



Why does award displacement occur?

“Outside” College or University Scholarships and Award Displacement: Information for Students and Families from the National Scholarship Providers Association (NSPA)

Why Does Award Displacement Occur?

Award displacement can occur for a variety of reasons:

Federal Student Financial Aid Policies

Federal regulations govern the awarding of federal student aid. The FAFSA (Free Application for Federal Student Aid) is the starting point in determining family eligibility. By submitting the FAFSA, an Estimated Family Contribution (EFC)¹ is calculated and subtracted from the Cost of Attendance² (COA) at each respective college or university. This determines if a student has financial need (also called financial profile) and if he or she is eligible for Federal Student Aid Funding. It is important to note, that if a student is receiving federal need-based aid, per federal regulations, **an outside scholarship cannot cover a family’s EFC** without the reduction of federal sources of aid such as Federal Work-Study, the Direct Subsidized Loan, the Federal Perkins Loan, and the Supplemental Education Opportunity Grant. However, the Pell Grant, one type of federal financial aid called an “entitlement,” is never reduced. **If the Pell Grant is the only type of federal financial aid in a student’s financial aid package then the EFC can be covered by an outside scholarship.**

Another source of award displacement occurs when a student is completely awarded up to their COA. In order to comply with Federal Regulations, such as the overaward³ regulation, a reduction in some type of financial aid must be made. As noted above, the Pell Grant will never be reduced, and college and university policies and practices will govern the treatment of what is called campus-based aid (described in footnote 3).

College and University Policies and Practices

Sometimes schools have policies to only distribute their limited funding (scholarships or grants) to students who do not have outside scholarships, or it is their policy or practice to give their scholarships and grants to as many eligible students as possible. In these circumstances, schools will not award their scholarships or grants to students who have scholarships from outside scholarship providers.

¹ EFC is the number used by your school to calculate the amount of federal student aid you are eligible to receive. Your EFC is **not** the amount of money your family will have to pay for college (it could be less) **nor** is it the amount of federal student aid you will receive.

² The cost of attendance (COA)—sometimes referred to as the “student budget”—is an estimate of what it costs a typical student to attend a specific institution. The COA is made up of two different types of costs: direct and indirect.

- Direct costs are items that will appear on the bill, such as tuition, fees, and room and board (if you live on campus).
- Indirect costs will not appear on the bill, but are estimated costs associated with going to college and should be included in your budget. These include items like books, transportation and personal expenses.

³ Federal overaward regulations require reductions in campus-based aid, such as the Federal Work-Study, the Federal Supplemental Education Opportunity Grant, as well as reductions in the Federal Perkins Loan and the Federal Direct Subsidized Stafford loan, when a student is overawarded. An overaward can occur when a student’s total need-based financial aid exceeds demonstrated financial need. An overaward can also occur when total financial aid, including non-need-based aid, exceeds the institution’s Cost of Attendance (COA). Effectively, certain forms of financial aid are subject to caps based on financial need and the COA.

Many institutions have policies that leave all students with unmet need. When a student receives an outside scholarship, some of these institutions will displace (take away) the scholarship instead of allowing the scholarship to fill the unmet need gap. For example, some institutions have a “minimum student contribution expectation” that requires all students to contribute a specified amount (typically \$1,500 to \$3,500) to their higher education, regardless of the amount of the student’s financial need or income, and the EFC must still be paid in full by the student and/or family.

Many institutions also have financial aid packaging policies that allow outside scholarships to fill unmet need and then replace student loans and student employment before reducing institutional grants, especially for students with exceptional financial need. NSPA has identified this as a good practice.

Outside Scholarship Organization Policies and Practices

Award displacement can also be caused by scholarship provider policies and practices that restrict the scholarships to a limited subset of the components of the COA. For example, some private scholarships are restricted to just tuition and fees and some just to textbooks. If the student receives a tuition-only private scholarship and other forms of financial aid that are also restricted to tuition, it is possible for the combination of tuition-restricted aid to exceed tuition, leading to award displacement. One private scholarship might even displace another private scholarship. This type of award displacement occurs because of a lack of flexibility by two or more sources of student aid funds.

Last Dollar Financial Aid Policies

The terms “first dollar” and “last dollar” concern the prioritization of financial aid funds. The Federal Pell Grant is a form of financial aid that is intended to cover the first dollar of demonstrated financial need. First dollar funds are almost never displaced. However, most other sources of financial aid want their funds to be considered last dollar and applied to students’ financial need after all other funds have been added. The goal is to stretch funds as much as possible by filling in the gaps left by all other sources of financial aid. Conflicts between these last dollar financial aid policies can lead to award displacement.

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