges before the student applies for admission and (2) the final choice of a college after the student is accepted by the colleges. Providing families with this information will influence their behavior, as has been demonstrated by the addition of graduation rates to the FAFSA and College Navigator web sites.

The most important aspects of a standard for financial aid award letters and net price calculators should be mandatory, as existing voluntary best practices have not adequately addressed the needs of students and their families. Voluntary standards for financial aid award letters have existed for more than a decade without much of a change in actual practices. The problems persist unabated and are likely to get worse as college budgets get squeezed. Some of the proposed standards should be mandatory because of fundamental conflicts between a college's pecuniary interests and the best interests of students and their families. Some of the proposed standards should be mandatory because they conflict with long-standing marketing practices within the financial aid community. Universal adoption is also essential to helping families compare financial aid award letters from different colleges.

The following discussion highlights some of the most important of the proposed mandatory standards from the full 37-page report, which proposes 39 optional and 59 mandatory standards for financial aid award letters.

General Standards

- Cost and financial aid information on financial aid award letters should be clear, accurate and complete.
- Financial aid award letters should permit a meaningful and consistent apples-to-apples comparison of costs among different colleges, to allow families to make prudent and informed decisions about affordability.
- Financial aid award letters should provide clarity concerning the bottom-line cost of education.
 - The financial aid award letter should emphasize the out-of-pocket cost, which is defined as the difference between the total cost of attendance and total gift aid. The financial aid award letter should calculate the out-of-pocket cost for the family, instead of or in addition to providing a worksheet.
 - The financial aid award letter must *not* report the net cost, which is defined as the difference between the
 total cost of attendance and the financial aid package. Net cost is a marketing concept that is misleading
 and misrepresents the family's true costs.
- The financial aid award letter should include information about policies that can affect the calculation of the outof-pocket cost, such as the college's policies concerning the displacement of outside scholarships and whether the college practices the front-loading of grants.
- Financial aid award letters should place the most important information in a standard location and format, such as
 the upper right hand corner of the first page of the financial aid award letter. This information includes the total
 cost of attendance, expected family contribution (EFC), demonstrated financial need, total gift aid and out-ofpocket cost.
- Net price calculators should use the same standards as financial aid award letters as much as possible. The content and form of the results of a net price calculator should match and be predictive of the final financial aid award letter as much as possible to help families make informed decisions concerning college selection and choice.

March 17, 2011 3

Cost of Attendance

• The financial aid award letter should include a breakdown of the total cost of attendance into direct (required) and indirect (discretionary) costs, including a detailed breakdown of these subtotals. The direct cost of attendance should include tuition and required fees, room and board, and textbooks and supplies. The indirect cost of attendance should include travel and transportation, miscellaneous personal expenses, student health insurance, the cost of a computer and dependent care costs. These details should all be displayed prominently on the first page of the financial aid award letter.

- The financial aid award letter should provide the average annual percentage and/or dollar increase for each cost component and each type of award based on the average increase during the last three years (i.e., spanning four calendar years).
- Figures for various cost components, such as textbooks and housing, should be realistic and based on actual average costs for similarly situated students along with a range from the 25th to the 75th percentile. Estimates for allowances should be updated at least once a year.
- The financial aid award letter should emphasize that costs are for just one year and not for the entire cost of the educational program.

Financial Aid Awards

- Financial aid award letters should provide clarity concerning the types and amounts of financial aid. All financial
 aid awards should be clearly identified according to type of award, such as grant, scholarship, student
 employment, loan and installment plan.
- Financial aid award letters should organize the awards according to type of award, with gift aid appearing first and
 more burdensome award types like loans listed last. Awards of the same type should be grouped together on the
 financial aid award letter with a subtotal for each type of award. Gift aid should appear before the calculation of
 the out-of-pocket cost. The other award types, including self-help aid, should appear after the out-of-pocket cost
 and be identified as options for paying the out-of-pocket cost.
- Awards should be identified using standard names, not acronyms, abbreviations or other cryptic terms.

Loans

- Loans should be listed in order of cost per dollar borrowed, from least expensive to most expensive. Distinctions
 between need-based and non-need-based loans are irrelevant except insofar as the loans are more or less expensive
 than other types of loans.
- Loan listings should include information about interest rates, fees, loan term in years and loan amount in close proximity to the name of the award, preferably in tabular format to permit easy comparison. Loan information should include the monthly payments and total payments over the life of the loan assuming a 10-year repayment term.
- Financial aid award letters should include information about the student's previous cumulative education debt (including both principal and interest) and the corresponding monthly 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.

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

\$23,450
<u>- \$13,300</u>
\$10,150
57%
57%
\$23,450
<u>\$0</u>
\$23,450

Cost of Attendance	Fall Term	Spring Term	Full Year Total	Average Annual Increase
Required Expenses	iciiii	TCIIII	Total	merease
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%

					Average
		Fall	Spring	Full Year	Annual
Gift Aid (Grants and Scholarships)	Source	Term	Term	Total	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				Full Year	Monthly	Total
Out-of-Pocket Cost	Rate	Fees	Duration	Total/Limit	Payment	Payments
Student Employment		10 hours/week				
Federal Work-Study	\$8.50/hour	f	or 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