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Quick Reference Guide to Evaluating Financial Aid Award Letters

What is a Financial Aid Award Letter?

The financial aid award letter provides prospective and current college students with information about the student's college costs and the financial aid available to help the student pay for these costs. The award letter may also include details on the college's calculation of the student's demonstrated financial need. The letter will provide a determination of financial aid eligibility and, if the student is eligible for financial aid, a detailed breakdown of the financial aid package according to the type, amount and source of financial aid. The award letter may also include information about the terms and conditions for the financial aid.

Financial aid award letters for prospective students typically arrive with or soon after the offer of admission. (For most students this is late March or early April.) Financial aid award letters for continuing students may arrive later. Some financial aid award letters will be provided online, through a secure web site.

Some colleges require students to accept or reject each source of financial aid. Others do not. If you reject one form of financial aid, such as loans or student employment, they will not increase other types of financial aid to compensate.

Compare College Financial Aid Award Letters Based on the Bottom Line Cost

To compare financial aid award letters from different colleges, compare them based on the out-of-pocket cost.

The ***out-of-pocket cost*** is the difference between the total cost of attendance and the total gift aid (grants and scholarships). The cost of attendance includes tuition and required fees, room and board, books, supplies, transportation, personal expenses, dependent care and possibly student health insurance and the cost of a computer. Gift aid does not need to be repaid and includes grants, scholarships, tuition waivers and housing waivers. The out-of-pocket cost is the bottom line cost of college, the amount the family must pay, earn or borrow to cover college costs. The out-of-pocket cost is sometimes called the ***net price***. Since each college awards different amounts of gift aid, the out-of-pocket cost may vary from college to college.

This is in contrast with the ***net cost***, which is the difference between the cost of attendance and the need-based financial aid package. But the financial aid package includes loans, which have to be repaid (often with interest). This means the actual bottom line cost to the family will be higher than the net cost.

The net cost is a measure of cash flow requirements, not the bottom-line cost of college. The net cost will correspond to the expected family contribution (EFC) and will be similar at most colleges. If there are significant differences in net cost, it may be a sign of unusual circumstances that were taken into account at one college but not the others.

Thus, families should compare college financial aid award letters based on the out-of-pocket cost and not the net cost.

If the difference in out-of-pocket cost is less than $500, the difference is not significant enough to affect the choice of college. But if the difference is greater, especially it is more than $5,000, the family should consider the out-of-pocket cost along with other criteria when choosing a college. Higher out-of-pocket costs lead to a greater debt and work burden, potentially affecting college success and potentially increasing the chances of graduating with excessive debt. The amount of education debt has an impact on further education, career choices and lifestyle after graduation.

Tools for Comparing Financial Aid Award Letters

FinAid provides two free tools to help you decode and compare financial aid award letters.

Simple Award Letter Comparison Tool

The Simple Award Letter Comparison Tool compares the financial aid packages from three colleges, highlighting any significant differences. It also calculates the net cost and out-of-pocket cost figures, and estimates the lifetime cost of any education loans.

www.finaid.org/calculators/awardletter.phtml

Advanced Award Letter Comparison Tool

The Advanced Award Letter Comparison Tool is like the Simple Award Letter Comparison Tool, but includes non-financial criteria in addition to financial criteria for comparing colleges. The financial and non-financial differences are displayed visually in a matrix format.

www.finaid.org/calculators/awardletteradvanced.phtml

Problems and Pitfalls with Financial Aid Award Letters

No standard for financial aid award letters. There is no standard format for financial aid award letters, making them difficult to interpret and to compare and contrast.

Actual costs may be higher than the Expected Family Contribution (EFC). The EFC is not the price you pay. Financial aid packages usually include loans, which have to be repaid, and there may also be unmet need. Some colleges use two different EFCs, one for federal and state aid and another for the college's own funds. Often the price you pay is much higher than the expected family contribution. On the other hand, the amount you pay will probably be lower than the overall cost of attendance.

Inconsistent cost of attendance information. Colleges may use different definitions of the cost of attendance. Some colleges don't even include the cost of attendance on the award letter. Others report just direct costs, which are usually billed by the college, while some report both direct and indirect costs. You can find detailed cost information in the college's catalog or on its web site. Make sure you have current figures for each of the major costs, including tuition and required fees, room and board, textbooks, supplies, travel and transportation, personal expenses, a computer and, if relevant, student health insurance and dependent care (e.g., childcare or eldercare).

Cost of Attendance

- Direct Costs (Required)
  - Tuition and Required Fees
  - Room and Board
  - Textbooks and Supplies
- Indirect Costs (Discretionary)
  - Travel and Transportation
  - Personal Expenses
  - Computer
  - Student Health Insurance
  - Dependent Care

Cost allowances may be underestimates and unrealistic. There may be significant differences in the various cost allowances, such as textbooks, travel and transportation, personal expenses and off-campus housing. Some colleges will underestimate these figures to make their costs look less expensive, so make sure the costs are reasonable. You may wish to use the same estimate of textbook costs for all colleges, say $1,000 to $1,200 a year, to ensure that the costs are comparable. Transportation costs may vary based on distance of the college from the student's home, number of trips home per year and whether you reside on campus or commute. Make sure the transportation costs are reasonable. If you will be commuting, the transportation figures should be based on the round-trip distance from home to school, the IRS mileage rate, the number of days on campus and the cost of parking on campus. If you will be living on campus, assume the cost of four round-trip tickets home per year, one for fall break, one for winter break, one for spring break and one for summer break.

Discretionary costs are under your control. Some of the indirect costs are discretionary. You can control how much you spend on housing or textbooks. Living off campus with a roommate can reduce your housing costs. Buying only required textbooks, buying textbooks online, buying used textbooks (or older editions or re-imported international editions), renting textbooks, buying textbooks through a co-op, buying ebooks or reselling textbooks to the bookstore at the end of the semester can save you as much as half the cost of the textbooks. You can also borrow textbooks from the college library (or the preview copies from the faculty) or share textbooks with your roommate.

Online Sources of Textbooks

Alibris.com
Amazon.com
Barnes & Noble (bn.com)
Bigwords.com
BookRenter.com
CampusBooks.com
Chegg.com
CollegeBookRenter.com
Google (books.google.com)
Half.com
Overstock.com
Textbooks.com
ValoreBooks.com

Packaging of non-need-based loans. Some colleges include non-need-based loans such as the unsubsidized Stafford and PLUS loans on the financial aid award letter in order to increase awareness of lower-cost federal loans. Families are eligible for these loans at every college, regardless of financial need. You are under no obligation to accept the loans and can request a lower loan amount. (Refusing these loans, however, will not increase your grants.) Try to avoid borrowing the maximum allowable amounts if you don't need to, as every dollar you borrow will cost you about two dollars by the time you've repaid the debt. Live like a student while you are in school so you don't have to live like a student after you graduate.

Gapping. Some colleges do not provide enough financial aid to meet the full demonstrated financial need. This leaves the student with unmet need, also referred to as a gap. This is more likely at colleges with limited financial aid resources. Some colleges may try to mask the existence of a gap by including loans in the financial aid package, by increasing work expectations or by underestimating costs.

It may be difficult to determine the type of each award. Financial aid award letters sometimes use cryptic acronyms or abbreviations for awards or fail to identify the type of an award, making it difficult to distinguish loans (which have to be repaid) and student employment from gift aid such as grants and scholarships (which do not have to be repaid). Most financial aid award letters do not mention interest rates, fees, monthly payments and total payments next to the loan amounts. A loan might be identified as a "LN" or just by name. Typical loans include the Federal Perkins Loan, Federal Subsidized Stafford Loan, Federal Unsubsidized Stafford Loan, Federal PLUS Loan and private or alternative student loans. The Federal TEACH Grant is actually a forgivable loan. Federal Work-Study and College Work-Study are forms of student employment. Even when awards are identified as loans, it may be difficult to determine which are less expensive and which are more expensive in the long term.

Types of Financial Aid

- Gift Aid
  - Grants
  - Scholarships
  - Tuition Waivers
  - Housing Waivers
- Self-Help Aid
  - Student Employment
  - Student Loans
  - Installment/Payment Plans

Student employment is not guaranteed. Federal work-study funding is paid as it is earned. If students work fewer hours, they will not earn the full amount of their awards. It may also be difficult to find a desirable work-study job.

Front-loading of grants. Some colleges award more grants during the freshman year and fewer grants in subsequent years. The intention is partly to ensure that students who drop out have fewer loans to repay, since students who drop out are three times as likely to default as students who graduate. But it also makes the college seem more generous than it really is.

Financial aid award letters provide information for just one year. The financial aid award letter provides cost and financial aid information for just one year. The cost of attendance will probably increase every year, and may be 20% to 25% higher by the senior year in college. Cumulative debt at graduation will typically be about four to five times freshman year debt for Bachelor's degree recipients.

Questions to Ask College Financial Aid Administrators

The following questions can have a significant impact on college costs, especially the out-of-pocket cost, and on evaluating the financial aid award letter.

1. Does the college meet the full demonstrated financial need for all four years, or is there unmet need (a gap)?
2. How much on average do the college costs increase per year?
3. Does the college practice front-loading of grants? Can students expect to receive a similar amount of grants in subsequent years, assuming their financial circumstances are similar? If the college practices front-loading of grants, how much will the grants change each year?
4. What is the college's outside scholarship policy? How does the college reduce the need-based financial aid package when a student wins a private scholarship? Does the scholarship reduce the loan and work burden (and unmet need, if any) or does it replace the college's grants and scholarships?
5. What are the residency requirements for in-state public college tuition?
6. How many hours will I need to work to earn the full work-study award I've been offered? How much will I be paid per hour? Are work-study jobs readily available, or are they hard to get?
7. What are the requirements for keeping my grants and scholarships in future years? Do I need to maintain a minimum grade point average? Do I need to take a particular number of units? Do I need to participate in any special activities such as community service?
8. How does one appeal for more financial aid if the financial aid award is insufficient or the family's financial circumstances have changed?
9. What percentage of first-time, full-time students graduate within a normal timeframe? How many years, on average, does it take to earn the degree?
10. What percentage of students graduate with debt and what is the average cumulative debt at graduation?

Glossary of Terms

Adverse Credit History. To be eligible for a Federal PLUS loan, the borrower may not have an adverse credit history, which is defined as having a bankruptcy, foreclosure, repossession, tax lien, wage garnishment or default determination in the last five years or a current delinquency of 90 or more days.

Alternative Student Loan. See *Private Student Loan*.

Asset. An asset is property with a financial value, such as bank and brokerage accounts, cash, stocks, bonds, mutual funds, money market accounts, certificates of deposit, trusts, tax shelters, college savings plans (529 plans, prepaid tuition plans, Coverdell education savings accounts), real estate (house, land, farm), businesses, retirement plans (401(k), 403(b), Traditional IRA, Roth IRA, Keogh, SEP, SIMPLE, pension plans), life insurance policies and income-producing property. Some assets, such as qualified retirement plan accounts, are not reported on financial aid application forms.

Capitalization of Interest. Interest capitalization occurs when unpaid interest is added to the loan balance. This causes the loan to grow larger, increasing the cost of the loan. Interest can be capitalized monthly, quarterly, annually or when the loan enters repayment. Capitalization causes interest to be charged on top of interest.

Co-signer. A co-signer is a co-borrower, equally as obligated to repay the debt as the primary borrower.

Cost of Attendance (COA). The cost of attendance is the full one-year cost of enrolling in college. It includes direct (required) costs, such as tuition and required fees, room and board, textbooks and supplies, as well as indirect (discretionary) costs, such as travel and transportation, personal expenses, computer, student health insurance and dependent care.

CSS/Financial Aid PROFILE. The PROFILE form is used to apply for financial aid at about 250 colleges. It calculates the student's expected family contribution (EFC) under the Institutional Methodology (IM). It is used to apply for the college's own financial aid funds and does not affect eligibility for government aid. It is filed online at profileonline.collegeboard.com.

Deferment. Deferment is the temporary suspension of the obligation to repay a debt. Interest on subsidized loans is paid by the federal government during a deferment. Interest on unsubsidized loans continues to accrue and remains the responsibility of the borrower and is capitalized if unpaid. Federal education loans may be deferred while the borrower is enrolled at least half-time, during the grace period and during periods of economic hardship. The economic hardship deferment has a three-year limit. See also *Forbearance.*

Demonstrated Financial Need. Demonstrated financial need is the difference between the cost of attendance and the expected family contribution. (Financial Need = COA – EFC)

Dependency Status. Students may be considered dependent or independent. Dependent students must provide financial information for their parents on the FAFSA. Independent students must provide financial information for their spouse, if any, on the FAFSA, but do not provide parental information. Independent students include students who are over age 24 as of December 31 of the award year, married students, graduate students, orphans, veterans, active duty members of the Armed Forces and students with dependents other than a spouse. Students who are not independent are considered dependent. If there are unusual circumstances, such as the incarceration or institutionalization of both parents, the student can appeal for a dependency override, which is granted at the discretion of the college financial aid administrator. The definition of dependency for federal student aid purposes differs from the definition used by the IRS for federal income tax purposes.

Education Tax Benefit. An education tax benefit is a form of student aid obtained by filing a federal income tax return. Examples include the Hope Scholarship (American Opportunity Tax Credit) and Lifetime Learning tax credits, the Tuition and Fees Deduction and the Student Loan Interest Deduction.

Expected Family Contribution (EFC). The expected family contribution is a measure of the family's financial strength. It is based on the income and assets of the student. For dependent students, it is also based on the income and assets of the student's parents and the age of the older parent. For independent students, it is also based on the income and assets of the student's spouse, if any. The EFC is also based on family size and the number of children in college. The EFC does not consider certain forms of unsecured consumer debt, such as credit cards and auto loans. There are two main formulas for calculating an EFC, the federal methodology (FM) and the institutional methodology (IM). The two formulas differ in the types of assets that are included (e.g., family home, assets of siblings), the assumption of a minimum student contribution, the treatment of paper losses, regional differences in cost of living, allowances for educational savings and emergency funds, the treatment of children of divorced parents and adjustments for more than one child in college at the same time. The FM EFC is used for determining eligibility for federal and state aid and financial aid at most colleges. About 250 colleges use the IM EFC instead for awarding their own financial aid funds.

Federal Education Loan. Federal education loans are cheaper, more available and have better repayment terms than private student loans. The interest rates on federal loans are fixed, while most private student loans have variable rates. Examples of federal education loans include the Perkins, Stafford and PLUS Loans. Since July 1, 2010, all new federal education loans have been made through the US Department of Education's Direct Loan program.

Federal Methodology (FM). See *Expected Family Contribution*.

Financial Aid. Financial aid is money to help families bridge the gap between the expected family contribution and the cost of attendance. It includes gift aid and self-help aid.

Financial Aid Appeal. See *Professional Judgment*.

Financial Aid Award. A financial aid award is a component of the financial aid package. Awards come in many types, such as grants, scholarships, loans and student employment.

Financial Aid Package. A financial aid package is a combination of multiple types and sources of financial aid. It may include money from the federal government, state government, the college itself and private sources.

Financial Need. See *Demonstrated Financial Need*.

Forbearance. A forbearance is a temporary suspension of the obligation to repay a debt. Interest continues to accrue during a forbearance and will be capitalized if unpaid. Unlike a deferment, the borrower is responsible for the interest on both subsidized and unsubsidized loans during a forbearance. Forbearances on federal education loans have a five-year limit.

Forgiveness. Forgiveness is cancellation of a debt, usually for working in a particular occupation, such as a public service job, teaching in a national shortage area or serving in the military.

Free Application for Federal Student Aid (FAFSA). The FAFSA is a financial aid application form used to apply for federal and state student financial aid, as well as financial aid at most colleges. It is filed online at www.fafsa.ed.gov. The student will receive a Student Aid Report containing his or her expected family contribution about a week after filing the FAFSA.

Gift Aid. Gift aid is financial aid that does not need to be repaid, such as grants, scholarships, and tuition and housing waivers. Gift aid will vary by college, depending on available funds.

Grace Period. The grace period is the time after the student graduates, withdraws or drops below half-time enrollment and before repayment begins. The grace period is 6 months for the Federal Stafford and PLUS loans and for most private student loans, and 9 months for the Federal Perkins loan.

Grant. A grant is a form of gift aid, usually based on financial need. The Federal Pell Grant is the largest need-based college grant program.

Institutional Methodology (IM). See *Expected Family Contribution*.

Interest. Interest is a periodic fee charged for the use of borrowed money. The interest rate is expressed as a percentage of the loan balance and may be fixed or variable.

Loan. A loan is borrowed money that must be repaid usually with interest. See also *Federal Education Loan* and *Private Student Loan*.

Master Promissory Note (MPN). A promissory note is a legal contract in which the borrower agrees to repay the loan. It specifies the terms of the loan, such as the interest rates and fees. The Master Promissory Note is a promissory note that is effective for a continuous period of enrollment up to 10 years.

Merit-Based Aid. Merit-based aid is based on academic, artistic or athletic talent or other student attributes or activities.

Need Analysis. Need analysis is a process of evaluating the family's financial strength by considering income, assets, family size, the number of children in college and the age of the older parent. See *Expected Family Contribution (EFC)*.

Need-Based Aid. Need-based aid is based on demonstrated financial need.

Net Cost. The net cost is the difference between the cost of attendance and the need-based financial aid package.
(Net Cost = COA – Financial Aid)

Net Price. The net price is the same as the out-of-pocket cost, the amount the family pays, earns or borrows to cover college costs.

Out-of-Pocket Cost. The out-of-pocket cost is the difference between the total cost of attendance and total gift aid.
(Out-of-Pocket Cost = COA – Gift Aid)

Principal. The principal is the amount of money borrowed or still owed on a loan, not including interest and other charges.

Private Student Loan. A private student loan is made and funded by a private lender, such as a bank or other financial institution. Private student loans tend to be more expensive than federal loans and have less flexible repayment terms.

Professional Judgment (PJ). Professional judgment is a process by which the college financial aid administrator reviews unusual circumstances to determine a possible adjustment to the need-based financial aid package. Unusual circumstances include changes in the family's financial situation from the previous year, such as job loss, salary reductions and death of a wage-earner, as well as anything that distinguishes the family from typical families, such as high unreimbursed medical expenses, high childcare or eldercare costs or private K-12 tuition. The professional judgment review is driven by independent third-party documentation of the unusual circumstances. If the financial aid administrator decides that the unusual circumstances are worthy of consideration, the adjustments to the data elements on the FAFSA or cost of attendance will be based on the financial impact of the unusual circumstances on the family. This may then yield a new EFC which will lead to a new or revised financial aid package.

Promissory Note. See *Master Promissory Note*.

Room and Board. Housing and meal plan costs.

Satisfactory Academic Progress (SAP). Satisfactory academic progress is required for continued receipt of student financial aid. It usually involves a requirement that the student maintain a particular grade point average (e.g., 2.0 on a 4.0 scale) and that the student be passing classes at a rate consistent with the requirements for graduation within no more than 150% of the normal timeframe (e.g., within 6 years for a Bachelor's degree).

Scholarship. A scholarship is a form of gift aid, usually based on merit and funded by private foundations, philanthropists, corporations, and colleges and universities.

Self-Help Aid. Self-help aid is financial aid that depends on the family's resources. It includes student loans (which have to be repaid, usually with interest) and student employment.

Special Circumstances Review. See *Professional Judgment*.

Sticker Price. The sticker price is the total cost of attendance.

Sticker Shock. Sticker shock refers to a family's dismay when they learn about a college's sticker price. Sticker shock may cause some families to not consider a college, even if the financial aid package reduces the costs to an affordable level.

Student Aid Report (SAR). The Student Aid Report lists the data elements submitted on the FAFSA, some intermediate calculations and the student's expected family contribution, along with other information such as the graduation rates of the colleges the student is considering.

Student Employment. Student employment usually involves a part-time job of 10-15 hours per week during the academic year. Jobs may include on-campus employment, such as working in the library or cafeteria, or off-campus employment, such as inner city math and reading tutoring programs. Federal Work-Study is the largest student employment program.

Subsidized Loan. The federal government pays the interest on subsidized loans during the in-school deferment, during the grace period before repayment begins and during an economic hardship deferment. The Federal Perkins Loan and Federal Subsidized Stafford Loan are examples of subsidized loans. Eligibility is based on demonstrated financial need.

Tuition. Tuition is a fee charged for the cost of instruction.

Tuition Installment Plan. A tuition installment plan or tuition payment plan spreads out college costs into 9-12 equal monthly installments. Tuition installment plans usually charge 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.

Unmet Need. The unmet need, sometimes called a gap, is the difference between the full demonstrated financial need and the student's need-based financial aid package.
(Unmet Need = Financial Need – Financial Aid)

Unsubsidized Loan. Interest on unsubsidized loans continues to accrue during the in-school deferment, during the grace period before repayment begins and during an economic hardship deferment. If the borrower does not pay the interest as it accrues, the interest is capitalized (added to the loan balance). The Federal Unsubsidized Stafford Loan and the Federal PLUS Loan are examples of unsubsidized loans. Eligibility is not based on financial need, so even wealthy families will qualify.

Verification. The US Department of Education and the college financial aid office will select some FAFSAs for verification to ensure their accuracy. The family will be required to supply documentation corresponding to the data elements on the FAFSA, such as a copy of the most recent year's federal income tax return, W-2 and 1099 statements, and the most recent bank and brokerage account statements prior to the date the financial aid application was filed, etc.