

How to Read Financial Aid Award Letters

<https://www.edvisors.com/fafsa/after-submitting/award-letter/>

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.

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.

There are various sources of money used to pay for a college's cost of attendance and identifies the subset corresponding to the net price: GIFT AID can be grants and scholarships, which do not have to be repaid. WORK STUDY (Employment) funds are distributed on an hourly basis to use for expenses. LOANS can be incurred under the student's name or the parent's name.

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.

The net cost subtracts self-help aid in addition to gift aid from the cost of attendance. The net cost is the Expected Family Contribution plus the Gap in unmet need.

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.)

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How to Calculate the Net Price

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.

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.

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.

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

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

FINANCIAL AID PACKAGE	
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

EXPECTED NET COST	\$9,950
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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
TOTAL COST OF ATTENDANCE					\$58,200

GIFT AID					
FEDERAL PELL GRANT					\$5,550
FEDERAL SEOG GRANT					\$2,000
COLLEGE GRANT					\$4,000
TOTAL GIFT AID					\$11,550

NET PRICE					
					\$46,650

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.

Ten Questions to Ask the College Financial Aid Administrator

This list of questions can help students and their families to make a more informed decision about college costs and financial aid.

1. Do you meet full demonstrated financial need? Or is there a gap (unmet need)?
2. What is your outside scholarship policy? How does the college reduce the need-based financial aid package when a student wins a private scholarship? Does the scholarship first reduce the student debt and student employment burden (and unmet need, if any) or does it replace the college's grants and scholarships?
3. Do you practice front-loading of grants? If yes, how much will grants change each year, if the family's financial circumstances remain the same?
4. How much have your college's costs increased in the last three years?
5. What percentage of students graduate with debt and what is the average cumulative debt at graduation?
6. Are the scholarships renewable? 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 have to enroll full-time or take a particular number of units? Do I need to participate in any special activities such as community service?
7. What are the residency requirements for in-state public college tuition?
8. 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 student employment opportunities readily available, or are they hard to get? Are there positions related to my academic major? Am I guaranteed a job? What types of jobs are available? How often will I be paid? How will I be paid? (Am I paid directly, or is my student account credited?)
9. How does one appeal for more financial aid if the financial aid award is insufficient or the family's financial circumstances have changed or will change?
10. What is the impact of possible budget cuts such as sequestration and/or future cost increases on my financial aid package?

If the net price is too high, 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.

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.)

If the college has a favorable outside scholarship policy, the student could apply for scholarships to try to reduce the net price.