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Funding and Distribution of Institutional Grants in 1999-2000: Results from the 2001 Survey of Undergraduate Financial Aid Policies, Practices, and Procedures

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In 1999-2000, postsecondary institutions awarded more than \$10 billion in institutional grants to undergraduates. Since 1990, institutional spending on grant aid has grown by more than 84 percent in inflation-adjusted value. This rapid expansion has led to several important questions: How do institutions fund their grant programs? What criteria do colleges and universities use to award grants? Are institutional grants still being directed toward students with demonstrated financial need? This article uses data from the 2001 Survey of Undergraduate Financial Aid Policies, Practices, and Procedures (SUFAPPP) to help answer these questions about institution-based financial assistance.

As college costs continue to rise, more and more students, particularly those attending four-year private colleges and universities, are receiving institutionally funded grants to help meet their postsecondary education expenses. The proportion of undergraduates at all institutional types who received institutional grants grew from 11 percent in 1989-1990 to 15 percent in 1999-2000; the share of undergraduates at four-year private institutions with institutional grants jumped from 36 percent to 45 percent (National Center for Education Statistics (NCES), 2001a, 2001b). During the 1990s, total funding for institution-based grant assistance grew by more than 84 percent in inflation-adjusted value, while appropriations for Federal Pell Grants rose only 16 percent (College Board, 2001a). Collectively, postsecondary schools provided more than \$13 billion in grant aid to undergraduate and graduate/professional students in 1999-2000 (College Board, 2001a). The lion's share of these funds (approximately 54 percent in 1999-2000) was provided to undergraduates at four-year private schools (NCES, 2001b).

The rapid expansion of institutional grants has led to several questions about the way this aid is awarded: How do institutions fund their grant programs? What criteria are used to distribute institutional grants? Are institutional grants still being directed toward students with demonstrated financial need?

This article uses data from the 2001 Survey of Undergraduate Financial Aid Policies, Practices, and Procedures (SUFAPPP) to help answer these important questions (National Association of Student Financial Aid Administrators (NASFAA)

& The College Board, 2002). The 2001 SUFAPPP is the fourth in a series of studies on issues in financial aid administration that NASFAA and The College Board have cosponsored since 1983. The most recent Web-based survey, sent to the chief financial aid administrators at 2,554 institutions that were members of one or both organizations as of October 2001, asked institutions to provide information on the methodologies they used to package financial aid from federal, state, and institutional aid programs for undergraduate students during the 1999-2000 award year. The SUFAPPP population consists of 82 percent of the accredited four-year public colleges and universities in the United States, 63 percent of four-year private institutions, and 62 percent of the two-year public colleges. However, only 9 percent of the two-year private colleges and 6 percent of the proprietary (private, for-profit) schools are members of either NASFAA or The College Board. The number of responses from proprietary schools was too low to be included in the analysis.

Roughly 30 percent of the SUFAPPP population responded to the survey. While the survey response rate is relatively low, several of the characteristics of the respondents are similar to the survey population. For example, the 1999-2000 weighted average tuition and fee charges at four-year public and private colleges in the survey population (\$3,368 and \$15,676) were very similar to the survey respondents (\$3,392 and \$17,061, respectively). Roughly 59 percent of the survey population had full-time equivalent (FTE) undergraduate enrollment of less than 2,500, compared with 57 percent of the survey respondents. And approximately 13 percent of the SUFAPPP respondents were classified as Research or Doctoral institutions, versus 9 percent of the survey population. The similar characteristics between SUFAPPP participants and the population suggest that the results generally reflect the institutional aid policies and practices at all NASFAA and College Board member institutions.

Some of the characteristics of the four-year colleges and universities that responded to SUFAPPP are also similar to all four-year public and private colleges nationally. According to The College Board (2001b), the weighted average tuition and fee charge in 1999-2000 was \$3,356 for all four-year public colleges and universities and \$15,380 for four-year private schools. The average undergraduate FTE enrollment at all four-year public institutions (7,781) and four-year private colleges (1,555), as reported by the NCES (2001c), was only slightly lower than the average FTE enrollments at SUFAPPP respondents' institutions (9,658 for public colleges and 1,789 for private schools). Thus, it is possible that the SUFAPPP results will also reflect the institutional aid policies at all four-year institutions nationally.

This study first describes the sources of revenue institutions used in 1999-2000 to fund their institutional grant pro-

The similar characteristics between SUFAPPP participants and the population suggest that the results generally reflect the institutional aid policies and practices at all NASFAA and College Board member institutions.

Sources of Funding for Institutional Grants

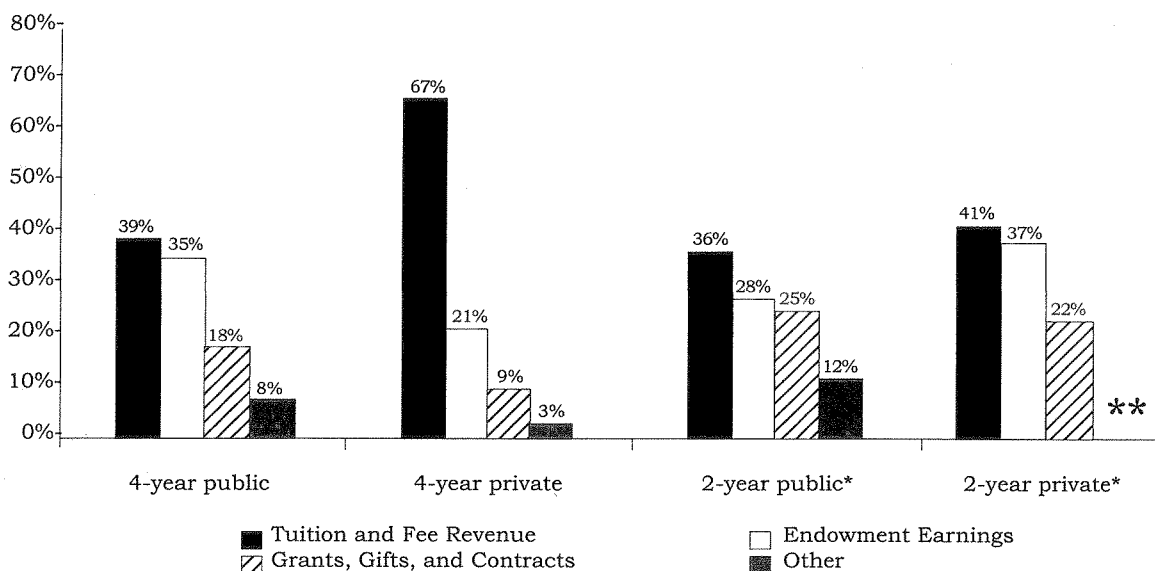
grams, with a special focus on the revenue sources used by four-year private colleges and universities. The article then describes the criteria institutions used to distribute institutional grants to undergraduate students, and shows the proportions of recipients who had demonstrated financial need.

Approximately 2.4 million undergraduates received institutional grants in 1999-2000, and these students collectively received \$10.1 billion. While the average award for all undergraduates was \$4,165, the amount received varied by institutional type. Recipients at four-year private colleges and universities had awards, on average, of \$6,605, compared with \$2,573 at four-year public institutions, \$2,615 at two-year private colleges, and just \$826 at community colleges. Undergraduates at four-year public and private institutions accounted for 83 percent of institutional grant recipients and 90 percent of the total funds (NCES, 2001b).

At most institutional types, especially four-year private colleges, tuition and fee revenue (the collective amount of tuition and fees students and their families paid to attend postsecondary schools) provided the major source of funding for institutional grants. Tuition and fee dollars made up two thirds of the funding for institutionally funded scholarships at four-year private colleges, 39 percent at four-year public schools, and 36 percent at two-year public (community) colleges (see Figure 1). Endowment earnings accounted for 37 percent and 35 percent of grant funding for grants distributed by two-year private institutions and four-year public colleges, respectively, compared with 28 percent at community colleges and 21 percent at four-year private institutions. Grants, gifts, alumni donations, and contracts made up about one quarter of the funding for two-year public and private colleges, compared with 18 percent at four-year public colleges and only 9 percent at four-year private institutions.

For four-year private colleges and universities, the sources of funding varied substantially by level of undergraduate admissions selectivity. On average, tuition and fees accounted for just one third of the total dollars for institutional aid at highly selective institutions (generally, those that accepted 30 percent or fewer of their applicants for admission to the entering freshman class—see the Appendix for definitions of admissions selectivity levels), while endowment earnings accounted for 58 percent and private gifts and other sources made up 9 percent (see Table 1). Moderately selective institutions, on the other hand, had nearly three quarters of their institutional grants come from tuition and fees, only 15 percent from endowment income, and 10 percent from private gifts and other sources. This large difference occurred because highly selective institutions tend to

FIGURE 1
Sources of Funding for Institutional Grants
in 1999–2000, by Institution Type



*Includes less-than-two-year institutions. The number of proprietary (private, for-profit) school survey respondents was too low to calculate a reliable estimate.

**Less than 1 percent.

Source: NASFAA & The College Board, 2002.

have large endowments and receive larger gifts that can be used for financial aid and other purposes.

The use of tuition and fee revenue for financial aid has become a sensitive issue for four-year private colleges and universities. Many private institutions depend heavily on tuition and fees to fund their basic educational operations; in 1995-96, tuition dollars accounted for 55 percent of private colleges' educational and general revenue (Redd, 2000). At a number of these colleges, average institutional grants have doubled, while tuition revenue per FTE student grew by a much smaller amount (Redd, 2000).

The heavy reliance on tuition and fees to fund institutional grants thus potentially brings great danger for a number of private schools. One recent study (Redd, 2000) has found that during the 1990s, one quarter of the private institutions lost substantial amounts of net tuition revenue (total tuition and fee dollars minus the amounts spent on grant assistance) as a result of their increases in institutional grants. The study concludes that these institutions have "run the risk of having fewer dollars available for instruction, libraries, faculty and administrators' salaries, and other academically related expenses" (Redd, 2000, p. 7) as a result of their rapid increases in spending on grants.

TABLE 1
Average Sources of Funding for Institutional Grants
for Four-year Private Colleges and Universities in 1999–2000,
by Undergraduate Admissions Selectivity Level

Selectivity Level	Number of Institutions	Tuition and Fee Revenue	Endowment Earnings	Grants, Gifts, and Contracts	Other
Highly selective	17	33%	58%	9%	**
Selective	35	67%	25%	7%	1%
Moderately selective	164	74%	15%	8%	2%
Minimally selective	25	61%	16%	12%	11%
Noncompetitive	5	42%	50%	4%	4%
Missing	17	38%	34%	20%	7%
All four-year private institutions	263	67%	21%	9%	3%

**Less than 1 percent.

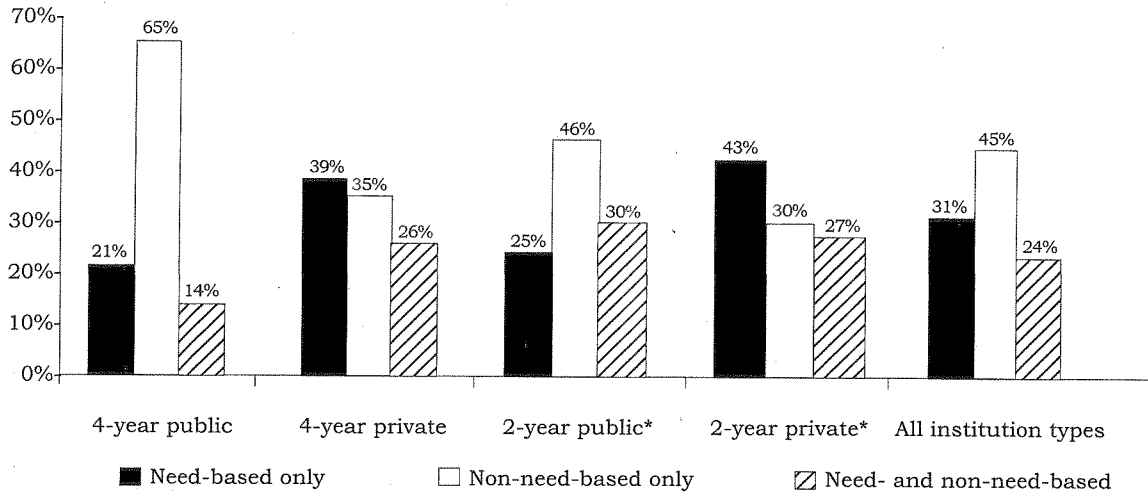
Source: NASFAA & The College Board, 2002.

Criteria Used to Distribute Institutional Grants

At nearly all postsecondary institutions, the growth in spending on aid has been used to provide three types of grant awards. The first, “need-based” grants, is provided to students based entirely on their demonstrated financial need. Need is determined at the time students apply for financial aid at their schools. Typically, these scholarships are provided to students from low- and moderate-income families. The second type, “non-need-based” grants, is distributed based exclusively on students’ academic merit or other criteria besides financial need (these other criteria are described more fully later). These grants are available to students regardless of their families’ income, assets, or demonstrated need. The third type of grants is awarded based on a combination of need- and non-need-based criteria. These grants, often referred to as “merit-within-need” awards, are awarded to students based on their financial need *plus* some other criterion. Students apply for financial aid to receive these funds, but must demonstrate high academic achievement or some other skill (such as artistic or musical talent) to qualify.

On average across all institutional types, the plurality of grant dollars—45 percent in 1990-2000—were exclusively non-need awards. Only 31 percent of the grants were entirely need-based, and 24 percent were “merit-within-need” (see Figure 2). Non-need-based institutional aid was particularly prevalent at four-year public colleges and universities. On average, about 65 percent of the institutional grants provided by these schools were exclusively non-need-based, compared with 35 percent at four-year private institutions, 46 percent at community colleges, and 30 percent at two-year private colleges. Conversely, one fifth of the aid dollars at four-year public schools were exclusively need-based, versus two fifths at four-year private colleges and one quarter at community colleges.

FIGURE 2
Average Distribution of Institutional Grant Funds
in 1999–2000, by Institution Type



*Includes less-than-two-year institutions. The number of proprietary (private, for-profit) schools was too low to calculate a reliable estimate.

Source: NASFAA & The College Board, 2002.

Among private colleges, the share of aid that was need-based differed noticeably when admissions selectivity level is considered. At highly selective institutions, about three quarters of the grants were need-based, only 6 percent were exclusively non-need-based, and 19 percent were merit-within-need (see Table 2). At minimally selective institutions, on the other hand, just one fifth of the grant aid was exclusively need-based, while half was non-need and 29 percent was merit-within-need.

Overall, only about one third of the institutional dollars provided by four-year public colleges and universities was awarded based on students' financial need (either need-based exclusively, or merit-within-need). This compares with an average of 65 percent at four-year private colleges and universities, 55 percent at community colleges, and 70 percent at two-year private colleges.

These findings suggest two things. First, because public colleges are generally lower priced, they are able to use a greater share of their aid for non-need grants. Private colleges generally have to reserve a larger share of their aid funds for need-based grants because their students are more likely to have larger amounts of financial need. Second, four-year public institutions may have been using a larger share of their aid to compete with private institutions for meritorious students. College ranking services such as *U.S. News and World Report* usually place a

TABLE 2
Average Distribution of Institutional Grants by
Four-year Private Colleges and Universities in 1999–2000,
by Undergraduate Admissions Selectivity Level

Selectivity Level	Need-based	Non-need-based	Need- and Non-need-based
Highly selective	75%	6%	19%
Selective	57%	23%	20%
Moderately selective	34%	39%	27%
Minimally selective	22%	49%	29%
Noncompetitive	22%	36%	42%
Missing	33%	34%	33%
All four-year private institutions	39%	35%	26%

Source: NASFAA & The College Board, 2002.

strong emphasis on the proportion of students with high scores on college admissions tests (Morse & Flanigan, 2002; Redd, 2000). Apparently, a large number of four-year public colleges used a majority of their institutional grants to attract these “high ability” students. Selective private colleges may have been able to use a majority of their aid for need-based and merit-within-need grants because they generally receive admissions applications from many meritorious prospective students and may not have had to use as much merit- or non-need aid to attract these candidates as other institutional types.

Perhaps due to the competition for meritorious students, most institutions used a wide variety of criteria to determine eligibility for non-need grants (Monks, 2000). However, as Table 3 illustrates, these criteria differed substantially by school type. Of the institutions that offered any non-need-based institutional grants in 1999-2000:

- Nearly 94 percent of four-year public colleges and 93 percent of four-year private institutions used academic merit to distribute non-need grants. This compares with 87 percent of two-year public and private colleges.
- About half of the four-year public colleges based their non-need awards on students’ race or ethnicity, versus only one quarter of community colleges and 43 percent of four-year private colleges.
- More than three quarters of four-year public colleges awarded athletic scholarships, and 69 percent distributed funds based on students’ demonstrated artistic or other “special talents.” Only about half of the four-year private colleges awarded athletic aid; and two thirds provided scholarships based on artistic or other talents.

TABLE 3
Percentage of Institutions that Awarded Non-need Institutional Grants,
by Institutional Type and Criteria Used to Distribute the Grants
to Undergraduates in 1999–2000*

	Academic Merit	Race or Ethnicity	Artistic or Other Talents	Athletics	Alumni Affiliation	Religious Affiliation
4-year public	94%	47%	69%	78%	31%	4%
4-year private	93%	43%	66%	47%	37%	43%
2-year public**	87%	26%	49%	48%	10%	1%
2-year private**	87%	#	37%	25%	12%	12%
All institution types	92%	37%	61%	53%	27%	21%

*Percentages are based on the institutions that awarded non-need-based institutional grants in 1999–2000. Criteria for awarding non-need institutional grants are not mutually exclusive (institutions may have used two or more criteria to distribute non-need grants).

**Includes less-than-two-year institutions. The number of survey respondents from proprietary (private, for profit) schools was too low to calculate a reliable estimate.

#Less than 1 percent.

Source: NASFAA & The College Board, 2002.

- Many four-year private colleges and universities are affiliated with a church, synagogue, or other religious organization, so it should come as no surprise that nearly 43 percent of these institutions awarded non-need institutional aid based on students' religious affiliation. Only 4 percent of four-year public colleges and 1 percent of community colleges provided aid based on membership in a religion.
- About one third of four-year public and private institutions based their non-need awards on students' affiliation with college alumni (typically, these awards are provided to students whose parents or other relatives are graduates of the school).
- Roughly 10 percent of community colleges and 12 percent of the private two-year colleges said they offered "alumni-affiliation" awards.

These criteria were not mutually exclusive, as many institutions used two or more of the above categories to award their non-need-based institutional grants.

Do Institutional Grants Help Students with Financial Need?

Prior research (e.g., Heller, 2001; Heller & Nelson Laird, 1999; McPherson & Schapiro, 1998) has suggested that low-income undergraduates are less likely to benefit from the use of academic merit scholarships and other non-need aid because they are not as likely as middle- and upper-income families to meet the criteria necessary to qualify for these grants. Colleges and universities typically distribute merit aid based on students' high school grades or college admissions test scores. Middle- and upper-income families, because they generally have greater

The SUFAPPP provides some evidence that, at many schools, a large share of the non-need grants were actually being directed toward students with demonstrated financial need.

access to better high school curricula and test preparation courses, are more likely to meet the award criteria.

Heller (2001) shows that institutional spending for merit scholarships and other “non-need” grants nearly doubled from 1989 to 1995. Much of this increase appears to have gone to middle- and upper-income students. Heller and Nelson Laird (1999) demonstrate that from 1989-1990 to 1995-1996, the number of undergraduates from higher-income families who received non-need aid jumped 23 percent, while the number of recipients from the lowest-income families declined 11 percent.

Many higher education analysts and financial aid administrators believe the proliferation of non-need grants indicates that colleges and universities are turning away from their traditional mission of using their grant funds to provide access and educational opportunity for poor families. Instead, these analysts fear, higher education institutions are using their institutional grants as marketing “tools” to attract the “best and brightest” undergraduates to their campuses, regardless of the students’ income or financial need (Monks, 2000; Russo, 2000).

The SUFAPPP results, which show the large share of institutional grants used for non-need purposes, may appear at first to confirm these fears. However, the SUFAPPP also provides some evidence that, at many schools, a large share of the non-need grants were actually being directed toward students with demonstrated financial need. For the SUFAPPP survey, financial need was based on the Federal Methodology, which defines demonstrated need as the difference between students’ total educational costs and the estimated amounts they and their families can contribute toward these costs.

Eighty-two percent of the survey respondents at four-year private colleges and 70 percent of those at four-year public institutions reported that more than three quarters of their non-need institutional grant recipients had demonstrated financial need (see Table 4). On average, nearly 60 percent of the non-need grant recipients at four-year private colleges and universities, and 40 percent of awardees at four-year public institutions, had demonstrated financial need. Roughly half the non-need awardees at all institutional types had demonstrated need, with 69 percent of SUFAPPP respondents reporting that at least three quarters of their non-need grant recipients had need. Only 15 percent of the respondents said that less than one quarter of their non-need awardees had financial need.

These results should not be surprising. As college costs rise, more and more families—even those with higher incomes—will demonstrate need for financial aid. Families who wish to attend very high-cost schools and those with more than one family member in college are particularly more likely to have need for aid. For most middle-income families, the chances of receiving Federal Pell Grants and other federally financed grant aid are extremely slim. Non-need grants from institutions often

TABLE 4
Distribution of Non-need-based Institutional Grants
to Students with Demonstrated Financial Need*
in 1999-2000, by Institutional Type

	25% or Fewer Recipients Had Need	26% to 49% of Recipients Had Need	50% to 74% of Recipients Had Need	75% or More of Recipients Had Need	Average Percentage of Non-need Recipients Who Had Need
4-year public	11%	10%	8%	70%	40%
4-year private	7%	2%	9%	82%	58%
2-year public**	33%	7%	16%	44%	39%
2-year private**	27%	#	36%	36%	57%
All institutional types	15%	5%	11%	69%	49%

*Financial need as defined by the Federal Methodology. Percentages are based on the institutions that awarded non-need-based institutional grants in 1999-2000.

**Includes less-than-two-year institutions. The number of survey respondents from proprietary (private, for-profit) schools was too low to calculate a reliable estimate.

#Less than 1 percent.

Source: NASFAA & The College Board, 2002.

are the only assistance other than student loans that these families are eligible to receive. It appears that a large portion of the exclusively non-need awards are actually being offered to help meet the financial needs of these students.

Conclusions

There is no doubt that merit- and other non-need institutional aid has grown rapidly in recent years, and at many schools these grants probably have grown much faster than traditional need-based aid programs. The SUFAPPP results show that all institutional types, even low-cost community colleges, have awarded a large share of their institutional grants based on students' academic merit or other criteria besides their demonstrated financial need. Overall, less than one third of the institutional aid in 1999-2000 at SUFAPPP-respondent institutions was provided based strictly on students' financial need, while 45 percent was reserved for non-need aid.

While prior research has strongly suggested that colleges use their institutional aid primarily to meet marketing or enrollment objectives, the SUFAPPP results indicate that a fairly large proportion of the non-need recipients had demonstrated financial need, based on the Federal Methodology. Overall, nearly half of the "non-need" grantees had financial need; at four-year private institutions, nearly six out of ten of the non-need aid recipients had need. Even a fairly substantial share of the respondents at public institutions indicated that their non-need recipients had demonstrated need.

These results suggest that many of the "non-need" and "merit-within need" awards were, in reality, need-based in the

sense that, for all intents and purposes, they appear to have been awarded to help recipients meet their demonstrated financial need. Such grants are typically provided to middle- and upper-income students who do not meet the traditional definitions of "financially needy," but nonetheless face challenges in paying for college. These families often complain that they have more than one family member at a high-cost private college, or have other financial constraints that limit their ability to pay postsecondary expenses. Higher education institutions appear to have responded to these complaints by using non-need grants to try to help preserve college *affordability* for middle-income families. However, it is possible that the price paid for this achievement may be the dilution of college *access* for those from lower-income groups.

It also appears that many institutions, private colleges particularly, are using a large share of their tuition and fee revenue to provide institutional grants. The SUFAPPP results demonstrate that tuition and fee dollars at private colleges provided two thirds of their funding for institutional grants—at less selective colleges, tuition funds provided nearly three quarters of the aid dollars. Even at public colleges, tuition revenue accounted for nearly 40 percent of institutional grants. This result may cause at least two major problems for many institutions. First, students who pay the "full" tuition price may discover that a fairly large share of their dollars are being used to provide institutional grants for "non-need" purposes, and this may lead students and families to resent their school's financial aid policies. Second, and much more important, is the risk that with so many tuition dollars going to provide financial assistance for students, other pressing needs—academic programs, extracurricular activities, faculty and administration salaries, etc.—could face substantial funding shortages at many campuses. While this study cannot determine what effect these trends will have on institutions, it is possible that continued reliance on tuition dollars for financial aid will adversely affect the quality of academic programs at a number of institutions in the future.

The SUFAPPP results indicate that most institutions continue to focus their institution-based grant aid on students with financial need, but it is likely that many of the beneficiaries of this increased grant aid have come from families with relatively higher incomes. Additional research should focus on what effects the aid policies have had on college access for low- and moderate-income students. Future research should also shed light on the impact of the use of tuition revenue for aid purposes on institutions' fiscal health and academic instruction.

With so many tuition dollars going to provide financial assistance for students, other pressing needs could face substantial funding shortages at many campuses.

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APPENDIX
Undergraduate Admissions Selectivity Definitions

Highly Selective—More than 75% of the freshmen were in the top 10% of their high school class and scored over 1310 on the SAT I (verbal and mathematical combined) or over 29 on the ACT (composite); about 30% or fewer of the applicants were accepted [for admission to the entering freshman class].

Selective—More than 50% of the freshmen were in the top 10% of their high school class and scored over 1230 on the SAT I (verbal and mathematical combined) or over 26 on the ACT (composite); about 60% or fewer of the applicants were accepted [for admission to the entering freshman class].

Moderately Selective—More than 75% of the freshmen were in the top half of their high school class and scored over 1010 on the SAT I (verbal and mathematical combined) or over 18 on the ACT (composite); about 85% or fewer of the applicants were accepted [for admission to the entering freshman class].

Minimally Selective—Most freshmen were not in the top half of their high school class and scored somewhat below 1010 on the SAT I (verbal and mathematical combined) or below 19 on the ACT (composite); up to 95% of the applicants were accepted [for admission to the entering freshman class].

Noncompetitive—Virtually all applicants were accepted [for admission to the entering freshman class] regardless of high school rank or [admissions] test scores.

Source: Peterson's, 1999.