

*The cash management regulations govern a school's management of most SFA program funds. These regulations establish rules and procedures that a school must follow in requesting, maintaining, disbursing, and otherwise managing funds under the Pell Grant, FSEOG, Perkins Loan, FWS, Direct Loan, and FFEL programs.*

These cash management requirements are not applicable to the state grant and scholarship programs because, unlike other SFA programs, the state grant and scholarship programs are administered under rules established by the states. As long as the states administer these programs within the limits established by applicable federal statutes and regulations, the Department allows states administrative discretion in the management of these funds. These state programs are the Special Leveraging Educational Assistance Partnership (SLEAP), the Leveraging Educational Assistance Partnership Program (LEAP—formerly the State Student Incentive Grant [SSIG] Program), the Robert C. Byrd Honors Scholarship (Byrd) Program, and the Gaining Early Awareness and Readiness for Undergraduate Programs (which replaces the National Early Intervention Scholarship and Partnership [NEISP] Program).



Cash Management Cite  
*34 CFR Subpart K*

## PURPOSE OF CASH MANAGEMENT REGULATIONS

The cash management regulations are intended to:

- promote sound cash management of SFA program funds by schools;
- minimize the costs to the government of making SFA program funds available to students and schools; and
- minimize the costs to students who receive SFA loans.

Except for funds received as an administrative cost allowance (ACA), the SFA program funds received by a school are intended solely for the use of student beneficiaries. All other funds are held in trust by the school for students, the Department, and, in the case of FFEL program funds, for lenders and guaranty agencies. SFA program funds cannot be used as collateral or for any other purpose.

Purpose of Regulations Cite  
*34 CFR 668.161*

These rules and procedures also apply to a third-party servicer. For more information about third-party servicers, see the discussion in chapter 2.

## REQUESTING FUNDS

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### Requesting Funds Cite

*34 CFR 668.162, except as noted*

Currently, the Department provides Pell Grant, Direct Loan, and campus-based program funds to most schools either by the *advance payment method* or the *reimbursement payment method*. A third method for requesting funds from the Department is the *just-in-time payment method*. A fourth method called *cash monitoring* will be discussed later. The Department has the sole discretion to determine the method under which SFA program funds are provided to a school (although at this time, participation in the just-in-time payment method is voluntary).

### *The advance payment method*

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### Advance Payment Method Cite

*34 CFR 668.162(b)*

Under the advance payment method, a school may submit a request for Pell Grant, Direct Loan, and campus-based program funds to the Department prior to disbursing aid to eligible students and parents. If the Department accepts a school's request for funds, it will make an electronic funds transfer (EFT) of the amount requested to a bank account designated by the school. A school may not request more funds than the school needs immediately for disbursements the school has made or will make to eligible students and parents. Therefore, a school must make the disbursements as soon as administratively feasible, but no later than three business days following the date the school receives those funds.

The Department does not automatically accept a request for funds from a school under the advance payment method. For example, the Department may reject a request if the amount of the request exceeds the amount of funds the school is authorized to draw down.

### *The reimbursement method*

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### Reimbursement

### Payment Method Cite

*34 CFR 669.162(d)*

Under the reimbursement method, a school must disburse Pell Grant, Direct Loan, and campus-based program funds to eligible students and parents before requesting funds from the Department. Generally, the Department places a school on the reimbursement payment method if it determines that there is a need to monitor strictly the school's participation in the SFA programs. The school cannot request more cash than the amount that it actually disbursed to those eligible students and parents. As part of the school's request the school must

- identify the students and parents for whom it is seeking reimbursement; and

- submit documentation demonstrating that each student and parent included in the request was eligible to receive and has received the SFA program funds for which reimbursement is requested.

Before approving a school's request for funds, the Department determines that the school has

- accurately determined the SFA eligibility of each student;
- accurately determined the SFA payment to each student and parent included in its request; and
- submitted the required documentation.

### Limitations on use of FFEL funds

There are comparable limitations on the use of FFEL funds. If a school is placed on reimbursement or if a school that participates only in the FFEL program has most of the limitations of reimbursement placed on it, the school

- may not disburse FFEL program funds to a borrower until the Department approves the school's request to disburse funds to that borrower; and
- if prohibited by the Department, may not certify a loan application for a borrower until the Department approves the school's request to make the certification for that borrower (this restriction becomes effective on the date that the Department notifies a school that it must obtain approval from the Department to certify loan applications).

The school must provide documentation demonstrating that each borrower included in the request is eligible to receive the disbursement or certification. The documentation must be provided to the Department or an entity approved by the Department for that purpose (for example, a certified public accountant, financial aid consultant, or guaranty agency).

Until the Department approves a request, the school may be

- prohibited from endorsing a master check or obtaining a borrower's endorsement of any loan check the school receives from a lender;
- required to maintain loan funds that it receives from a lender via EFT in a separate bank account; and
- prohibited from certifying a borrower's loan application.

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Limitations on Use of  
FFEL Funds Cite  
*34 CFR 668.167(d)*

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**Delaying Returning Funds Cite**

*34 CFR 668.167(c)(6)*

Because the school's submission and the Department's review of documentation to support a borrower's eligibility takes time, the school may delay returning FFEL Program funds provided by EFT or master check to a lender for a specified period of time (see *Volume 8 — Direct Loans and FFEL Programs*).

**Note:** This provision is applicable only in the FFEL programs.

***The cash monitoring payment method***

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**Cash Monitoring  
Payment Method Cite**

*34 CFR 668.162(e)*

Final regulations published November 25, 1997, introduced the cash monitoring payment method. This payment method is similar to the reimbursement payment method, but less onerous. As with the reimbursement payment method, under the cash monitoring payment method a school must make disbursements to eligible students and parents before it may request or receive funds for those disbursements from the Department.

However, unlike the reimbursement payment method, where a school must provide detailed documentation for each student to whom it made a disbursement before the Department provides SFA program funds to the school, the Department provides funds to a school in one of two less restrictive ways:

- The Department allows a school to make a draw of SFA program funds for the amount of the disbursements the school has made to eligible students and parents; or
- The Department reimburses the school for those disbursements based on a modified and streamlined review and approval process.

For example, instead of requiring a school to provide detailed documentation for each student to whom the school made a disbursement and reviewing that documentation before providing funds to the school, the Department may simply require the school to identify those students and their respective disbursement amounts and provide SFA program funds to the school based solely on that information.

A school that is placed under the cash monitoring payment method is subject to the disbursement and certification provisions that apply to FFEL program funds when a school is placed on reimbursement, but in keeping with the nature of cash monitoring, the Department may modify those provisions.

The Department may tailor the required documentation requirements on a case-by-case basis.

***The just-in-time payment method***

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**Just-in-time  
Payment Method Cite**

*34 CFR 668.162(c)*

The just-in-time payment method was introduced in the November 29, 1996 final regulations. In Dear Colleague letter P-98-5, the Department invited schools to consider volunteering to be the first

participants in the just-in-time payment method by participating in a pilot program starting in the 1999-2000 award year. Pilot participants use the just-in-time payment method for the Pell Grant Program only. The pilot program is part of the implementation of the new Federal Pell Grant Program Recipient Financial Management System (RFMS). For more information on RFMS, see *Volume 1 — Student Eligibility*.

Under the just-in-time payment method pilot, a school submits a disbursement record (which is both a report of a disbursement and a request for funds) no earlier than five days before the actual reported date of disbursement. For each request the Department accepts for a student or parent, the appropriate amount of funds is deposited directly into the school's bank account.

Schools participating in the just-in-time payment method pilot are exempt from the following regulatory requirements with respect to Federal Pell Grant funds:

1. the *three-day-use* rule required for and discussed previously under the *Advance Payment Method*;
2. the recertification of student eligibility at the time of disbursement (an institution may rely on its determination at the time it submits the disbursement record for Federal Pell Grant funds);
3. the requirement that an institution maintain Federal Pell Grant funds in an interest-bearing bank account (see the discussion under *Maintaining and accounting for funds*); and
4. the *excess-cash* rules (see the discussion under *Excess cash* later in this chapter).

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Three Day Rule Cite  
*34 CFR 668.162(b)(3)*

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Recertification Cite  
*34 CFR 668.162(c)(3)*

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Federal Funds Account Cite  
*34 CFR 668.163(c)(3)(iii)*

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Excess Cash Cite  
*34 CFR 668.166(a)(2)*

Using this payment method, schools will have only a nominal amount of excess cash created by minor period adjustments. Since the Department will modify new requests for funds after deducting any adjustments reported by the school, large amounts of excess cash should not occur.

For pilot participants, this regulatory relief does not extend to SFA programs other than the Pell Grant Program.

The just-in-time payment method will enable the delivery system to provide the most current payment information to all system users, thereby reducing the burdens related to reconciling payment data. By providing funds based on current student-level data, just-in-time payment method will strengthen the Department's ability to monitor the integrity of the SFA programs by reducing the potential for misusing funds.

The Department's long-term goal is for all schools, except those using the reimbursement or cash-monitoring payment method, to participate in the Federal Pell Grant Program using the Just-In-Time payment method.

## GAPS

To facilitate implementation of the Education Central Automated Processing System (EDCAPS), section 668.162(a)(2) of the Student Assistance General Provisions regulations requires that each time a school requests funds from the Department, the school must identify the amount of funds requested by SFA program using the program and fiscal year designation (grant award number) that the Department assigned to the authorized funds.

In May 1998, the Department converted to the EDCAPS. Within EDCAPS is the new Grants Administration and Payments System (GAPS), a state-of-the-art delivery system that supports Title IV award and payment administration. GAPS provides on-line capabilities to request payments, adjust drawdowns, and report expenditures from the Department. It also provides continuous access to current grant and payment information, such as authorization amounts, cumulative drawdowns, current award balances, and payment histories.

Schools that participate in SFA programs that require them to submit a payment request, such as Pell Grants or campus-based programs, use GAPS to request funds. Direct Loan funds also can be drawn through the GAPS system. GAPS can be accessed through the Internet at the GAPS Web page

<http://gapsweb.ed.gov>.

The GAPS Web training page provides in-depth information on the GAPS system and training information for the payment request process, including the *GAPS Payee's Guide*. The address of the GAPS training page is

<http://gapsweb.ed.gov/training>

The GAPS Payee Hotline phone number is 1-888-336-8930.

## MAINTAINING AND ACCOUNTING FOR FUNDS

All schools must maintain a bank account into which the Department transfers, or the school deposits, SFA program funds. The account must be federally insured or secured by collateral of value reasonably equivalent to the amount of SFA program funds in the account. A school is not required to maintain a separate account for SFA program funds unless the Department specifies otherwise.

A school is not required to maintain a separate bank account for FFEL program funds that the school receives from a lender by EFT. A school must maintain and account for FFEL program funds in the same manner required for other SFA program funds.

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Maintaining and Accounting for  
Funds Cite

34 CFR 668.163

### ***Bank account notification requirements***

For each account that contains SFA program funds, a school must identify that SFA program funds are maintained in the account by

- including the phrase *federal funds* in the name of the account, or
- notifying the bank or investment company of the accounts that contain SFA program funds and keeping a copy of this notice in its records *and*, except for public institutions, filing an UCC-1 statement with the appropriate state or municipal government entity that discloses that an account contains federal funds.

The school must keep a copy of the UCC-1 statement in its records.

The requirement that a school file a UCC-1 statement when an account's name does not include the phrase *federal funds* was established to reduce the possibility that a school could misrepresent federal funds as its own funds to obtain a loan or secure credit. Because public institutions generally do not seek to obtain credit in the same manner as private institutions, they are exempt from the requirement.

The Department may require a school to maintain SFA program funds in an account that contains only SFA program funds if the Department determines that the school failed to comply with cash management requirements, recordkeeping and reporting requirements, or other program regulations.

### ***Interest-bearing or investment account***

Except in the instances discussed below, the account that Direct Loan, Pell Grant, FSEOG, and FWS program funds are deposited in must be an interest-bearing account or an investment account. An investment account must consist predominantly of low-risk income-producing securities. If a school chooses to maintain federal funds in an investment account, the school must maintain sufficient liquidity in that account to make required disbursements to students.

Any interest earned on Direct Loan, Pell Grant, FSEOG, and FWS program funds maintained in an interest-bearing account or an investment account that exceeds \$250 per year, must be remitted to the Department by June 30 of that award year. A school may keep up to \$250 per year of the interest or investment revenue earned (other than that earned on Perkins Loan funds) to pay for the administrative expense of maintaining an interest-bearing account. However, a school must keep any interest earned on Perkins Loan funds for transfer to the Perkins Loan Fund.

## Exceptions

A school is not required to maintain Direct Loan, Pell Grant, FSEOG, and FWS program funds in an interest-bearing account or an investment account for an award year if:

- the school drew down less than \$3 million from these funds in the prior award year and anticipates that it will not draw down more than \$3 million in the current award year;
- the school can demonstrate that it would not earn over \$250 in interest on the funds it will draw down during the award year; or
- the school requests these funds under the just-in-time payment method.

Schools that request funds under the just-in-time payment method are exempt because this method would ensure the expeditious accounting for and disbursement of program funds. Therefore, little or no interest would be earned on funds provided to the school.

## Federal Perkins Loan Program participants

A school that participates in the Perkins Loan Program must always maintain an interest-bearing account or an investment account for Perkins Loan funds. If a school is also required to maintain an interest-bearing account or investment account for other federal funds, the school may use one account for Perkins Loan funds and all other federal funds. However, if the school chooses to maintain one account, it must determine the exact amount of any interest earned on the Perkins Loan funds for transfer to the Perkins Loan Fund.

## *Accounting and financial requirements*

If a school is not required and does not choose to maintain separate accounts, it must maintain accounting and internal control systems that:

- identify the balance of the funds of each SFA program that are included in the school's bank or investment account as readily as if those funds were in a separate account; and
- identify earnings on SFA program funds in the school's bank or investment account.

A school must maintain its financial records in accordance with the recordkeeping requirements of 34 CFR 668.24 (see chapter 8).

## DISBURSING FUNDS

These disbursing requirements apply to all the SFA programs specified at the beginning of this chapter, except for the FWS Program. In paying a student his or her wages under the FWS



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Program, a school must follow the disbursement procedures in 34 CFR 675.16 (see *Volume 6 — Federal Work-Study Program*).

### ***Definition of disbursed***

SFA program funds are disbursed when a school credits a student's account with the funds or pays a student or parent directly with:

- SFA program funds received from the Department,
- FFEL funds received from a lender, or
- institutional funds labeled as SFA program funds in advance of receiving actual SFA program funds (except in the instances noted below).

It is important to distinguish when SFA program funds have been disbursed for a number of reasons. To begin with, once SFA program funds have been disbursed, a student becomes an SFA recipient and the rights and responsibilities of an SFA recipient are in effect. For example, if the student is an SFA loan recipient, he or she assumes responsibility for the loan (and all interest accruing on the loan if it is unsubsidized), and has the right to cancel the loan. In addition, knowing when an SFA disbursement occurs will allow a school to determine when it must comply with regulatory requirements related to disbursements and other cash management issues.

**This definition of *disbursed* makes clear that any funds labeled as SFA program funds are SFA program funds.**

### **Exceptions**

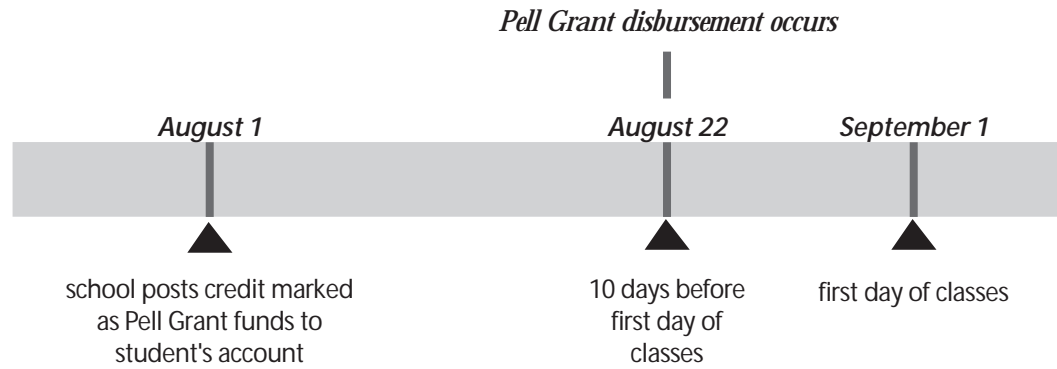
Because of other SFA program requirements, there are two instances when crediting institutional funds labeled as SFA program funds to a student's account in advance of receiving the actual SFA program funds will not result immediately in an SFA disbursement:

- If a school credits a student's account with the institutional funds in advance of receiving SFA program funds earlier than 10 days before the first day of classes of a payment period, the SFA disbursement does not occur until the tenth day before the first day of classes (see the example below). This provision corresponds to the *Early disbursement* requirements discussed later in this chapter.
- For a student whose loan funds are subject to the 30-day disbursement delay, if a school credits the student's account with institutional funds in advance of receiving SFA program funds earlier than 30 days after the first day of the payment period, the SFA loan disbursement does not occur until the 30th day after the beginning of the payment period.

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## Advance Credit to Account Example

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**Note:** If a school simply makes a memo entry for billing purposes or credits a student's account and does not identify it as an SFA credit (for example, an *estimated Federal Pell Grant*), the disbursement does not occur until the posting is subsequently converted to an actual credit. If the posting is never converted to an actual credit, it never becomes an SFA program disbursement.

### Disbursement by crediting a student's account

When a school disburses SFA program funds to a student by crediting a student's account, it may only do so for allowable charges. Funds in excess of the allowable charges must be paid directly to the student, unless otherwise authorized *in writing* by the student. (An exception is discussed under *Prior year charges* later in this chapter.)

### Allowable charges

Allowable charges are:

- current charges for tuition and fees (as defined in section 472 of the Higher Education Act of 1965, as amended [HEA]), room and board (if the student contracts with the school), and
- other current charges that a student incurs for educationally related activities, if the school obtains the student's or parent's *written authorization* to have such charges credited with SFA Program funds.

**If a charge does not meet the definition of tuition and fees in Section 472 of the HEA (with the exception of contracted room and board charges), the school must obtain the student's permission (or parent's, if applicable) to credit the student's account with SFA program funds for the charges.**

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#### Current charges

*Charges assessed the student by the school for the current award year or the loan period for which the school certified or originated a FFEL or Direct Loan.*

## Disbursing SFA funds directly

In addition to crediting a student's account, SFA program funds may be disbursed directly to a student or parent. A school may disburse funds *directly* by one of four methods:

- releasing a check provided to the school by a FFEL program lender to the student or parent;
- issuing a check or other instrument payable to and requiring the endorsement or certification of the student or parent (a check is issued if the school releases or mails the check to a student or parent, or notifies the student or parent that the check is available for immediate pickup);
- initiating an electronic funds transfer (EFT) to a bank account designated by the student or parent; and
- paying the student in cash, provided that the school obtains a signed receipt from the student or parent.

A parent borrower of PLUS Loan funds may (in writing) authorize the school to transfer the proceeds of a PLUS Loan to a bank account in the student's name.

The law requires a school that disburses Direct Loans to student accounts to first use Direct Loan funds to pay for outstanding allowable charges. This does not mean that Direct Loan funds must be credited to a student's account prior to other funds. The law simply requires that if there is any outstanding balance for current or authorized charges on the student's account when Direct Loan funds are disbursed, the Direct Loan funds must be applied to those outstanding charges before any Direct Loan funds may be disbursed directly to the borrower.

## DISBURSEMENT BY PAYMENT PERIOD

Schools must disburse all SFA program funds (except FWS) on a payment period basis. (For more information on the definition of a *payment period*, see chapter 2.) However, disbursement requirements vary by program. For information on the specific effects of the payment period disbursement requirement on disbursement of funds under a particular SFA program, please see the applicable Handbook chapter.

Under certain circumstances the Amendments of 1998 provide exemptions from multiple disbursement requirements and the 30-day delay requirements to schools with low default rates. For more information, see *Volume 8 — Direct Loans and FFEL Programs*.

Unless a student is eligible to receive a late disbursement of SFA program funds, a school may disburse SFA program funds to a student

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Direct Payments Cite  
*34 CFR 668.164(c)*

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Applying Direct Loan Funds Cite  
*CFR 34 668.164(d)(3)*

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Disbursement by Payment  
Period Cite  
*34 CFR 668.164(b)*

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Exemptions to Multiple  
Disbursement Requirements  
*Sec. 428G(a)*

or parent for a payment period only if the student is enrolled for classes for that payment period and is eligible to receive those funds.

### ***Excused absences***

An excused absence (an absence that does not have to be made up) may be counted as a completed clock hour under certain circumstances. For a student enrolled in a program measured in clock hours, the school may include clock hours for which the student has an excused absence in determining whether the student completes the clock hours in the payment period if:

- the school has a written policy that permits excused absences; and
- for SFA purposes, the number of excused absences under the policy does not exceed the lesser of
  - a) the policy on excused absences of the school's designated accrediting agency,
  - b) the policy on excused absences of any state agency that legally authorizes the school to operate, or
  - c) 10% of the clock hours in the payment period.

An excused absence may only be counted if the student is excused from hours that were actually scheduled, were missed, and are not to be made up.

## **EARLY DISBURSEMENTS**

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Early Disbursements Cite  
*34 CFR 668.164(f)*

The earliest a school may disburse SFA program funds is

- for a student enrolled in a credit-hour program offered in semester, trimester, or quarter academic terms, 10 days before the first day of classes for a payment period;
- for a student enrolled in a clock hour program or a credit-hour program that is not offered in semester, trimester, or quarter academic terms, the later of 10 days before the first day of classes for the payment period, or the date the student completed the previous payment period for which he or she received SFA program funds (see the example below).

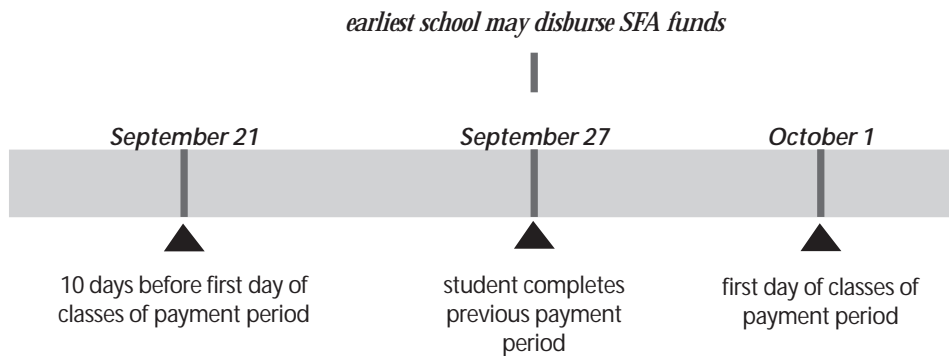
This provision generally applies only to the first disbursement of an FFEL or Direct Loan. (This requirement is applicable to any payment period beginning on or after July 1, 1997.)

If a student is in the first year of an undergraduate program and is a first-time borrower under the FFEL or Direct Loan program, a school may not disburse the first installment of his or her loan until 30 days after the student's first day of classes.

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## Early Disbursement Example

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## LATE DISBURSEMENTS

A student who withdraws or otherwise ceases attendance has lost SFA eligibility and generally may not be paid further funds for the enrollment period. However, a late disbursement of SFA program funds may be made to an ineligible student if the student became ineligible only because:

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Late Disbursements Cite  
*34 CFR 668.164(g)*

- for purposes of the Direct Loan and FFEL programs, the student is no longer enrolled at the school as at least a half-time student for the loan period; and
- for purposes of the Pell Grant, FSEOG, and Perkins Loan programs, the student is no longer enrolled at the school for the award year.

In addition, other conditions must be met depending on the SFA program from which the late disbursement is to be made. The following chart lists these conditions:

A school may make the late disbursement only if the funds are used to pay for unpaid educational costs that the school determines the student incurred for the period in which the student was enrolled and eligible. A school is not required to obtain detailed expenditure documentation from the student. Instead, the school may develop a policy that it applies in all cases. For example, a school may adopt a policy that all expenses for books and supplies are considered to have been incurred by a student who withdraws after the first two weeks of the term (provided that this policy does not conflict with any applicable refund requirements).

The school must make the late disbursement to the student no later than 90 days after the date the student becomes ineligible. For an FFEL, this means that the funds would have to be disbursed to the school by the lender to provide sufficient time for the school to disburse the funds to the student within 90 days.

## Late Disbursements

Program	<i>A late disbursement may be made if, before the date the student becomes ineligible...</i>		
<i>Direct Loans*</i>	SAR or ISIR with official EFC is received (all programs)	electronic origination record is created	For a first-year, first-time borrower, student completed first 30 days of program
<i>FFEL Loans*</i>		loan application is certified	
<i>Pell</i>		Valid SAR or ISIR is received	
<i>SEOG</i>		Student is awarded grant	
<i>Perkins</i>		Student is awarded loan	

*\*A school may not make a late second or subsequent disbursement of a Direct Subsidized or Direct Unsubsidized loan, or a FFEL Stafford Loan, unless the student has graduated or successfully completed the period of enrollment for which the loan was intended.*

The term *post-withdrawal disbursement* was created as a result of the negotiated rule making process of the Higher Education Amendments of 1998. A post-withdrawal disbursement is an amount of Title IV aid that a student has earned by virtue of the Return of Title IV Funds calculation, but that was not disbursed before the student withdrew. It is integral to the new Return of Title IV Funds concept. A post-withdrawal disbursement is not the same as a *late disbursement*, but it must meet the conditions established for a late disbursement. See additional comments and summaries in the chapter 6.

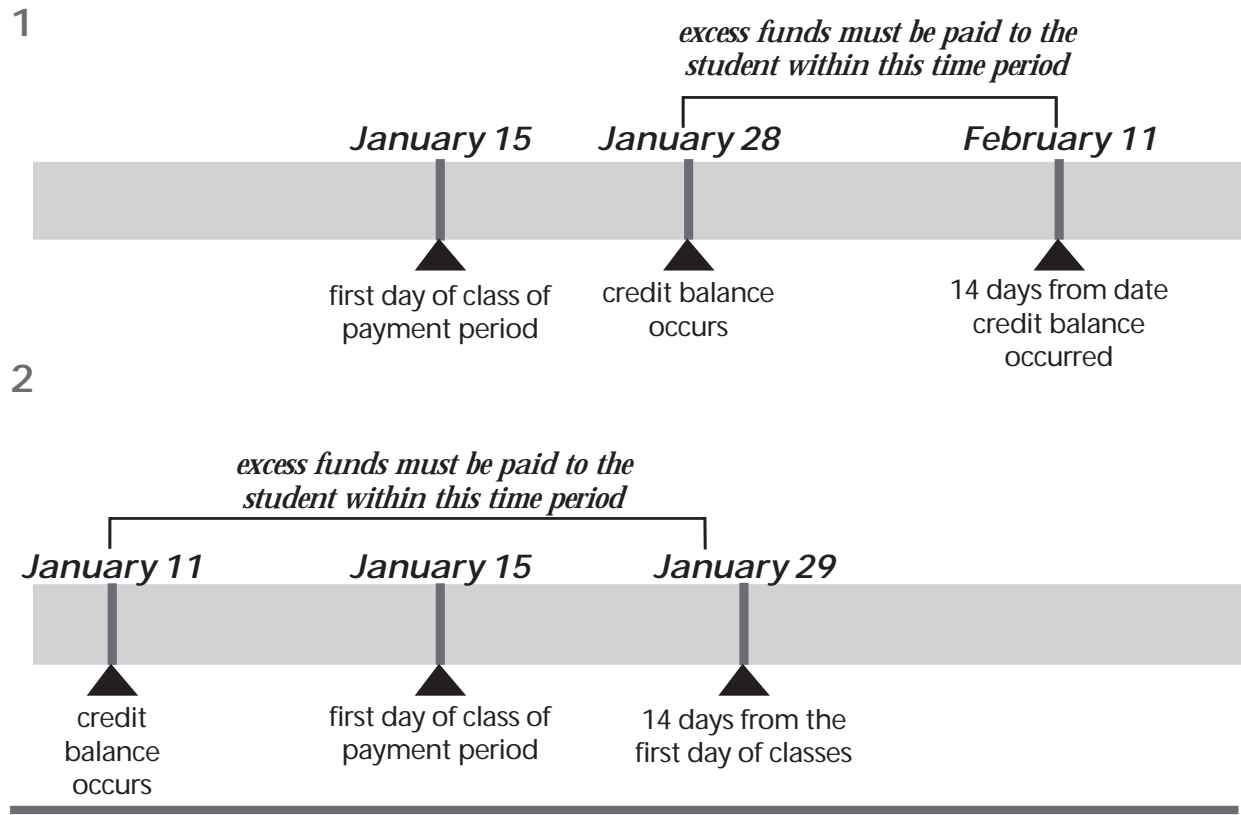
## SFA CREDIT BALANCES

Credit Balances Cite  
34 CFR 668.164(e)

Whenever a school credits SFA program funds to a student's account, and those funds exceed the student's allowable charges, an SFA credit balance occurs. A school must pay the excess SFA program funds (the credit balance) directly to the student as soon as possible, but no later than 14 days after the later of:

- the date the balance occurred on the student's account, if the balance occurred after the first day of class of a payment period (see *Example 1*); or
- the first day of classes of the payment period if the credit balance occurred on or before the first day of class of that payment period (see *Example 2*).

## Payment of a Credit Balance Example



**An SFA credit balance occurs only if the total amount of SFA program funds exceeds allowable charges.** For example, if a student's total allowable charges are \$1,500, and credits to the student's account comprise \$1,000 in FSEOG, \$500 in state aid funds, and \$500 in Pell Grant funds, although there is an excess of \$500 on the account, an SFA credit balance would not exist. This is because the total amount of SFA program funds (\$1,500) does not by itself exceed the amount of allowable charges (\$1,500). If, in this example, the amount of Pell Grant funds credited to the student's account was \$600 rather than \$500, an SFA credit balance of \$100 would exist: \$100 is the amount by which the total SFA program funds credited to the account (\$1,600) would exceed the allowable charges (\$1,500). The order in which these funds were credited does not matter.

*Schools are prohibited from charging students a fee for delivering Title IV SFA funds. If a school delivers SFA funds to students by crediting funds to a **school issued** debit or smart card, the school may not charge students a fee for making withdrawals of SFA program funds from that card.*

The law requires that any excess PLUS Loan funds be returned to the parent. Therefore, if a school determines that PLUS Loan funds created a credit balance, the credit balance would have to be given to the parent. At this time, the Department does not specify how a school must determine which SFA program funds create an SFA credit balance, except to say that Direct Loan funds must be applied to unpaid institutional charges before they can be applied to other charges or disbursed to the student.

The Department does not address the treatment of credit balances that are created by non-SFA program funds. **Previously**, under the SFA refund requirements, when a student withdrew, all credit balances had

to be eliminated before a refund calculation was performed. For information on the treatment of a credit balances under the **new** return to Title IV funds requirement when a student withdraws, see chapter 6.

### *Holding credit balances*

A school is permitted to hold excess funds (credit balances) if it obtains a voluntary authorization from the student or parent. If a school receives authorization to hold excess funds, the school must identify the student or parent and the amount of funds the school holds for the student or parent in a subsidiary ledger account designated for that purpose. The school also must maintain, at all times, cash in its bank account at least equal to the amount the school holds for students. Because SFA program funds are awarded to students to pay current year charges, notwithstanding any authorization obtained by a school from a student or parent, the school must pay

- any remaining balance on loan funds by the end of the loan period, and
- any other remaining SFA program funds by the end of the last payment period in the award year for which they were awarded.

If a school cannot locate a student to whom an SFA credit balance must be paid (i.e., the school has exhausted all possible avenues to find the student), the school must return the credit balance to the Department. In this case, a school will have to determine which SFA program funds created a credit balance before it can return funds to the SFA programs. As mentioned previously, the Department does not specify how a school must determine which SFA funds create a credit balance. However, when possible, the Department encourages schools to return SFA program funds to loan programs first to reduce the likelihood of default.

The school is permitted to retain any interest earned on the student's credit balance funds. The Department may prohibit a school that has been placed on reimbursement from holding excess funds. If the Department determines that the school has failed to meet the financial responsibility standards, a limitation may be placed on the school preventing it from holding excess funds for any student.

## PRIOR-YEAR CHARGES

In general, SFA program funds are allowed to be used to pay only for educational expenses a student incurs in the period for which those funds are provided. However, a school is permitted to use a student's SFA program funds to pay minor prior-year institutional charges if the student has, or will have, an SFA credit balance and the school obtains the student's or parent's authorization to pay the prior-year charges.

A school may obtain authorization from a student in advance to use SFA program funds to cover prior-year charges that are less than

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Prior-year Charges Cite  
*34 CFR 668.164(d)*



\$100. Before paying prior-year charges for amounts equal to or greater than \$100, in addition to obtaining an authorization, a school must determine that payment would not prevent the student from paying for his or her current educational expenses (including both institutional charges and noninstitutional costs of attendance).

## REQUIRED SCHOOL NOTIFICATIONS

Before a school disburses SFA program funds for any award year, the school must notify a student of the amount of SFA program funds the student and his or her parent can expect to receive from each SFA program, and how and when those funds will be disbursed. If those funds include Direct Loan or FFEL program funds, the notice must indicate which funds are from subsidized loans and which are from unsubsidized loans.

A school must provide the best information it has regarding the amount of SFA program funds a student can expect to receive. Because the actual loan disbursements received by a student may differ slightly from the amount expected by the school (due to loan fees and rounding differences), a school may include the gross amount of the loan disbursement or a close approximation of the net disbursement amount.

### *Opportunity for loan cancellation*

Because incurring a loan obligation is a serious responsibility, a borrower must be given the opportunity to cancel the loan at or close to the time the funds are actually disbursed and the debt incurred. Notification of when a loan disbursement occurs and the right to cancel is required to remind borrowers of their loan obligation and to give students the opportunity to replace credited loan proceeds with other funds. Therefore, the school must notify a student or parent in writing or electronically whenever the school credits the student's account with Direct Loan, FFEL, or Perkins Loan program funds. The notification must include

- the date and amount of the disbursement;
- the right of the student or parent borrower to cancel all or a portion of the loan (this is applicable to FFEL program funds only if the school received the loan funds from a lender through EFT payment or master check); and
- the procedures and the time by which the student or parent borrower must notify the school that he or she wishes to cancel the loan or a portion of the loan.

A school is not required to provide notification of cancellation rights if the school disburses an FFEL directly to the student or parent by check. This is because a student or parent who receives an FFEL disbursement via check has the opportunity to refuse the funds by not endorsing the check or by returning it.

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Required School Notifications  
Cite

*34 CFR 668.165*

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Electronic Notification Cite  
*668.165(a)(3)(ii)*



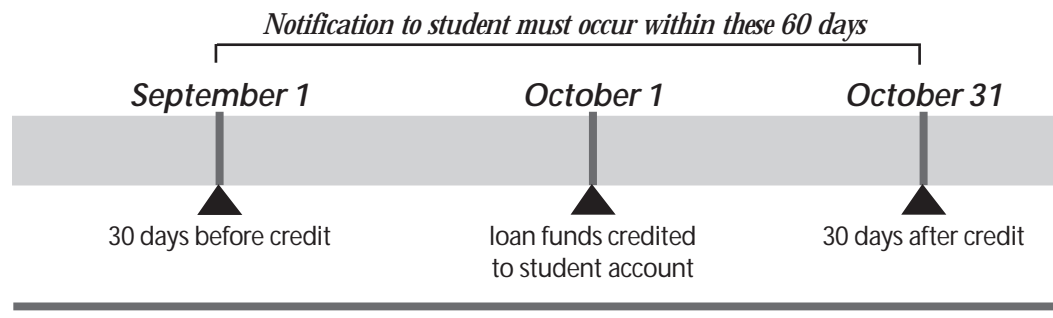
Recent changes permit a school to notify a borrower that it is crediting a borrower's account via electronic means. The school must confirm receipt of the electronic notice and must maintain documentation of that confirmation. For example, if a school notifies a borrower through electronic mail, the school must request a *return receipt* message and keep a copy of the receipt on file.

This notification of crediting a student's account with loan funds must be sent no earlier than 30 days before and no later than 30 days after crediting the student's account (see example below).

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### Notification When Credit to Account Example

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A school may not use an in-person or telephonic conversation as the sole means of notification. In-person and telephonic conversations are not adequate and verifiable methods of providing notice. However, notification to borrowers in-person and by telephone may be done in addition to providing written or electronic notice.

Once the school has provided notification, if the student or parent wishes to cancel all or a portion of a loan, he or she must inform the school. The school must honor the request if the request is received no later than

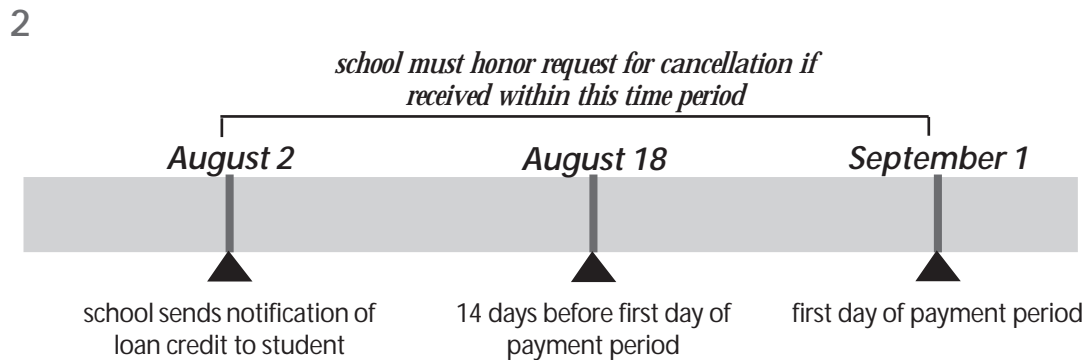
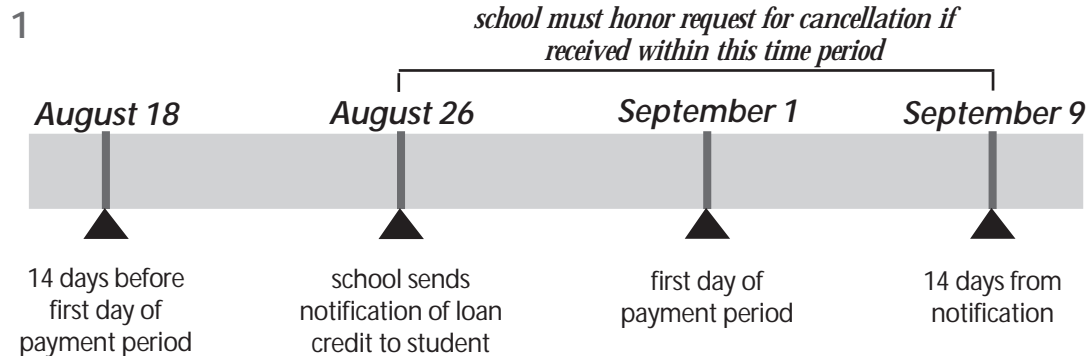
- 14 days after the date the school sends the notice (see *Example 1* below); or
- the first day of the payment period, if the school sends the notice more than 14 days before the first day of the payment period (see *Example 2* below).

If a student's or parent's request for cancellation is received within the specified time period, the school must return the loan proceeds and/or cancel the loan as appropriate. If a student's or parent's request for cancellation is received after the specified time period, the school may, but is not required to, honor the request. **Regardless of when the request is received, the school must inform the student or parent, in writing or electronically, of the outcome of the request.**

A school is not responsible for returning any portion of a loan that was disbursed to a student or parent directly before the request for

cancellation was received. However, a school is encouraged to take an active role in advising the borrower to return the funds already received.

## 14 Day Cancellation Period Example



## REQUIRED STUDENT AUTHORIZATIONS

As discussed previously in this chapter, a school must obtain authorization from a student (or parent borrower) before

- disbursing SFA program funds (including Federal Work-Study) by EFT to a bank account designated by the student or parent,
- using SFA program funds (including Federal Work-Study) to pay for allowable charges other than tuition, fees, and room and board (if the student contracts with the school),
- holding excess SFA program funds (credit balances), and
- applying SFA program funds to prior-year charges.

In obtaining an authorization from a student or parent, a school may not require or coerce the authorization and must notify the student or parent that he or she may cancel or modify the authorization at any time. Once a student or parent cancels or modifies his or her authorization, the school may not perform the function, or must perform the function as modified, from that date forward.

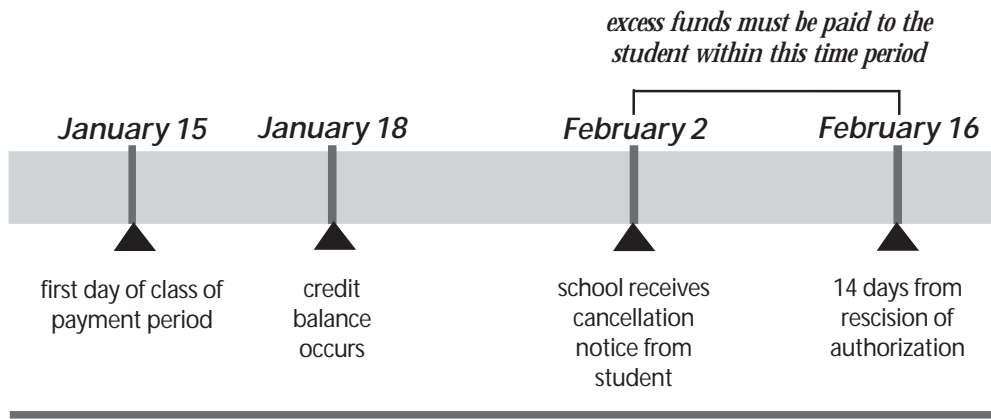
**Required Student Authorizations**  
Cite  
*34 CFR 668.165*

A cancellation or modification is not retroactive. If a student or parent cancels an authorization to use SFA program funds to pay for allowable charges other than tuition, fees, and room and board (if the student contracts with the school), or prior-year charges, the school may use SFA program funds to pay any authorized charges incurred by the student before the notice was received by the school. If a student or parent cancels an authorization to hold excess funds, the funds must be paid directly to the student or parent as soon as possible, but no later than 14 days after the school receives the notice (see example below).

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### Payment After Cancel Authorization Example

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A school may include two or more of the items that require authorization on one statement. Each component and term on the authorization must be conspicuous to the reader, and a student (or parent borrower) must be informed that he or she may refuse to authorize any individual item on the statement.

An authorization must clearly explain how the school will carry out an activity, but it does not need to detail every aspect pertaining to the activity. However, a blanket authorization that only identifies the activities to be performed is not acceptable. An authorization permitting a school to use excess SFA program funds must provide detail that is sufficient to give the student or parent a general idea of what the excess funds would be used to pay. A blanket statement that excess funds would cover any charges is not acceptable.

Unless otherwise specified, a student or parent may authorize a school to carry out the activities for which authorization is provided for the entire period that the student is enrolled at the school. As mentioned above, a student or parent may cancel or modify an authorization at any time.

## EXCESS CASH

As mentioned in the discussion of the advanced payment method, a school must disburse funds no later than three business days following the date the school receives them. *Excess cash* is any amount of SFA program funds, other than funds received under the just-in-time payment method (see the discussion under the *Just-in-time payment method* earlier in this chapter), that a school does not disburse to students by the end of the third business day. Excess cash must be returned to the Department immediately. However, sometimes a school is prevented from disbursing funds in the required three days because of circumstances outside the school's control. For example, a school may not have been able to disburse funds because of a change in a student's enrollment status, a student's failure to attend classes as scheduled, or a change in a student's award as a result of verification. To take these circumstances into account, under the following circumstances, a school may maintain an excess cash balance for up to seven additional days.

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Excess Cash Cite  
34 CFR 668.166

### *Allowable excess cash tolerances*

If during a period of peak enrollment a drawdown of excess cash occurs, a school can maintain the excess cash balance in its federal account if the excess cash balance is less than 3% of the school's total prior-year drawdowns. The school is required to eliminate the excess cash balance within the next seven days by disbursing SFA program funds to students for at least the amount of that excess cash balance.

A period of peak enrollment at a school occurs when at least 25% of the school's students start classes during a given 30-day period. A school determines this percentage for an award year with the following fraction:

$$\frac{\text{Number of students who started classes in the comparable 30-day period in the prior award year}}{\text{Total number of students who started classes during the entire prior award year}}$$


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Total number of students who started classes during the entire prior award year

For any period other than a period of peak enrollment, the school can maintain the excess cash balance if the excess cash balance is less than 1% of the school's prior-year drawdowns. In this case also, the school is required to eliminate the excess cash balance within the next seven days by disbursing SFA program funds to students for at least the amount of that balance.

Consider a school that did not participate in the Direct Loan Program during the prior year. Such a school does not have prior-year drawdown data. To arrive at an amount to use for prior-year drawdowns, the school should use the total amount of loans guaranteed under the FFEL Program for students attending the school during the prior year .

The Department reviews schools to determine where excess cash balances have been improperly maintained. The Department will seek to recover from those schools the resulting losses to the government.

Upon a finding that a school has maintained an excess cash balance in excess of allowable tolerances, a school is required to reimburse the Department for the costs that the government incurred in making those excess funds available to the school. Where excess cash balances are disproportionately large considering the size of the school or where they represent a continuing problem with the school's ability to responsibly administer the SFA programs, the Department may initiate a proceeding to fine, limit, suspend, or terminate the school's participation in one or more of the SFA programs. For more on fines and other actions against schools, see chapter 11.

Generally, a check is *issued* when the school releases, distributes, or makes available the check by mailing the check to the student or parent, or by notifying the student or parent expeditiously that the check is available for immediate pickup. However, upon a finding that a school has maintained excess cash balances, the Department considers the school to have issued a check on the date that check cleared the school's bank account, unless the school demonstrates to the satisfaction of the Department that it issued the check to the student shortly after the school wrote that check.

Finally, the Department will assess a school that maintains excess cash balances a liability that is equal to the difference between the earnings those cash balances would have yielded under a Treasury-derived rate and the actual interest earned on those cash balances.