

TICAS Comments on Draft Financial Aid Shopping Sheet

December 9, 2011

The Institute for College Access & Success (TICAS) commends the U.S. Department of Education and Consumer Financial Protection Bureau for developing this draft financial aid shopping sheet, available at <http://www.consumerfinance.gov/students/knowbeforeyouowe/>. We provide detailed comments on the shopping sheet below, drawing on our review of numerous past proposals for improving financial aid award letters as well as our analysis of over 100 actual award letters.

TICAS is an independent, non-profit, non-partisan policy and research organization that works to make higher education more available and affordable for people of all backgrounds. Our Project on Student Debt works to increase public understanding of rising student debt and the implications for our families, economy, and society.

For the millions of students who receive financial aid each year, award letters represent a crucial point in the long and often confusing financial aid process. For students entering college, this is the first point at which they and their families find out their actual cost of attending specific colleges, as well as each college's recommendations for how to cover that cost. Unfortunately, many award letters fail to provide basic information necessary for students and families to make informed decisions about whether to go to college, which college to attend, and how to pay college costs – including whether, how, and how much to borrow.

For financial aid letters to fulfill their intended role, they need to be easy for students and families to understand and compare. This means that they should be *clear, comparable, and consumer-friendly*. We are pleased that the Consumer Financial Protection Bureau (CFPB) and the Department of Education (Department) are working together to improve the communication of financial aid awards and options. This draft financial aid shopping sheet takes an important step toward helping students better understand the financial aid they qualify for and make more informed decisions about how to pay for college and which college to attend.

GENERAL COMMENTS

We are pleased to see that this draft financial aid shopping sheet lays out important information in a clear and easy-to-understand way, consistent with our guiding principles for effective financial aid award letters.¹ In particular, the following elements in the financial aid shopping sheet are absolutely critical:

- Prominently displaying the three most important and useful pieces of information: (1) total cost of attendance, broken down by category; (2) total grant and scholarship aid; and (3) net price (called “What you will pay for one year” in the shopping sheet), the total cost of attendance

¹ For more information, see our official comments to the Department of Education on financial aid award letters. August 2011. http://ticas.org/files/pub/TICAS_award_letters_comments_08-25-11.pdf.

minus grant and scholarship aid. The net price figure is crucial for helping students understand how much they or their families will have to save, earn, or borrow to attend a particular college, as well as compare affordability across different colleges.

- Grouping aid by type and clearly distinguishing the different types of aid: gift aid (grants and scholarships) versus self-help (loans and work-study). Separating these forms of college financing will help students understand the difference between grant and scholarship aid (which does not need to be repaid), work-study (which must be earned), and loans (which must be repaid with interest).
- Providing information about the college's student loan default rate, graduation rate, and retention rate. These outcome data can help students make more informed decisions about where to attend. Currently, the online FAFSA provides information about a college's graduation rate, retention rate, transfer-out rate, and other consumer information when students are applying for financial aid. A survey found that high school seniors ranked graduation rates higher among their college selection criteria after the Department of Education began disclosing graduation rates on FAFSA-on-the-Web.² Another study found that providing information about graduation rates increased the likelihood that parents choose the college with the higher graduation rate by about 15 percentage points.³ Given the great investment of time and resources they are about to make, it is important for students to consider their likelihood of success at the college, and we commend the Department and CFPB for including this information in the financial aid shopping sheet.
- Providing contact information for the financial aid office and a link to a website where students can see their next steps. This makes it easier for students to get their specific questions answered and stay on track to receive their financial aid.

Overall, the financial aid shopping sheet does an excellent job of using clear language and avoiding unnecessary acronyms and jargon. However, it would be helpful to add pop-up descriptions (for an online version of the shopping sheet) or a glossary (for a printed version of the shopping sheet) with more information about the different types of grants, loans, and work-study. These descriptions can help students understand which grants are portable to different colleges, the interest rates and basic terms for each type of loan, and other general information.

Additionally, for several reasons, we *strongly* encourage the CFPB and Department to remove the numerical estimates for private student loans. First, the inclusion of private student loans incorrectly suggests they are a form of financial aid and may be seen as an endorsement of this risky form of borrowing. Second, because private loan terms vary widely, and they typically carry variable interest rates and terms that can be changed by the lender after the loan is issued, it may not be possible to estimate monthly payments even if it were desirable to do so. The shopping sheet should encourage students who need to borrow to maximize their federal loan eligibility. Rather than trying to include numerical estimates of private student loan borrowing, the shopping sheet should present private student loans as one option (along with earnings, savings, contribution from family, and parent PLUS

² Fastweb and Maguire Associates College Decision Impact Survey. Cited in <http://www.fastweb.com/financial-aid/articles/3185-us-department-of-education-publishes-college-cost-and-net-price-rankings>.

³ American Enterprise Institute. *Filling in the Blanks: How Information can Affect Choice in Higher Education*. January 2011. <http://www.aei.org/papers/education/k-12/filling-in-the-blanks/>.

loans) for covering any college costs that remain after grant aid, federal loans, and work-study. These options should be presented without specific numerical estimates.

COMMENTS ON SPECIFIC SECTIONS

Upper left box (cost of attendance, grant aid, net price)

We commend the Department and CFPB for prominently displaying these three important pieces of information:

- (1) Total cost of attendance, broken down by category (tuition and fees, room and board, books and supplies, and transportation and personal expenses)
- (2) Total grant and scholarship aid
- (3) Net price (“What you will pay for one year”), the total cost of attendance minus grant and scholarship aid

Including the full cost of attendance gives students a more comprehensive picture of the expenses involved in attending college, beyond tuition and fees, and helps them plan for those costs. The net price figure is crucial for helping students understand how much they or their families will have to save, earn, or borrow to attend a particular college, as well as compare affordability across different colleges. These components are critical to include in the financial aid shopping sheet.

Specific recommendations:

- We recommend replacing “How much will it cost each year” with “How much will it cost in [specific year, like 2012-13].” Otherwise, it implies that the costs and financial aid will not change year to year.
- We recommend adding the term “net price” in parentheses after “What you will pay for one year,” to help connect this number with other net price figures students may encounter in net price calculators or net price data in the Department of Education’s College Navigator website.

Middle left box (loan and work study options)

It is helpful that this section outlines the federal student loan options, but it would be more consistent with existing financial aid practices to include *recommended* loan amounts rather than the maximum loan amounts that students are eligible for. Particularly since unsubsidized Stafford loans can be used to replace EFC (expected family contribution), highlighting the maximum amount students can borrow may inadvertently encourage students to use loans before considering other resources to meet their expected family contribution.

If the financial aid shopping sheet presents recommended loan amounts, it should provide information about the student’s full eligibility in a separate attachment (for a printed version of the shopping sheet) and/or a pop-up window (for an electronic version of the shopping sheet). If the financial aid shopping sheet continues to present maximum loan eligibility, it should clearly indicate to students that they do not have to take out the maximum loan amount.

The shopping sheet should clearly display any “remaining costs” after grant aid, federal student loans and work-study, and inform students that their options for covering these remaining costs include earnings, savings, contribution from family, parent PLUS loans, and/or private student loans. As discussed earlier, we strongly recommend removing the estimate for private student loan borrowing and specifying that this section only provides information about *federal* student loans. Private student loans should be presented as only one of many options for covering any college costs that remain after

grant aid, federal student loans, and work-study. Additionally, in light of the fact that a majority of undergraduate private loan borrowers were eligible for more federal loans than they borrowed,⁴ the shopping sheet should encourage students to discuss the availability of free or lower-cost financial assistance with the school’s financial aid office before considering a private education loan.

Other specific recommendations:

- To connect this box with the section above, we recommend replacing “What are your loan and work study options?” with “What federal loan and work study options are recommended to cover your college costs?”
- A version of this shopping sheet for graduate students should include Grad PLUS loans in the list of federal loans.

Lower left box (monthly loan payments)

We believe it is important to provide estimated monthly loan payments to help students contextualize the amount they are expected to borrow. However, this section is missing some key information:

- The shopping sheet needs to specify how many years of borrowing it presumes (e.g., 4, 5, or 6 years). That information will help students understand how the total loan debt is being estimated, as well as the ramifications of taking longer to complete their programs. This is particularly important for unsubsidized Stafford loans, where interest accrues while the student is in school.
- The shopping sheet needs to specify which repayment plan is being used to determine the monthly loan payments. We recommend providing estimated monthly payments for a 10-year repayment plan and noting that if students are unable to cover those monthly payments, they may be eligible for other plans with lower monthly payments (such as extended repayment or Income-Based Repayment), but any repayment plan that allows them to pay less per month may require paying more over time.

As discussed earlier, we strongly recommend removing the estimates for private student loan borrowing. Because private loan terms vary widely, and they typically carry variable interest rates and terms that can be changed by the lender after the loan is issued, it may not be possible to estimate monthly payments even if it were desirable to do so. Instead, the shopping sheet should specify that the estimated monthly payments only include the recommended federal student loan amounts, and that other forms of borrowing (e.g., through more federal student loans, parent loans, or private loans) would increase the monthly payments. This box would need to be relabeled “After graduation, how much will you owe in *federal student* loans?” since it will not include any other type of borrowing.

Upper right box (bar chart comparing costs)

Colleges vary greatly in costs, and it is important for students to be able to compare their options to determine which colleges are the best financial, as well as academic, fit. However, we are concerned that this section may create confusion and even unintentionally mislead students, due to limitations of the data and issues with comparability. Because of the limitations outlined below, we recommend eliminating this section.

⁴ The Institute for College Access & Success’ Project on Student Debt. *Critical Choices: How Colleges Can Help Students and Families Make Better Decisions about Private Loans*. July 2011. http://ticas.org/files/pub/critical_choices.pdf.

Unfortunately, the available federal data have drawbacks that can limit their usefulness in making comparisons with students' individualized net price.

- The average net price data (not broken down by income) from the Department of Education's Integrated Postsecondary Education Data System (IPEDS) only provide averages for students who received grant aid. Unlike the individualized net price figures in the financial aid shopping sheet, students' likelihood of receiving grants is *not* accounted for in the average net price data. This means that a student who does not qualify for any grant aid will be comparing their net price (subtracting \$0 in grants) for a particular college with the average net price of students who did receive grants. Additionally, since the average net price data cover all students, regardless of financial situation or other characteristics, those figures may not be tailored enough to provide a meaningful comparison for the student's individualized net price.
- The net price by income data from the IPEDS have rather wide income categories (e.g., \$75,001 to \$110,000) and provide averages for students who received any Title IV aid, whether they received grants or not. At colleges where a small percentage of higher income students receive Title IV aid, the net price data may not be representative and may not provide a meaningful comparison with the student's individualized net price, which takes into account his/her likelihood of receiving grants and other aid.

Because a student's individualized net price is determined based on his/her financial situation and other characteristics, it may be counterproductive to compare his/her net price with the average net price for all students at that college. Encouraging students to contest their financial aid packages based on these figures would create inconvenience and strain for financial aid administrators, as well as potentially lead to discontent among the students themselves. Additionally, this figure does not clearly help students choose *between* colleges.

Rather than presenting comparison groups, it may be most useful to just make the individualized net price figure very prominent on the financial aid shopping sheet and allow students to compare the actual net prices for the specific colleges they applied to.

If this section is retained despite the limitations outlined above:

- The shopping sheet should more clearly indicate that all of the figures in this section represent net price (total cost of attendance minus grant and scholarship aid). Currently, it is not clear which "cost" is being compared. To figure it out, the student would have to match the \$18,000 ("Your cost") with the \$18,000 figure that currently appears under "What you will pay for one year."
- If the shopping sheet compares the student's individualized net price with averages for other sectors, all the sectors in that level should be included. In this example shopping sheet, those sectors would be public 4-year colleges, private nonprofit 4-year colleges, and private for-profit 4-year colleges. Notably, for-profit colleges are currently excluded from the example chart.

Outcomes box (including default rates, graduation rates, and retention rates)

We commend the inclusion of information about student loan default rates, graduation rates, and retention rates in this draft financial aid shopping sheet. These data can help students make more informed decisions about which college to attend. To that end, we suggest adding a title to this section to help communicate that the data relate to student outcomes at that school.

The student loan default rate figures in the shopping sheet appropriately track defaults within the first three years of repayment, rather than just the first two years of repayment. Next year, official three-

year cohort default rates will become available and it is absolutely critical to continue to use a three-year window. While still an incomplete picture of student loan defaults, the three-year rates are a much better indication of borrower experience than the two-year rates, since they include a longer timeframe. By including the third year of repayment, the default rate increases by 93 percent at for-profit colleges, 69 percent at private nonprofit colleges, and 60 percent at public colleges.⁵ It is important to capture the experience of borrowers as comprehensively as possible, so we urge the continued tracking of student loan defaults within a three-year period.

However, it is important to account for the fact that, at many colleges, only a small share of students borrow federal loans. As a result, the default rate at those schools may not reflect the experience of most students. To enable consumers to more accurately compare their risk of defaulting, we recommend that the shopping sheet use a student default rate index (three-year cohort default rate multiplied by the school's borrowing rate), rather than the cohort default rate. The college's student default rate index score should be displayed in the same color-coded chart, comparing the school's default rate index with all colleges nationally.

If the financial aid shopping sheet continues to present the cohort default rate and not a student default rate index, we strongly recommend that the shopping sheet indicate the percentage of students at that school that borrow federal student loans. This figure gives important context to the cohort default rate. Additionally, it would be important to specify that the default rate reflects the percentage of *borrowers* who defaulted, not students overall. This definition is currently mislabeled.

It would be helpful to indicate how the color-coded bars (low, medium, and high) in the student loan default rate chart are defined. The most straightforward and easy-to-understand approach for creating the red-yellow-green categories would be to take the distribution of all colleges' default rates and divide them into thirds.

In terms of the graduation and retention rates, we urge the CFPB and Department to carefully consider whether the average for colleges in the same sector (in the example, 4-year "private" schools) is the most appropriate comparison. Comparing the college's figures with others in the same sector may prevent students from realizing that colleges in other sectors may have, on average, better outcomes. For example, the graduation rates at 4-year public, private nonprofit, and private for-profit schools vary significantly. Rather than presenting comparison groups, it may be most useful to allow students to make comparisons on their own, for the specific colleges they applied to. For example, FAFSA-on-the-Web currently provides information about a college's graduation, retention, and transfer-out rates without a comparison group. Students can compare those rates with the rates of other schools that they applied to.

⁵ Calculations by TICAS on data from the U.S. Department of Education, "Trial Three-Year Cohort Default Rates FY 2008." <http://federalstudentaid.ed.gov/datacenter/cohort.html>. Accessed May 19, 2011. These 3-year default rates represent federal student loan borrowers who entered repayment in federal fiscal year 2008 and defaulted by the end of the 2010 federal fiscal year.

Other recommendations:

- In the section about graduation rates, the shopping sheet should clarify that the graduation rates are for *first-time, full-time* students.
- In the section about retention rates, we recommend replacing “non-graduating” with “first-time.”
- We recommend adding transfer-out rates to this section. Currently, FAFSA-on-the-Web provides information about the school’s graduation rate, retention rate, *and* transfer-out rate. For community colleges and other schools with transfer missions, transfer-out rates are a critical outcome for students to know about and consider when making decisions about where to attend.
- We are pleased to see that the shopping sheet provides contact information for the financial aid office. We also recommend adding a URL for the website of the financial aid office, so students can easily find out information such as office hours.

Comments on selected questions on the financial aid shopping sheet webpage

- *If there was a web-based interactive version, what functionalities would you like to see?* Pop-up descriptions of the different forms of financing, as well as explanations of terms and measures, so the form itself remains simple and brief. There should also be links to other helpful consumer information about the college, such as to the school’s College Navigator page.
- *Rank these features:*
 - It would be extremely helpful to provide information on the student’s expected debt level compared to national averages by sector; however, timely and comprehensive data on cumulative debt are not currently available. To obtain the necessary data, we recommend that the Department begin including questions about cumulative (not just annual) borrowing in its IPEDS survey questions and work toward including nonfederal as well as federal loans in the National Student Loan Data System (NSLDS).⁶
 - Similarly, it would be helpful to indicate whether students at the school have been able to repay their loans. However, there is currently no comprehensive data on loan repayment rates. The Department of Education will be calculating loan repayment rates for career education programs, but these rates are not available for other programs and schools.

We greatly appreciate the opportunity to comment on this draft financial aid shopping sheet. If you have any questions about our comments, please do not hesitate to contact Diane Cheng at TICAS by phone at (510) 318-7900, or via email at dcheng@ticas.org.

⁶ For more information about TICAS’ recommendations for improving student debt data, see the Project on Student Debt. *Student Debt and the Class of 2010*. November 2011. <http://ticas.org/files/pub/classof2010.pdf>. See also U.S. Department of Education, National Postsecondary Education Cooperative (NPEC). *Suggestions for Improvements to the Collection and Dissemination of Federal Financial Aid Data*. October 2011. <http://nces.ed.gov/pubs2012/2012834.pdf>.