



Summary of Testimony by Mark Kantrowitz at the U.S. Department of Education Public Meeting on Recommendations for Improvement of Student Financial Aid Offer Forms and Development of Model Financial Aid Offer Forms (9/13/2011)

The Need for Standardized Mandatory Disclosures for College Costs and Financial Aid

Problems with Financial Aid Award Letters

- **Cost information is missing or misleading.** Most financial aid award letters do not include a detailed breakdown of costs (almost a third omit all cost information). Of those that provide cost details, most have unrealistic allowances for textbooks and transportation. More than half do not include a true bottom line cost figure.
- **Loans are characterized as reducing costs.** More than a fifth of financial aid award letters do not clearly distinguish between grants and loans. Many use loans to report a net cost of \$0.
- **Letters lack basic information about loans.** More than half of financial aid award letters do not include basic information about loan terms, other than the loan amount. 61% of financial aid award letters do not include basic information about loan terms other than the loan amount: Only 29% mentioned the interest rate, 21% the loan term in years, 14% the total loan payments, 13% the monthly loan payment and 12% the total interest paid.
- **Current award letters cause confusion about affordability and the real cost of college.** This leads some students to decide against enrolling in college, some students to drop out and others students to graduate with unaffordable amounts of debt.
- **Voluntary industry standards are inadequate.** These problems have persisted despite the publication of a voluntary set of best practices by NASFAA in 2001.

Solutions for Improving Financial Aid Award Letters

- **Families want a standard for financial aid award letters.** 84% of students and parents in a Fastweb survey said that financial aid award letters should be standardized to make them easier to understand and compare. The needs of students and their families must come first.
- **A mandatory standard will help families make informed decisions about college costs and financial aid.** Paying for college is one of the few major life cycle expenses without standardized statutory requirements for clear cost disclosures. Disclosures are required for automobiles, real estate, credit cards, consumer loans, mortgages, retirement plans, investments and private student loans, but not college costs.
- **Require clear and correct information about college costs.** Every award letter should disclose the total cost of attendance, the total gift aid and the out-of-pocket cost (the difference between the cost of attendance and gift aid). This information should appear prominently on the first page of the financial aid award letter in a standard location and format to allow families to comparison shop. Cost allowances should be based on recent actual average costs for similarly-situated students.
- **Distinguish different types of aid.** Financial aid award letters should distinguish between grants, scholarships, student loans and student employment. Each type of aid should be grouped separately to avoid confusion. Gift aid (money that does not need to be repaid) should be listed first, as a discount on the cost of attendance.
- **Disclose policies that have a material impact on college costs and financial aid.** Financial aid award letters should disclose policies that affect the out-of-pocket cost, such as front-loading of grants and displacement of outside scholarships.
- **Disclose more details about student loans.** In addition to disclosing important loan terms, such as the interest rate, monthly loan payment and total loan payments (assuming a 10-year repayment term), financial aid award letters should report the student's cumulative debt and a projection of debt at graduation.
- **Timing.** Financial aid award letters should be received at least two weeks in advance of the May 1 National Candidate's Reply Date to provide adequate time for students to compare and evaluate financial aid awards and decide where to enroll.

Benefits to Students and their Families

- **More students will enroll and graduate.** Making financial aid award letters more accurate and easier to understand will improve access and completion at minimal cost to the taxpayer.
- **Price competition will increase.** Making financial aid award letters easier to compare might also help drive down college costs through increased competition.