



# ISSUE BRIEF:

**Charting a Clearer Path:**  
*Recommendations for  
Transparent and Consistent  
Financial Aid Offer Letters*

## ISSUE BRIEF:

### Charting a Clearer Path

Institutions of higher education predominantly rely on offer letters to convey eligibility for financial aid programs to students and their families. These aid offers are frequently institution-specific, meaning the terminology and format vary between colleges. This lack of uniformity has led to concerns about the potential for students and their families to make imprecise financial decisions and to misunderstand the debt they are taking on, an issue reinforced by empirical research. A 2014 analysis from the Brookings Institution revealed that only 38 percent of students who took out loans to attend college could correctly estimate how much they borrowed, and 14 percent of students with federal student loan debt reported having no debt at all.<sup>1</sup>

This misunderstanding may be attributed to a number of factors, such as low financial literacy, inadequate loan counseling, and confusion about what a financial aid package is actually offering. A more recent analysis from New America and uAspire revealed that **only 194 institutions, out of the 515 included in the study, calculated the total cost of attendance (COA) in aid offers.**<sup>2</sup>

Furthermore, of these 194 colleges and universities, the institutions used 23 different methods to determine the estimations.<sup>3</sup> The existing data on the issue, such as the federal student loan knowledge gap indicated by the Brookings Institution and inconsistent bottom-line calculations revealed by New America and uAspire, demonstrate a need to make financial aid offer letters more transparent and student-centric.

In 2012, the Department of Education (ED) attempted to address this issue by introducing the Financial Aid Shopping Sheet, now known as the **College Financing Plan.**<sup>4</sup> This form serves as an optional template that institutions can use to relay financial aid information in a manner that is reasonably understood and can be compared by students and their families.<sup>5</sup> The National Association of Student Financial Aid Administrators (NASFAA) also worked to address the issue in 2012 by commissioning a task force to examine financial aid offer letters in depth and determine the best practices in aid offer notification.<sup>6</sup> The final report from the task force offered recommendations organized into four overarching themes, including formalizing core elements of aid offers, providing a glossary of standardized aid offer terminology, incorporating a loan aggregator and calculator, and offering student consumer resources (e.g., loan counseling, repayment information, etc.).<sup>7</sup> The recommendations from the report prompted NASFAA to update its Code of Conduct in 2014, adding minimum requirements related to aid offers for member institutions.<sup>8</sup>



## Relevant Research

Though ED and NASFAA took measures to resolve the lack of uniformity in financial aid offer letters, the problem persists. **In 2016, only 45 percent of Higher Education Act Title IV-participating institutions used the College Financing Plan,**<sup>9</sup> prompting organizations such as The Institute for College Access & Success (TICAS), New America, and uAspire to continue researching how aid offers can be improved to better convey information to students and their families.<sup>10</sup> A 2017 report from TICAS indicated that out of 150 non-template financial aid offers, only seven percent provided the COA, separated types of aid, and calculated the net price.<sup>11</sup> As shown in Table 1, the report from New America and uAspire in 2018 displayed similar results. The analysis of 515 financial aid offer letters revealed institutions often omitted the complete COA, used confusing jargon and terminology, and had inconsistent bottom-line calculations.<sup>12</sup>

**Table 1: Findings from the New America and uAspire Analysis of Financial Aid Offer Letters**

Finding	Evidence
<b>Confusing jargon and terminology</b>	Of the 455 colleges that offered an unsubsidized student loan, there were 136 unique terms for that loan, including 24 that did not include the word “loan.”
<b>Omission of the complete cost</b>	Over one-third (36 percent) of letters did not include any cost information that students could use to contextualize the financial aid offered.
<b>Failure to differentiate types of aid</b>	70 percent of aid offers did not separate aid by type (e.g., grants, aid, scholarships, work-study) nor explain the differences.
<b>Inconsistent bottom-line calculations</b>	60 percent of letters did not provide a calculation of the remaining costs of attendance, making it difficult for students to determine what they owe.
<b>No clear next steps</b>	Only 50 percent of letters included information about what to do to accept or decline the offer, but many had inconsistent policies.

Note. Adapted from “Decoding the Cost of College: The Case for Transparent Financial Aid Award Letters,” by Stephen Burd, Laura Kean, Rachel Fishman, and Julie Hebert, 2018 [https://d1y8sb8igg2f8e.cloudfront.net/documents/Decoding\\_the\\_Cost\\_of\\_College\\_Final\\_6218.pdf](https://d1y8sb8igg2f8e.cloudfront.net/documents/Decoding_the_Cost_of_College_Final_6218.pdf)

# Potential Solutions

In response to the concerns with financial aid offer letters, Representative Virginia Foxx (R-NC-5), now Chairwoman of the House Education and the Workforce Committee, prompted the Government Accountability Office (GAO) to further investigate the issues and potential solutions in 2019.<sup>13</sup> Like New America and uAspire, GAO examined aid offers from a nationally representative sample of 176 colleges and universities.<sup>14</sup> While the findings revealed similar results to previous analyses, the report differed as it assessed the aid offers against the 10 best practices for relaying aid information established by ED and 22 other federal agencies.<sup>15</sup> Table 2 demonstrates these best practices and, thus, potential solutions for the lack of uniformity in financial aid offer letters.<sup>16</sup>



**Table 2: 10 Best Practices for Providing Clear and Standard Information in Financial Aid Offers**

Best Practice	Rationale
<b>Itemize main direct and indirect costs</b>	Students need to budget for both direct costs (e.g., tuition and fees) and indirect costs (e.g., books, transportation, and personal expenses).
<b>Provide a total COA that includes the main costs</b>	Students should know the total cost of college. This information helps them determine the relative value of grants, scholarships, and other types of student aid.
<b>Estimate the net price</b>	Estimating the net price provides students with the most information possible about the amount they will need to pay for college.
<b>Separating in the offer gift aid, loans, and work-study</b>	Students should be able to recognize the different types of aid in their offer immediately.
<b>Do not include a Parent PLUS Loan or, if included, separate and differentiate it from student loans</b>	Parent PLUS Loans differ from student loans in several important ways, so they should be kept separate and not combined.
<b>Label type of aid</b>	Students should know the type of aid (grants, loans, and work-study) offered.
<b>Label source of aid</b>	Students should know the source (federal, state, institutional, or private) of aid because the protections and stipulations differ.
<b>Include actionable next steps</b>	Students should know next steps to accept, decline, or adjust the aid in the offer and the college's point of contact for additional assistance.
<b>Highlight main details and distinctions about loans, grants, and work-study</b>	Students need to know the main details about the aid to assess which aid options are best for them. For example, such information might include details about minimum academic requirements to maintain a scholarship or explain that work-study is not guaranteed since students must apply for these positions on campus.
<b>Do not refer to the offer as an "award"</b>	Students should know that loans and work-study are not "awards" because they generally must be repaid or earned through employment, respectively.

Note. Adapted from "Financial Aid Offers: Action Needed to Improve Information on College Costs and Student Aid," by the United States Government Accountability Office, 2022. <https://www.gao.gov/assets/gao-23-104708.pdf>



## Legislative History

The lack of uniformity in financial aid offer letters and its impact on students and families also prompted Congress to intervene legislatively. Due to mounting concerns over transparency and fairness in the financial aid process, Representatives Lori Trahan (D-MA-3) and Lloyd Smucker (R-PA-11) introduced the **Financial Aid Communication and Transparency (FACT) Act of 2019**. The *FACT Act* sought to **set clear guidelines for institutions when drafting and delivering financial aid offer letters** to prospective and current students. Specifically, it would require financial aid offer letters to use standard terms and definitions and require partial standardization of the offer letter by mandating the inclusion of a quick reference box on the first page listing the total COA, scholarships and grants, and net price.

In 2022 and again in 2023, Chairwoman Foxx and Representative Lisa McClain (R-MI-9) introduced the **College Cost Transparency and Student Protection Act**. In an attempt to address the GAO's findings, this bill sought to **establish standardized**

**terms and definitions** while also creating a two-step process where students are first offered aid for direct expenses, such as tuition and fees, and then required to opt-in for a second aid package for indirect expenses like books and supplies. Notably, the bill prohibited the creation of any standardization of the form itself.

Lastly, and most comprehensive of all, Senators Chuck Grassley (R-IA), Tina Smith (D-MN), and Joni Ernst (R-IA) introduced the **Understanding the True Cost of College Act** which would standardize both the content and format of financial aid offer letters. Specifically, the bill would **establish standardized terms and definitions and require institutions to use a uniform financial aid offer form** which, among other things, would require key information such as COA, net price, and grant aid to be included on page one of the uniform financial aid offer form.



## AccessLex Recommendations

The challenges described above require meaningful changes so that financial aid offer letters are clearer and more consistent, while also balancing the need for institutions to communicate to students in a way that works for them. With student debt increasing and the importance of being able to understand and compare the financial investment required to attend an institution, a solution that manages both content and format standardization will help to mitigate the confusion that has plagued students and families in the financial aid process.

## Content Standardization

Congress should require institutions to standardize the content of financial aid offer letters, which would better clarify the aid available to students and allow them to more effectively compare offers from different institutions.

**Financial aid offer letters should include the total COA.** The COA is one of the most significant pieces of information that students and their families consider when making decisions about which institutions to attend. It is important that this number reflects the entire cost of attending an institution because it will affect the value of any other aid being offered. Therefore, financial aid offer letters should include the total COA which consists of both the direct costs (billed directly by the institution) and indirect costs (paid for by the student throughout the term). In addition, both direct and indirect costs should be fully itemized so that students are aware of the expenses for which they are responsible.

**Gift aid, loans, and work-study should be clearly described and outlined in the financial aid offer letter.** Gift aid (i.e., grants and scholarships that do not need to be repaid), loans (i.e., money that is borrowed and that will need to be repaid), and work-study (i.e., financial aid that is earned through working) should be separated in the offer letter and a definition and explanation of the difference between each should be included. In addition, the type of aid (grants, loans, or work-study) and source of aid (federal, state, institutional, or private) being received should be clearly labeled. Doing so will help students and families understand what needs to be repaid and what does not.

## Format Standardization

While institutions should have flexibility in how they organize and communicate the standardized content to students, AccessLex believes that Congress should require some degree of format standardization. This will enable students to more easily understand what is being offered and what their financial obligation may be.

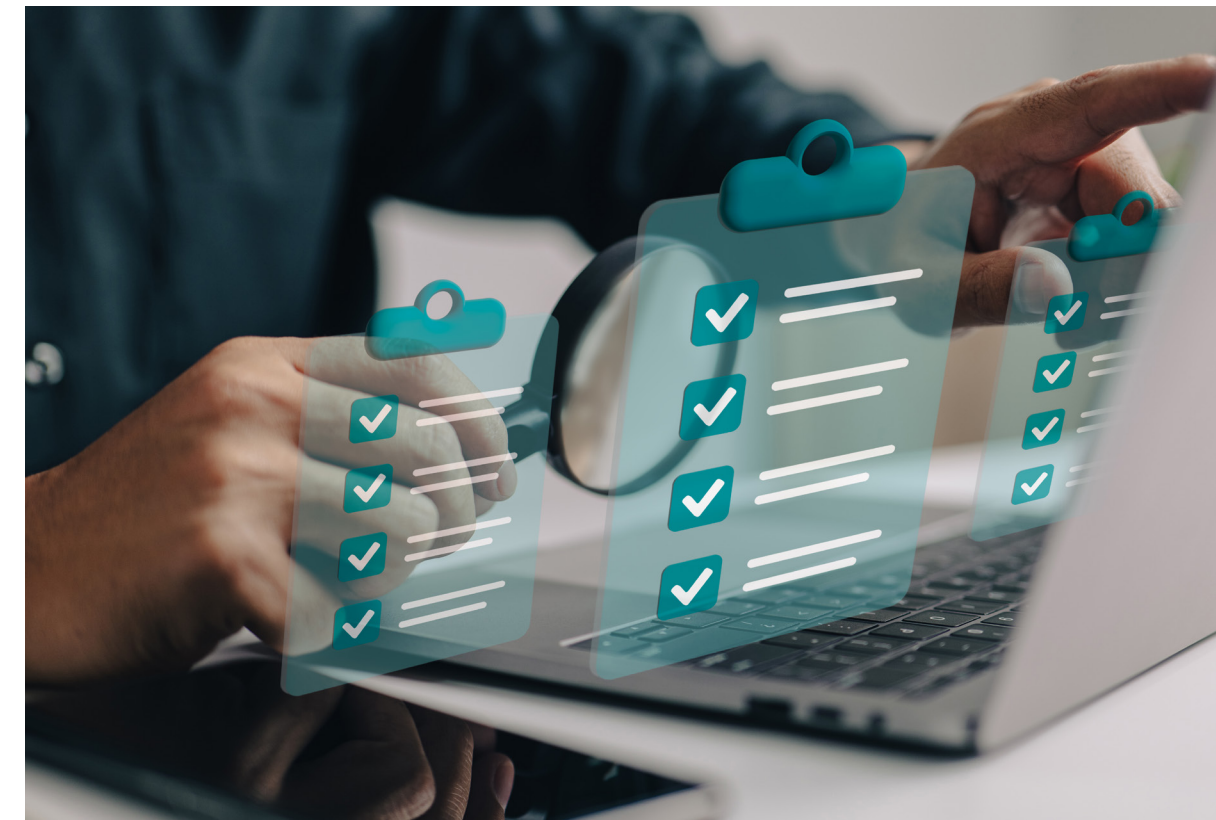
**Financial aid offer letters should include a Quick Reference Box on the first page.** Included in the box should be the total COA for that institution (both direct and indirect costs), the total grants and scholarships being offered to that student, and the estimated net price (i.e., scholarships and grants subtracted from the COA). The Quick Reference Box will provide students with a quick and easy-to-read snapshot of the total cost of attending that institution and help them to compare costs more efficiently from multiple institutions.

**The net price should be included in the financial aid offer letter.** It is important that students are provided with information regarding what they will be expected to pay in order to attend a particular institution. That is why the estimated net price – the total COA minus any gift aid such as grants or scholarships – should be clearly outlined in the financial aid offer letter to eliminate any ambiguity about a student’s financial obligation.

**Offer letters should include actionable next steps to complete the financial aid process.** Students are often unaware that accepting a financial aid package requires multiple actions beyond receiving the initial offer. So, it is essential that they are provided with comprehensive information on how to accept, decline, or modify the aid package. By incorporating these details into the offer letter, the next steps become unambiguous and students will have clear instructions on how to move forward.

**Financial aid packages should be clearly labeled as “offers,” not “awards.”** Making sure that students are clear about every aspect of the financial aid package being offered is imperative. To that end, it is important that offer letters refer to the aid package as an offer and not an award. Doing so should reduce confusion and clarify to students and families that loans contained in an offer letter need to be paid back and are not mistaken as grants or scholarships.

**Standardized terminology and definitions should be included in financial aid offer letters.** There are often many terms referenced when discussing financial aid that most students are unaware of or may not understand. Requiring that language used in financial aid offer letters is standardized and defined will help students understand the aid that is being offered and allow them to better compare offer letters from different institutions.



## Endnotes

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