

# How to Read Financial Aid Award Letters

Financial aid award letters, also known as financial aid notifications, summarize the types and sources of student financial aid available to help the student finance the cost of his or her education.

The goal of this guide is to help students and their families understand how to evaluate financial aid award letters and determine the true cost of college, so that they can make a more informed decision about the tradeoffs between college affordability and college quality, between financial fit and academic fit. This guide also discusses how to compare real college costs on an apples-to-apples basis.

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## Timeline

**After the student files the Free Application for Federal Student Aid (FAFSA), it can take from 3 days to 6 weeks for the form to be processed by the U.S. Department of Education, depending on whether the student filed the FAFSA online or on paper, provided an email address on the FAFSA and signed the form electronically with an FSA ID.**

**The student will then receive a Student Aid Report (SAR) that contains the student's Expected Family Contribution (EFC). At the same time, the colleges and universities listed on the FAFSA will receive an Institutional Student Information Record (ISIR) containing the student's EFC and other information.**

College and university financial aid offices use this information to determine eligibility for federal, state, and institutional financial aid. If the student is determined eligible, the college or university will assemble a financial aid package or award of gift aid (grants, scholarships, tuition/housing waivers and other money that does not need to be repaid) and self-help aid (education loans, tuition installment plans and student employment) from federal, state, institutional and private sources. The financial aid office, then, sends a financial aid letter or notification to the student to provide information about the financial aid package awarded to the student.

Most financial aid award letters (or notifications to view an award letter on the college's portal) arrive either simultaneously or shortly after the student receives an offer of admission, typically in late March or early April.

Students, then, have just a few short weeks to compare and contrast their college choices before making a decision by the May 1 National Candidates Reply Date.

## Award Letters Can Be Confusing

Award letters, however, can be confusing, in part due to a lack of standardization and in part due to confusing terminology. For example, despite calling the family's ability to pay an "expected family contribution," or EFC, most colleges cost families more than the EFC because the financial aid package includes loans and often leaves the student with unmet financial need. Each college designs its own financial aid award letter. Standards for financial aid award letters are considered voluntary "best practices" and are not mandatory.

Nearly a third of financial aid award letters do not mention the college's cost of attendance. Of those that do, many do not list all college costs. Many list only the direct costs, such as tuition, fees, room and board (if the student lives on campus), which are paid to the college. (Note that financial aid is not based on or restricted to just direct costs.) About half of all public college costs are indirect costs, such as textbooks and supplies, transportation, computers, student health insurance, dependent care and other living expenses. This forces the student to search on the college's web site and course catalog to get information about all college costs. Even when colleges provide information about all college costs, many do not provide realistic information about textbook, transportation and other living costs.

Financial aid award letters also often blur the distinction between grants and loans. More than half of award letters do not include basic information about loan terms and conditions, such as interest rates, monthly payments and total

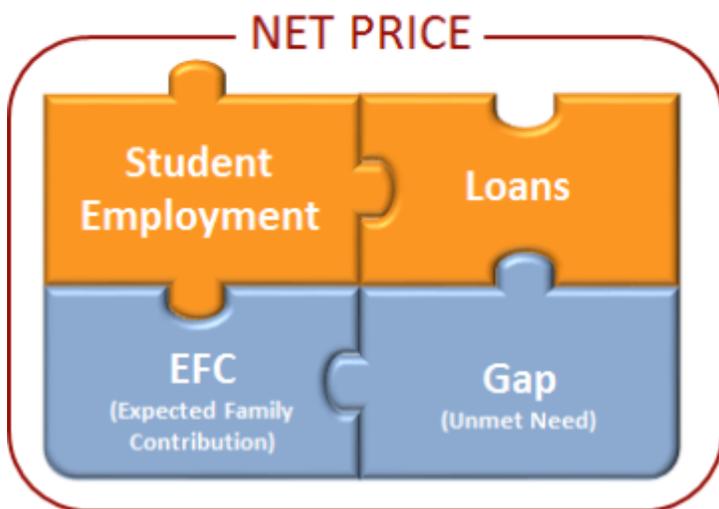
payments. The award letters often list loans with just an award name and award amount, without any signals that the loan is an amount that must be repaid, usually with interest. Award letters rarely use the word "loan" as part of the name of a loan, and sometimes use cryptic labels like "L" or "LN." Loans and grants are mixed together, further confusing families as to what is a loan and what is a grant. Award letters sometimes use language that treats loans as though they reduce college costs.

## How to Interpret a Financial Aid Award Letter

The true cost of college is reflected in the *net price*. The net price is the difference between total college costs and just the gift aid (grants and scholarships). The net price is a discounted sticker price. It is the amount of money the family must pay from savings, income and loans to cover college costs.



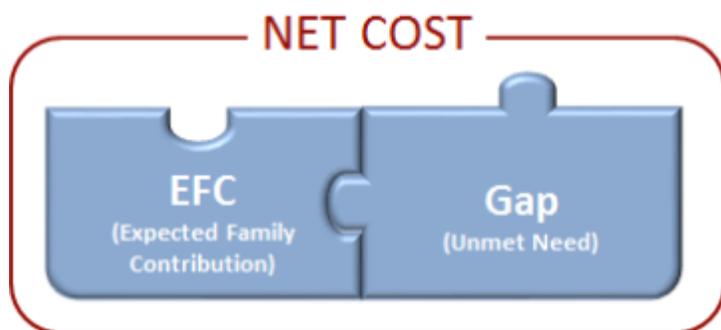
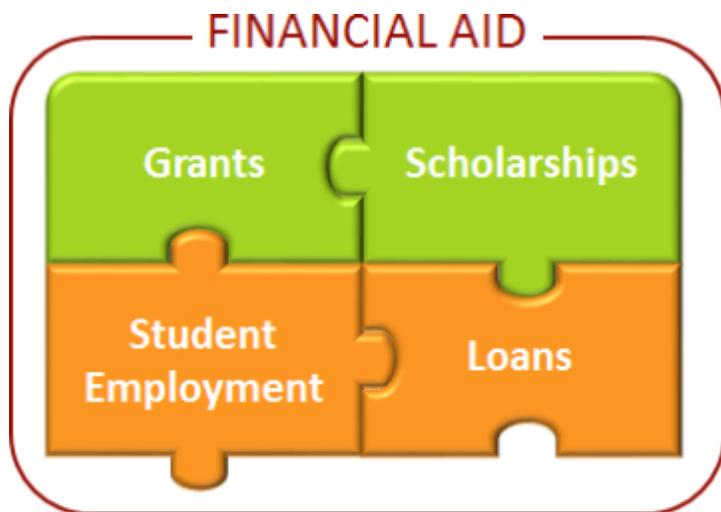
This diagram shows the various sources of money used to pay for a college's cost of attendance and identifies the subset corresponding to the net price.



Don't confuse the net price with the net cost. The *net cost* is the difference between total college costs and the entire financial aid package. But the financial aid package includes loans, which do not cut college costs. They merely spread out the costs over time. The actual costs will be higher than the net cost.



As the next diagram illustrates, the net cost subtracts self-help aid in addition to gift aid from the cost of attendance.



The net cost is often close to the EFC and so should be similar at most colleges. If colleges have different net cost figures, it may be due to differences in the treatment of special circumstances. Special circumstances are anything that changed from last year to this year or anything that distinguishes the family from the typical family. Special circumstances can include job loss, salary reduction, death of a wage-earner, high unreimbursed medical and dental expenses, high dependent care costs (e.g., for a special needs child or elderly parent) and private K-12 tuition for a sibling. If one college knows about the special circumstances and the others do not, it can yield a difference in the net cost when the college makes an adjustment to the financial aid package to compensate for the special circumstances. For example, one college may have asked about special circumstances on the CSS/Financial Aid PROFILE form or on its own financial aid forms. The FAFSA, on the other hand, does not have a question about special circumstances. Tell each college about the same special circumstances, so that the financial aid package can be based on the same information. Be sure to send a letter summarizing the special circumstances and the financial impact of the special circumstances, along with copies of documentation of the special circumstances to all the colleges that the student is considering.

If the net price differs by a lot, it may be a sign that one college is more generous than the others or that one college engages in preferential packaging. Preferential packaging occurs when a college awards a greater proportion of grants to students it is trying to attract, such as academically-talented students and wealthier students. Colleges may also award academic or merit-based scholarships to students with better grades and admissions test scores. Academic scholarships are usually awarded by the admissions office or other campus offices, not the financial aid office.

If a college has a net cost of zero, the student is not necessarily getting a free ride. Often the financial aid package will include significant amounts of debt, such as the Federal Perkins loan, Federal Stafford loan, Federal Parent PLUS loan and institutional loans. Packaging the Federal PLUS Loan is often used to mask the presence of gapping, which leaves the student with unmet financial need. (On the other hand, the net price will be the same, regardless of whether the college fills the gap with loans or not.)

## How to Calculate the Net Price

1. Identify the total cost of attendance for each college and university.
  - Beware of costs that aren't listed on the award letter. Make sure that all direct and indirect costs are included in the cost of attendance.
  - Beware of unrealistic cost figures, especially for textbooks and transportation.
2. Add together all of the gift aid listed on the award letter. Gift aid is money that does not need to be repaid, such as grants and scholarships.
  - Beware of student loans masquerading as gift aid. Gift aid does *not* include loans, which must be repaid, often with interest.
3. Subtract the total amount of gift aid from the total cost of attendance. This is the net price.

## Using Net Price to Compare Colleges

The net price is a much better basis than the net cost for comparing real college costs among different colleges. The net cost will be similar for most colleges, while the net price will help distinguish among colleges according to the generosity of their financial aid packages. Colleges with a lower cost of attendance and higher grants will tend to have a lower net price.

Generally, if two colleges have a net price that differs by \$1,000 or less, it should not affect the choice of college. But if the net price differs by more than \$5,000, most families will choose the less expensive college, since a higher net price often means more loans. The net price correlates well with the total amount of student loan debt at graduation. One of the best ways of minimizing debt at graduation is to choose the college with the lowest net price.

Consider two colleges with different cost of attendance and financial aid amounts:

College Name	Cost of Attendance	Gift Aid	Loans	Net Cost	Net Price
College A	\$40,000	\$10,000	\$20,000	\$10,000	\$30,000
College B	\$25,000	\$2,500	\$5,500	\$17,000	\$22,500

College A has a higher sticker price, but also awards more gift aid than College B. College A has a lower net cost, but that's only because it includes more loans in the financial aid package than College B. The net price for College B is lower, despite awarding less gift aid, because College B has a lower cost of attendance. Even if College B included no gift aid in its financial aid package it would still have a lower net price than College B. College B is clearly the less expensive school.

## Net Price Limitations

There are two main caveats about the net price.

- **Front-Loading of Grants and Scholarships.** About half of all colleges practice front-loading of grants, where students get a more generous mix of grants and scholarships during their first year than during the sophomore, junior and senior years. Accordingly, the net price during the

freshman year may be much lower than the net price in subsequent years. This is effectively a form of bait and switch.

- **Displacement of Outside Scholarships.** When a student wins a private scholarship, it reduces the student's demonstrated financial need. The college must then reduce the need-based financial aid package to compensate. Colleges have flexibility, however, in how they reduce the financial aid package. Some will use the private scholarship to replace loans and/or student employment, thereby, reducing the net price. Others will reduce their grants or scholarships, yielding no net financial gain to the student.

Ask the college whether it practices front-loading of grants and for a copy of its outside scholarship policy. If the college does not provide a clear answer, ask a few upperclassmen about how their grants as juniors and seniors compared with their grants as freshmen. Alternately, look at the financial aid data for the college on the U.S. Department of Education's [College Navigator](#) web site. Compare the percentage receiving grant or scholarship aid and the average grant for full-time beginning undergraduate students with the same figures for all undergraduate students. If the figures differ significantly, it is a sign that the college practices front-loading of grants.

## TYPES OF LOANS

Not all federal loans are equal. A loan that says **SUBSIDIZED**, means that the student will not start accruing interest until 6 months after they graduate college (or graduate school after). Any loan that does not say subsidized is unsubsidized and will start accruing interest immediately. These loans will each have different interest rates though, so you will need to check them out individually. The Parent Plus Loan, for example, has the worst interest rate, but you can take out more than you are given on the financial aid package. As long as you have a parent co-sign you can take as much Parent Plus Loan up to the cost of the college. Even though unsubsidized government loans start accruing interest immediately, they are still lower than what you would get at a bank. Banks should be your last resort for a loan.

## Example of a Problematic Award Letter

This example of a problematic financial aid award letter is a blend of two actual financial aid award letters, but the institution names and certain design elements have been removed.

## FINANCIAL AID AWARD PACKAGE

<b>COST OF ATTENDANCE (ESTIMATED)</b>	
TUITION	\$38,700
FEES	\$2,500
TOTAL DIRECT COSTS	\$41,200

<b>FINANCIAL AID PACKAGE</b>	
FED PELL GRANT	\$5,550
FED PERKINS L.	\$2,000
FED SEOG GRANT	\$2,000
FED SUB STAFF.	\$3,500
COLLEGE GRANT	\$4,000
FED UNSUB STAF	\$2,000
PARENT PLUS L.	\$12,200
TOTAL FINANCIAL AID	\$31,250

<b>EXPECTED NET COST</b>	<b>\$9,950</b>
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Several problems are evident in this example:

- The award letter omits indirect costs, such as room and board, books and supplies, transportation and personal expenses. This understates the actual total cost of attending the college. The check to the college may be only \$9,950, but the actual cost to the family is much higher.
- The award letter limits award names to 15 characters, yielding obscure award names and the abbreviation of the word “Loan” as the letter “L.”
- The award letter mixes loans and grants in a seemingly random order, with no subtotals for different types of aid. (The order appears to be listing need-based aid before non-need-based aid, but this is not apparent to most families, nor is it an important distinction for most families.)
- The award letter does not include information about Interest rates and loan payments (monthly and/or total) with the loan amounts as an additional signal to the family that the loan is borrowed money.
- The inclusion of the Federal Parent PLUS loan reduces the net cost to a level that might seem reasonable to families who don’t realize that most of the financial aid is in the form of loans.
- The award letter presents a net cost figure, as opposed to a net price figure. The award letter is focusing on the direct costs payable to the school, which may be meaningful from the college’s perspective, but not from the family’s perspective.

# Example of an Improved Award Letter

This example presents the same financial aid package, but with much greater clarity.

## FINANCIAL AID AWARD PACKAGE

COST OF ATTENDANCE (ESTIMATED)					
TUITION & FEES					\$41,200
ROOM & BOARD					\$12,000
BOOKS & SUPPLIES					\$1,200
TRANSPORTATION					\$800
MISCELLANEOUS/PERSONAL					\$3,000
<b>TOTAL COST OF ATTENDANCE</b>					<b>\$58,200</b>
GIFT AID					
FEDERAL PELL GRANT					\$5,550
FEDERAL SEOG GRANT					\$2,000
COLLEGE GRANT					\$4,000
<b>TOTAL GIFT AID</b>					<b>\$11,550</b>
NET PRICE					<b>\$46,650</b>
LOAN OPTIONS	Interest Rate	Monthly Payment	Loan Amount	Total Interest	Total Payments
FEDERAL PERKINS LOAN	5.0%	\$21	\$2,000	\$546	\$2,546
FEDERAL SUB STAFFORD LOAN	3.4%	\$35	\$3,500	\$675	\$4,175
FEDERAL UNSUB STAFFORD LOAN	6.8%	\$23	\$2,000	\$790	\$2,790
FEDERAL PARENT PLUS LOAN	7.9%	\$154	\$12,200	\$6,222	\$18,422

There are several improvements:

- The award letter includes the full cost of attendance, including both direct and indirect costs.
- Gift aid is itemized separately from loans.
- A subtotal is shown for gift aid and this is subtracted from the cost of attendance to yield the net price. Notice how the net price of \$46,650 is much greater than the net cost of \$9,950, much more realistic.
- Loans are clearly identified as loans and presented as options for financing the net price.
- The list of loans includes important details such as the interest rate, monthly payment, total interest and total payments.

## Financial Aid Shopping Sheet

The Consumer Financial Protection Bureau (CFPB) and the U.S. Department of Education have developed a model financial aid award letter, the [Financial Aid](#)



# University of the United States (UUS)

Student Name, Identifier

MM / DD / YYYY

## Costs in the 2013-14 year

<b>Estimated Cost of Attendance</b>		<b>\$ X,XXX / yr</b>
Tuition and fees .....	\$ X,XXX	
Housing and meals .....	X,XXX	
Books and supplies .....	X,XXX	
Transportation .....	X,XXX	
Other educational costs .....	X,XXX	

## Grants and scholarships to pay for college

<b>Total Grants and Scholarships</b> ("Gift" Aid; no repayment needed)		<b>\$ X,XXX / yr</b>
Grants from your school .....	\$ X,XXX	
Federal Pell Grant .....	X,XXX	
Grants from your state .....	X,XXX	
Other scholarships you can use .....	X,XXX	

## What will you pay for college

<b>Net Costs</b> (Cost of attendance minus total grants and scholarships)		<b>\$ X,XXX / yr</b>
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## Options to pay net costs

### Work options

Work-Study (Federal, state, or institutional) .....	\$ X,XXX
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### Loan options\*

Federal Perkins Loans .....	\$ X,XXX
Federal Direct Subsidized Loan .....	X,XXX
Federal Direct Unsubsidized Loan .....	X,XXX

\*Recommended amounts shown here. You may be eligible for a different amount. Contact your financial aid office.

### Other options

<b>Family Contribution</b> (As calculated by the institution using information reported on the FAFSA or to your institution.)		<b>\$ X,XXX / yr</b>
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- Payment plan offered by the institution
- Military and/or National Service benefits
- Parent PLUS Loan
- Non-Federal private education loan

## Graduation Rate

Percentage of full-time students who graduate within 6 years



## Loan Default Rate

Percentage of borrowers entering repayment and defaulting on their loan



## Median Borrowing

Students at UUS typically borrow \$X,XXX in Federal loans for their undergraduate study. The Federal loan payment over 10 years for this amount is approximately \$X,XXX per month. Your borrowing may be different.



## Repaying your loans

To learn about loan repayment choices and work out your Federal Loan monthly payment, go to: <http://studentaid.ed.gov/repay-loans/understand/plans>

## For more information and next steps:

University of the United States (UUS)  
Financial Aid Office  
123 Main Street  
Anytown, ST 12345  
Telephone: (123) 456-7890  
E-mail: financialaid@uus.edu

Customized information from UUS

**Shopping Sheet**, to help standardize award letters. It is a single page that presents the most important information at a glance in a consistent, comparable format.

Unfortunately, the Financial Aid Shopping Sheet is currently voluntary, so only about one third of colleges have adopted it so far, a total of 1,950 as of December 2013. There is pending legislation that proposes to make it mandatory for all colleges to use the Financial Aid Shopping Sheet.

## **Cutting College Costs**

If the net price is too high, there are several ways to make college more affordable. One of the most effective ways of cutting college costs is to attend a college with a lower net price. For example, the net price tends to be lowest at in-state public colleges and at colleges with generous “no loans” financial aid policies.

But, beware of taking a detour through a 2-year college on the way to a Bachelor’s degree. Community colleges are great ways of getting an Associate’s degree or certificate at low cost. But students who intend to obtain a Bachelor’s degree may be better off starting at a 4-year college. Among students intending to obtain a Bachelor’s degree who enrolled for the first time in 2003-2004, students who started at a public or private non-profit 4-year college were three times more likely to graduate with a Bachelor’s degree in six years than students who started off at a community college.

Students can save on college costs by graduating in three years instead of four (or more realistically, four years instead of five). They can take an extra class each academic term, enroll in classes during the summer session, and get credits through Advanced Placement (AP), CLEP and PEP tests. It also helps to plan the path to an academic degree to ensure an on-time graduation. Students who take a heavier academic load can consider double-majoring to earn two degrees for the price of one. (But be careful to take the last class in each major at the same time. Eligibility for some forms of financial aid may end when the student satisfies the requirements for his or her first Bachelor’s degree.)

Another potential source of savings is the indirect costs of a college education. Indirect costs are under the student’s discretionary control. For example, students can economize on living costs by buying used textbooks and selling textbooks back to the bookstore at the end of the academic term, by living at

home or getting a roommate to cut housing costs or by minimizing the number of trips home from school.

If the college has a favorable outside scholarship policy, the student could apply for scholarships to try to reduce the net price. Look for scholarships on [StudentScholarshipSearch.com](http://StudentScholarshipSearch.com) and [ScholarshipPoints.com](http://ScholarshipPoints.com).