
Volume 4

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Introduction to Volume 4

The purpose of this publication is to provide participating schools with guidance on how to request, disburse, manage and report on the use of Federal Student Aid funds.

Here, we provide a summary of the changes and clarifications presented in greater detail in the chapters that follow. **Alone, the text herein does not provide schools with the guidance needed to satisfactorily administer the Title IV, HEA programs.** For more complete guidance, you should refer to the text in the chapters cited, the Code of Federal Regulations (CFR) and the Higher Education Assistance Act (HEA) as amended:

Throughout this volume, new information is indicated with the following symbol:



When the text represents a clarification rather than a change, it is indicated with this symbol:



When we believe that historically there might be some misunderstanding of a requirement, we indicate that with:



or



Finally, if we want to point out a bit of helpful information we indicate it with:



Major Changes

Chapter 1 — Disbursing Federal Student Aid Funds

- We describe the TEACH Grant notification requirements.
- We explain what schools should do if they receive a request to cancel a student's TEACH Grant.
- We clarify the options a school has for determining current year charges.
- We explain that a student who, in response to a notice from the school, comes to pick up his or her credit balance within the 14-day timeframe must be able to leave the business office with the funds in some form.

Chapter 2 — Requesting and Managing FSA Funds

- We inform schools that the Department will no longer be providing funds using the Just-in-Time Payment Method.
- We explain how a school should return FSA funds it has held for more than 240 days because it was trying to locate a student in order to give the student his or her FSA credit balance.
- At the end of this chapter we have inserted a description of the process for returning funds on FFEL loans that have been purchased by the Department.

Disbursing FSA Funds

CHAPTER 1

These rules apply to the following programs: Pell Grant, ACG, National SMART Grant, FSEOG, TEACH Grant, Perkins Loan, Direct Loan, FFEL. We have indicated when a rule applies to FWS. This chapter will discuss the rules for crediting Federal Student Aid (FSA) funds to the student's account and making direct disbursements to the student or to the parent (PLUS), with provisions for early disbursements, delayed disbursements and late disbursements.

NOTIFICATIONS

Notification of disbursement

In general, there are two types of notifications a school must provide: (1) a general notification to all students receiving FSA funds; and (2) a notice when loan funds are credited to a student's account.

General notification

A school must notify a student of the amount of funds the student and his or her parent can expect to receive from each FSA program, including FWS, and how and when those funds will be disbursed. This notification must be sent before the disbursement is made.

If the funds include a Stafford Loan (whether Direct Loan or FFEL), the notice must indicate which funds are from subsidized loans and which are from unsubsidized loans. A school must provide the best information that it has regarding the amount of FSA 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), you may include the gross amount of the loan disbursement or a close approximation of the net disbursement amount.

Loan notification

Except in the case of loan funds made as part of a Post-withdrawal Disbursement, when Perkins, Stafford or PLUS loan funds are being credited to a student's account, the school must also notify the student or parent in writing (in writing means on paper or electronically) of the:

- anticipated date and amount of the disbursement;
- student's (or parent's) right to cancel all or part of the loan or disbursement (not required if issuing a paper check under the FFEL program); and

CHAPTER 1 HIGHLIGHTS

- » Notification
- » Authorizations
- » Using electronic processes for notification & authorization
- » Method of disbursement
- » Credit balances
- » Power of attorney
- » Checking eligibility at the time of disbursement
- » Receiving FSA funds from the G-5 system
- » Prompt disbursement rules
- » Disbursing FWS Wages
- » Late disbursements

Notices

34 CFR 668.165

Borrower notification via email

If you are notifying the student of the next disbursement by electronic mail or other electronic means, you are encouraged to follow up on any electronic notice for which you receive an "undeliverable" message.

Confirmation process

34 CFR 668.165(a)(6)(i)

Confirmation and paper checks

Because a borrower who receives a disbursement via check has the opportunity to refuse the funds by not endorsing the check or by returning it to the lender, if FFEL loan funds are received from a lender by a check payable to borrower, the notice to the borrower need not include information on the right of the borrower to cancel all or a portion of the loan.

Proration of loan fees for returned FSA loan funds

Anytime a school returns an FSA loan disbursement or any portion of an FSA loan disbursement to a lender, the origination fee and insurance premium are reduced in proportion to the amount returned.

For Direct Loans, in the 30-120 day time frame, a school has the option of canceling the loan or directing the borrower to contact the DL Servicing Center. If a borrower returns the full amount of a loan within 120 days of disbursement, the loan is cancelled and the origination fee and insurance premium are eliminated.

For FFEL loans, if a borrower not in repayment returns an FFEL disbursement or any portion of an FFEL disbursement to the lender within 120 days after disbursement, the origination fee and insurance premium are reduced in proportion to the amount returned.

For information on how returning Direct Loans affects loan fees and accrued interest, see DLB-08-01 and DLB-08-02 FFEL 34 CFR 682.202(c)(7)(i); 682.209 DL 34 CFR 685.202(c)(4) & 685.211

- procedures and the time by which the student (or parent) must notify the school that he or she wishes to cancel the loan or disbursement.

This notification must be sent –

- no earlier than 30 days before, and no later than 30 days after crediting the student's account **if the school obtains affirmative confirmation** as described in the next section.
- no earlier than 30 days before, and no later than 7 days after crediting the student's account if the school does **NOT** obtain **affirmative** confirmation.

The active confirmation process described in the *Application and Verification Guide* satisfies the requirement that a school notify students of their right to cancel all or part of their loan.

Loan cancellation notice & affirmative confirmation of loan

The loan cancellation provisions vary depending on whether a school obtains affirmative (active) confirmation from a student that he or she wants a loan.

Affirmative confirmation is a process under which a school obtains written confirmation of the types and amounts of FSA program loans that a student wants for an award year before the school credits the student's account with those loan funds.

See *the AVG* and Volume 1 for more information on the confirmation process.

If the student or parent borrower wishes to cancel all or a portion of a loan, he or she must inform the school. A school must return the loan proceeds, cancel the loan, or do both, provided that the school receives the loan cancellation request within the following time-frames –

- if the school obtains affirmative confirmation from the student, by the later of the first day of a payment period or 14 days after the date the school notifies the student or parent of his or her right to cancel all or a portion of a loan; or
- if the school does not obtain affirmative confirmation from the student, within 30 days of the date the school notifies the student or parent of his or her right to cancel all or a portion of a loan.

If the school receives a student's or parent's request for cancellation after these dates, 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** of the outcome of the request.

When acting upon a loan cancellation request, your school must return the loan proceeds if received and/or cancel the loan as appropriate. A school is not responsible for returning any portion of a loan that was disbursed to a student or parent directly **e.g., as a result of a credit to the student's account** before the request for cancellation was received. However, you are encouraged to take an active role in advising the borrower to return the funds already received.

Your school may not use an in-person or telephonic conversation as the sole means of notification because these are not adequate and verifiable methods of providing notice. However, a school may use in-person and telephone notices in addition to those provided in writing.

TEACH Grant notification and cancellation

Before making a disbursement of a TEACH Grant a school must notify the student of the amount of TEACH Grant funds that the student is eligible to receive, how and when those funds will be disbursed, and the student's right to cancel all or a portion of the TEACH Grant.

If a school receives a TEACH Grant cancellation request from the student by the later of the first day of a payment period or 14 days after the date it notifies the student of his or her right to cancel all or a portion of a TEACH Grant, the school must return the TEACH Grant proceeds, and/or cancel the TEACH Grant.

If a student requests cancellation of a TEACH Grant after the 14-day period but within 120 days of the date the TEACH Grant was disbursed, the school may return the TEACH Grant proceeds and/or cancel the TEACH Grant, or do both.

If the school does not return the TEACH Grant proceeds, or cancel the TEACH Grant, the school must notify the student that he or she may contact the Department to request that the TEACH Grant be converted to a Federal Direct Unsubsidized Loan.

TEACH Grant Cancellation

34 CFR 686.31(e)



AUTHORIZATIONS

Authorizations

34 CFR 668.165(b)

Self-Assessment Tool For Disbursement Procedures:

You can evaluate your Disbursement related procedures by referring to the Fiscal Management module of the FSA Assessments at:

<http://ifap.ed.gov/qahome/qassessments/fiscalmanagement.html>

You must obtain authorization from a student (or parent borrower), before your school can perform any of the following activities:

- disburse FWS wages by EFT to a bank account designated by the student or parent;
- use FSA funds (including FWS) to pay for allowable charges other than tuition, fees, and room and board (if the student contracts with the school);
- hold an FSA credit balance; or
- apply FSA funds to prior-year charges other than for tuition, fees, room, and board.

A school may not require or coerce the student or parent to provide the authorization and must clearly explain to the student or parent how to cancel or modify the authorization. The student or parent may cancel or modify the authorization at any time.

A cancellation or modification is not retroactive—it takes effect on the date that the school receives it from the student or parent. If a student or parent cancels an authorization to use FSA funds to pay for other allowable charges the school may use FSA 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.

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, including multiple academic years. However, regardless of any authorization obtained by a school, the school must pay any remaining balance on FSA loan funds by the end of the loan period and any other remaining FSA program funds by the end of the last payment period in the award year for which they were awarded.

Electronic Disclosures

CFR 34 668.41(b) & (c)

Information Security Requirements

The Gramm-Leach-Bliley (GLB) Act requires that schools have in place an information security program to ensure the security and confidentiality of customer information; protect against anticipated threats to the security or integrity of such information; and guard against the unauthorized access to or use of such information. (For information on the GLB Act, see *Volume 2*.)

Voluntary Consent Required

Voluntary consent to participate in electronic transactions is required for all financial information provided or made available to student loan borrowers, and for all notices and authorizations to FSA recipients required under 34 CFR 668.165.

Authorizations

A school may include two or more of the items that require authorization in one statement. Each component and term in 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. For instance, an authorization permitting a school to use an FSA credit balance (discussed on the next page) must provide detail that is sufficient to give the student or parent a general idea of what the credit balance would be used to pay. A blanket statement that the credit balance would cover any charges is not acceptable.

Using electronic processes for notifications & authorizations

So long as there are no regulations specifically requiring that a notification or authorization be sent via U.S. mail, a school may provide notices or receive authorizations electronically. You may also use an electronic process to provide required notices and make disclosures by directing students to a secure Website that contains the required notifications and disclosures.

If you use an electronic process to provide notices, make disclosures or direct students to a secure Website, then every year you must notify each student individually. You may provide the required notice through direct mailing to each individual through the U.S. Postal Service, campus mail, or electronically directly to an email address.

The annual individual notice must —

- identify the information required to be disclosed that year;
- provide the exact inter- or intranet address where the information can be found;
- state that, upon request, individuals are entitled to a paper copy, and inform students how to request a paper copy.

METHOD OF DISBURSEMENT

Self-assessment tool for disbursement procedures

You can evaluate your school's procedures by referring to *Disbursing Aid* in the *Fiscal Management* module of *FSA Assessments*.

<http://ifap.ed.gov/qahome/qaassessments/fiscalmanagement.html>

Method of disbursement

- Credit to students account: 34 CFR 668.164(c)
- Direct disbursements: 34 CFR 668.164(c)
- Releasing a Pell check: 34 CFR 690.78(c)
- Cost of attendance: Section 472 of the HEA
- Prior-year charges: 34 CFR 668.164(d)(2)

Crediting Direct Loan funds to student charges first

Direct Loan funds credited to a student's account must first be used to pay for current charges.

There are two ways to disburse FSA funds: by crediting the student's account for allowable charges at your school, or by paying the student or parent directly.

Credit to the student's account

When a school disburses FSA program funds to a student by crediting a student's account, it may do so only for allowable charges.

Allowable charges include:

- current charges for tuition and fees as defined in *Volume 3, chapter 2* and room and board (if the student contracts with the school); and
- other current charges that a student has incurred for educationally-related activities if you obtain the student's written authorization or the parent's written authorization – in the case of PLUS loan funds.

If an educationally related charge does not meet the definition of an allowable charge, the school must obtain the student's permission (or parent's, if applicable) to use FSA program funds to pay for the charge.

Disbursements in programs where grades are not awarded

Before disbursing funds to students enrolled in programs equal to or less than one year in which students do not receive grades or credits until the end of the program your school must —

- have a satisfactory academic progress standard as described in Volumes 1 and 2 of the *FSA Handbook*;
- measure a student's standing vis-a-vis satisfactory academic progress by the time the student has completed one-half of the program; and
- not make second disbursements of FSA funds to a student who is not making satisfactory academic progress.

For programs greater than one year in length in which students do not receive grades or credits until the end of the program — your school must measure a student's standing vis-a-vis satisfactory academic progress at least once a year; and not award FSA funds for any additional period to a student who is not making satisfactory academic progress.

Defining the date of disbursement

(These rules apply to the FWS program as well.)

It is important to define the date of disbursement because several regulatory requirements are based on that date. For instance, you must disburse a FSA credit balance to a student within 14 days of the date it was created or within 14 days of the first day of class, and you must notify a student of a loan disbursement within a time frame related to the date of that disbursement.

The date of disbursement also determines when the student becomes an FSA recipient and has the rights and responsibilities of an FSA recipient. For example, when FSA loan funds are disbursed to a recipient, the student or parent assumes responsibility for the loan and has the right to cancel the loan.

A disbursement occurs when your school credits a student's account **or** pays a student or parent directly with:

- FSA program funds received from the Department;
- FSA program funds received from an FFEL lender, or
- School funds labeled as FSA program funds in advance of receiving actual FSA program funds (except as noted below¹).

When using school funds in place of FSA funds, there are two situations where the FSA disbursement is considered to have taken place on the earliest day that the student could have received FSA funds rather than the actual disbursement date:

- If a school credits a student's account with its own funds earlier than 10 days before the first day of classes of a payment period, that credit is not considered an FSA disbursement until the 10th day before the first day of classes (the earliest a school may disburse FSA funds).
- If a Stafford borrower is subject to the 30-day disbursement delay and a school credits the student's account with its own funds before the 30 days have elapsed, this is not counted as an FSA loan disbursement until the 30th day after the beginning of the payment period.

¹If your school simply makes a memo entry for billing purposes or credits a student's account and does not identify it as an FSA credit (for example, an estimated Federal Pell Grant), it is not a disbursement. For example, some schools prepare billing statements or invoices showing the estimated amount of FSA funds that students are eligible to receive. These estimated amounts are not FSA disbursements.

Paying Pass-through Charges

The law allows a school to credit a student's account with FSA funds only to pay for institutionally provided housing. However, it is not necessary that the school actually own the student housing. The school may enter into a contract with a third party to provide the institutional housing.

If a school enters into a contract with a third party to provide institutional housing, the school may credit FSA funds to a student's account to pay for housing provided by a third party.

Keep in mind that other FSA requirements apply to both the funds used for the housing payment and to the physical location of the housing. For instance –

- A school must include the cost of housing as an institutional charge in any Return calculation required when an eligible recipient ceases to be enrolled prior to the end of the payment period or period of enrollment. (See *Volume 5, chapter 2.*)
- The school is required to report statistics concerning the occurrence of crimes in the third party housing. (See *Volume 2, chapter 6.*)
- The third party must comply with the civil rights and privacy requirements contained in the school's Program Participation Agreement. (See *Volume 2.*)

Paying Prior-Year Charges

In general, FSA funds may only be used to pay for the student's costs for the period for which the funds are provided. However, a school may use current-year funds to satisfy prior award year charges for tuition and fees, room, or board (and with permission, educationally related charges) for a total of not more than \$200. **A school may not pay prior year charges in excess of \$200.**

FSA funds may not be used to repay a student's loan. Loan payments are not part of the cost of attendance for the period of enrollment.

The costs of education and other services a school provides a student are associated with the "year" for which the education and services are provided. **A school has discretion over how it defines a "year."**

If a student's aid package includes an FFEL or Direct loan, the "year" as the loan period. In this scenario, costs for the current year are defined as charges for education and services the institution will provide during the current loan period for which the institution certifies or originates an FFEL or Direct loan.

If the student does not have an FFEL or Direct loan, the "year" is the award year, and costs for the current year are defined as charges for education and services the institution will provide during the current award year.

Tuition and fees cite

Section 472 of the HEA
34 CFR 668.164(d)(2)
DCL-GEN-09-11

Current charges

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

Apportioning and Prorating Charges

In most cases, the total charges an institution assesses the student in a semester, academic year, or other instructional period are for education and services the institution provides within that period of time. However, some institutions charge a student upfront for the total cost of a multi-year program – for example, the student signs an enrollment agreement and is charged for the total costs of an 1800 clock hour program at the beginning of the program. In this case, because the charges assessed upfront represent the costs of education and services that will be provided over a two-year period, the institution would, on a program basis, apportion the total charges over the two-year period to determine the amount of charges applicable to each year (each loan period or award year, as appropriate).

Institutional charges (generally speaking, tuition and fees) allocated to each year (or portion of a year) would be based on the education and services the institution provides during that period of time, in the same way as they are for institutions that charge their students year by year. Charges for books, equipment, supplies, and other materials could be allocated on a pro rata basis, or, alternatively, could be allocated to the period in which they must be purchased. An institution would use the total charges allocated to each year in determining the amount of current year charges under 34 CFR 668.164(d). The amount of current year charges would then be used for determining whether the student has a Title IV credit balance under 34 CFR 668.164(e).

Note that this procedure for apportioning the costs over the length of the program does not affect how an institution maintains or should maintain its accounting records.

Example: Apportioning charges when a school posts all charges to the student’s account during the first payment period and the student has an FSA Loan

Katrina Technical Center (KTC) is a nonprofit postsecondary institution located in Houma, Louisiana offering a program in storm-water abatement. Hanna Galiano entered KTC’s Storm-Water Abatement program on May 4, 2009. KTC posts the charges for the entire (1500 hour) program at the beginning of the program.

Program Profile

Academic Year/Program	900 hours 30 weeks of instructional time
Program	1500 hours 50 weeks of instructional time
Program Start Date	May 4, 2009
Program End Date	April 16, 2010
Program Cost	\$13,500.00
Pell Award Years Included	July 1, 2008 – June 30, 2009 July 1, 2009 – June 30, 2010
Payment Period 1 (450 hours)	May 4, 2009, to August 14, 2009
Payment Period 2 (450 hours)	August 17, 2009, to November 27, 2009
Payment Period 3 (300 hours)	November 30, 2009, to February 5, 2010
Payment Period 4 (300 hours)	February 8, 2010, to April 16, 2010
First loan period (900 hours)	May 4, 2009, to November 27, 2010
Second loan period is (600 hours)	November 30, 2009, to April 16, 2010

Hanna’s Federal Student Aid Information

Hanna was eligible to receive the following Federal Student Aid during her program.

2008-09 Pell Grant Scheduled Award	\$4,800.00
2009-10 Pell Grant Scheduled Award	\$5,400.00
Stafford Loan for First Loan Period	\$3,500.00
Stafford Loan for Second Loan Period	\$2,334.00

When a school charges for an entire program at the start of the course (up front), a school may apportion or otherwise assign the total charges for a multi-year program to determine the amount of those charges applicable to each year (loan period or award year as appropriate. Note that a school must use the same basis to apportion the charges for all students in a program.

Apportioning charges example continued

For example, KTC could:

1. apportion the charges in proportion to the number of clock hours in each loan period (900 hours/\$8,100 in the first loan period and 600 hours/\$5,400 in the second loan period; or
2. increase the charges the school assigned to the first loan period and decrease the charges in the second loan period because the school retained charges for books and materials in the first period; or
3. apportion the \$13,500 equally (\$6,750) over each of the two loan periods (four payment periods).

KTC chose to apportion the charges in proportion to the number of clock hours in each loan period.

Student's Apportioned Charges

First Payment Period (450 hours)	\$ 4,050
Second Payment Period (450 hours)	\$ 4,050
Third Payment Period (300 hours)	\$ 2,700
Fourth Payment Period (300 hours)	\$ 2,700

On May 4, 2009, the school credited Hanna's account with \$4,150 in FSA funds — \$2,400 in 2008-2009 Pell Grant funds and \$1,750 in Stafford Loan funds. When applied against the \$4,050 in school charges for the first payment period the FSA funds created an FSA credit balance of \$100.00 (\$4,150 – \$4,050) that the school electronically transferred to the bank account that Hanna had previously specified be used for that purpose.

On August 17, 2009, the school credited Hanna's account with \$4,150 in FSA funds — \$2,400 in 2009-10 Pell funds and \$1,750 in Stafford funds. When applied against the \$4,050 in school charges for the 2nd payment period the FSA funds created an FSA credit balance of \$100.00 (\$4,150 – \$4,050) that the school electronically transferred to Hanna's specified bank account.

On November 30, 2009, the school credited Hanna's account with \$2,967 in FSA funds — \$1,800 in 2009-10 Pell funds and \$1,167 in Stafford funds. When applied against the \$2,700 in school charges for the 3rd payment period, the FSA funds created an FSA credit balance of \$267.00 (\$2,967 – \$2,700) that the school electronically transferred to Hanna's specified bank account.

Hanna began the 4th and final payment period on February 8, 2010, and the aid officer posted \$1,167 in Stafford funds to Hanna's account. When she looked at Hanna's Pell eligibility, she found that Hanna had already used 100% of her scheduled award. In past award years, Hanna would not have been eligible for any additional Pell funds. However, students are now eligible to receive 2 consecutive Pell Grant Scheduled Awards during a single year if the student was enrolled: (1) in a certificate, associate or bachelor's degree program and (2) at least 1/2-time for more than one academic year or more than two semesters or the equivalent time during a single award year.

The aid officer determined that Hanna met those criteria, and the school credited Hanna's account with \$1,800 in 2009-2010 Pell Grant funds from Hanna's second Pell award. When added to the \$1,167 in Stafford Loan funds and applied against the \$2,700 in school charges for the 3rd payment period, the FSA funds created an FSA credit balance of \$267.00 (\$2,967 – \$2,700) that the school electronically transferred to Hanna's specified bank account.

As a result, Hannah's tuition and fees were paid-in-full.

Apportioning charges example continued

Hanna began the fourth and final payment period On February 8, 2010, and the aid officer posted \$1,167 in Stafford Loan funds to Hanna's account. When she looked at Hanna's Pell eligibility, she found that Hanna had already used 100% of her scheduled award. In past award years, Hanna would not have been eligible for any additional Pell funds. However, the The Higher Education Opportunity Act (Public Law 110-315) (HEOA) enacted on August 14, 2008, made a student eligible to receive two consecutive Federal Pell Grant Scheduled Awards during a single year if the student was enrolled: (1) in a certificate, associate or bachelor's degree program and (2) at least half time for more than one academic year or more than two semesters or the equivalent time during a single award year.

The aid officer determined that Hanna met those criteria, and the school credited Hanna's account with \$1,800 in 2009-2010 Pell Grant funds from Hanna's second Pell award. When added to the \$1,167 in Stafford Loan funds and applied against the \$2,700 in school charges for the third payment period, the Title IV funds created a Title IV credit balance of \$267.00 ($\$2,967 - \$2,700$) that the school electronically transferred to the bank account that Hanna had previously specified be used for that purpose.

Hannah's tuition and fees were now paid-in-full.

Hanna graduated from KTC, and is working for the Army Corps of Engineers helping to ensure that the levies in New Orleans never again fail.

Direct disbursement to the student

You may also disburse FSA funds directly to the student or parent. Most schools choose to first credit FSA funds to the student's account at the school, and then disburse the credit balance to the student or parent.

There are four ways that a school may disburse FSA funds directly to the student or parent:

1. **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).
2. Initiating an **electronic funds transfer (EFT)** to a bank account designated by the student or parent, including transferring funds to stored-value cards and debit cards (see the discussion under Credit Balances later in this chapter).
3. Disbursing to the student in **cash**, provided that your school obtains a signed receipt from the student or parent, or
4. **Releasing a FFEL check** sent by a lender.

When a school receives FFEL funds by check

A school may receive a borrower's Stafford Loan funds from a lender in the form of an individual bank check made payable to the borrower or co-payable to the borrower and the school. In the case of a co-payable check, both the school and the borrower must endorse the check.

Co-payable PLUS Loan checks must be sent directly to a school by a lender. A school must disburse PLUS proceeds to a parent borrower within 30 days of receiving a check. However, a school is not required to endorse a PLUS check before sending it to a parent borrower. The school may require the parent borrower to endorse the check and return it to the school for the school's endorsement. The school then endorses the check, deposits it and disburses the funds.

CREDIT BALANCES

Credit balances

34 CFR 668.164(e)

FSA credit balance example

An FSA credit balance occurs only if the total amount of FSA program funds exceeds allowable charges

For example, Ms. Inu Nagar enrolls at Eaglewood Technical Institute as a computer student, and her total allowable charges for the fall term amount to \$1,500. ETI credits \$2,000 to her account, comprising \$1,000 in FSEOG, \$500 in private scholarship funds, and \$500 in Pell Grant funds.

Although there is an excess of \$500 on the account, this does not constitute an FSA credit balance because the total amount of FSA funds (\$1,500) does not by itself exceed the amount of allowable charges (\$1,500).

If, in this example, ETI credited \$600 of Pell Grant funds, rather than \$500, an FSA credit balance of \$100 would be created because the total FSA funds credited to the account (\$1,600) would exceed the allowable charges (\$1,500). The order in

FSA regulations refer to the amount of aid that exceeds the allowable charges as a credit balance. School administrators sometimes refer to this as a refund; however, it is not the same thing as a refund under the school's refund policy or a Post-withdrawal Disbursement given to a student under the Return of Title IV Funds rules.

An FSA credit balance occurs whenever your school credits FSA program funds to a student's account and the total amount of those FSA funds exceeds the student's allowable charges.

Paying credit balances

If FSA disbursements to the student's account at the school creates an FSA credit balance, you must pay the credit balance directly to the student or parent as soon as possible, but no later than 14 days after:

- the date the balance occurred on the student's account, if the balance occurred after the first day of class of a payment period, 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.

The law requires that any excess PLUS Loan funds be returned to the parent. Therefore, if PLUS Loan funds create a credit balance, the credit balance would have to be given to the parent. However, the parent may authorize your school (in writing) to transfer the proceeds of a PLUS Loan to a student directly (including to a bank account in the student's name).

The Department does not specify how a school must determine which FSA funds create an FSA credit balance.

A school may not require a student to take any actions to obtain his or her credit balance. It is the sole responsibility of the school to pay, or make available, any FSA credit balance within the 14-day regulatory timeframes.

School responsibility to pay credit balance in timeframe

FR 72-152, August 8, 2007, page 44630

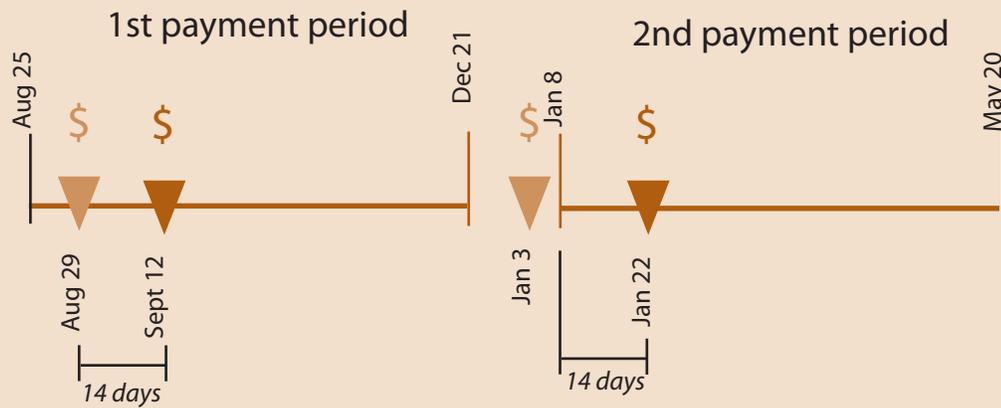
Important

Credit balances under \$1

A school is not required to pay a credit balance that is less than \$1.00.

Please see Volume 5 for a discussion of credit balances when a student withdraws.

14-day timeframe for paying credit balances



In the first payment period above, the school disburses FSA funds to incoming students after the students have started classes, so it has 14 days from that date to pay the credit balance to the student (or parent, in the case of PLUS).

In the second payment period, the school disburses FSA funds before classes start, so the school has 14 days *from the beginning of classes* to pay the credit balance.

Paying credit balance by check

34 CFR 668.164(c)(1)(ii)

Clarification

Delivery of FSA funds must be cost-free

Schools are prohibited from charging students a fee for delivering FSA funds. If a school delivers FSA 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 FSA funds from that card. However, the school may charge for a replacement card.

Paying credit balance by EFT

34 CFR 668.164(c)(1)(iii) and (c)(3)

Bank Account means a Federal Deposit Insurance Corporation (FDIC) insured account or a National Credit Union Share Insurance Fund (NCUSIF) account. This account may be a checking, savings, or similar account that underlies a stored-value card or other transaction device.

Paying a credit balance by issuing a check

A school may pay a credit balance to a student by issuing a check payable to and requiring the endorsement of the student or parent. A school is considered to have issued the check on the date that it –

- mails the check to the student or parent; or
- notifies the student that the check is available for immediate pickup, and provides the specific location.

A school that is paying a student his or her credit balance with a direct disbursement must pay the student within the 14-day timeframe. A school can, within that 14-day period, do a number of things, including sending a notice to the student that his or her money is available. A school that does that is considered to have met the 14-day requirement to give the student his or her credit balance, as long as the school's process complies with the rest of the regulation. That is, **the school must be able to give the student a check when the student comes to the office within the 14-day timeframe.**

If a student is told (within the 14-day period) to come to the business office to pick up his or her credit balance, the student must be able to leave the business office with the funds in some form (e.g., a check, cash, or an appropriate stored value card), and not be told that a check will be mailed to him or her.

A school may hold the check for up to 21 days after the date it notifies the student. If the student does not pick up the check within this 21-day period, the institution must immediately mail the check to the student or parent, initiate an EFT to the student's or parent's bank account, or return the funds to the appropriate FSA program.

Paying a credit balance by initiating an EFT

A school may pay a credit balance by initiating an electronic funds transfer (EFT) to a bank account designated by the student or parent.

A school may establish a policy requiring its students to provide information about an existing bank account, or open an account at a bank of the student's choosing as long as this policy does not delay the disbursement of FSA funds to students. Consequently, if a student does not comply with the school's policy, the school must nevertheless disburse the funds to the student either by dispensing cash for which the school obtains a signed receipt; or issuing a check. A school must disburse the credit balance within the regulatory time frame.

Standards for School-Required Bank Accounts ¹

In cases where a school opens a bank account on behalf of a student or parent, establishes a process the student or parent follows to open a bank account, or similarly assists the student or parent in opening a bank account, the school must –

Obtain in writing affirmative consent from the student or parent to open that account;²

Before the account is opened, inform the student or parent of the terms and conditions associated with accepting and using the account;

Not make any claims against the funds in the account without the written permission of the student or parent, except for correcting an error in transferring the funds in accordance with banking protocols;

Ensure that the student or parent does not incur any cost in opening the account or initially receiving any type of debit card, stored-value card, other type of automated teller machine (ATM) card, or similar transaction device that is used to access the funds in that account;

- Ensure that the student has convenient access to a branch office of the bank or ATMs of the bank in which the account was opened (or ATMs of another bank), so that the student does not incur any cost in making cash withdrawals from that office or ATMs.

This branch office or these ATMs must be located on the institution's campus, in institutionally-owned or operated facilities, or consistent with the meaning of the term "Public Property" immediately adjacent to and accessible from the campus;

- Ensure that the debit, stored-value or ATM card, or other device can be convertible to cash, and can be widely used, e.g., the institution may not limit the use of the card or device to particular vendors; and
- Not market or portray the account, card, or device as a credit card or credit instrument, or subsequently convert the account, card, or device to a credit card or credit instrument.

1. 34 CFR 668.164(c)(3)

2. If a school fails to obtain a student's consent, the school must have an alternative means of ensuring the student has access to his or her FSA credit balance within the time allowed by regulations, and at no cost to the student.

Stored-Value and Prepaid Debit Cards (DCL GEN 05-16 as modified by 34 CFR 668.164()(3))

A stored-value card is a prepaid debit card that can be used to withdraw cash from an automated teller machine (ATM) or to purchase goods from a merchant. We distinguish a stored-value card from a traditional debit card in this discussion by defining a stored-value card as not being linked to a checking or savings account.

Typically, a school enters into an agreement with a bank under which the bank issues stored-value cards directly to students identified by the school. In a payroll or credit balance transaction, the school electronically transfers funds to the bank on behalf of a student and the bank makes those funds available to the student by increasing the value of the card. Since the funds are transferred from the school's account to the bank, so long as the school cannot recall those funds to pay other charges for the student without the student's written permission, the transaction would be equivalent to paying the funds directly to the student.

Under the following conditions, a school may use stored-value cards as a way to make direct payments to students (such as credit balances and Federal Work Study (FWS) wages) by following the 10 rules.

- | | |
|--|--|
| <ol style="list-style-type: none"> 1. A school must obtain a student's authorization to use a stored-value card for paying FWS wages. 2. The value of the card must be convertible to cash (e.g., a student must be able to use it at an ATM to make a cash withdrawal). In some cases, the cards are branded with the VISA or MasterCard logo, so the card may also be used to buy goods and services. We would not expect a school to limit the use of the card to specific vendors. 3. A student should not incur any fees for using the card to withdraw the disbursement from ATMs of the issuing bank or credit union. | <ol style="list-style-type: none"> 6. In order for the disbursements to the stored-value card to be treated as payments made to a student, a school cannot make any claims against the funds on the card without the written permission of the student, except to correct an error in transferring the funds to the bank under existing banking rules. 7. Since the stored-value card is being set up to disburse Federal Student Aid funds to a student, the account should not be marketed or portrayed as a credit card account and should not be structured to be converted into a credit card at any time after it is issued. |
| <p style="margin-left: 20px;">So long as ATMs from the issuing bank are conveniently located for a student, it would appear to be reasonable for a fee to be charged if the student chooses to use an ATM that is not affiliated with the issuing bank.</p> <ol style="list-style-type: none"> 4. A student should not be charged by either a school or the affiliated bank for issuing a stored-value card, but it would be reasonable if a student was charged for a replacement card. 5. In order to minimize any risks with disbursing funds to a stored-value card account set up for a student, the account at the bank or credit union must be Federal Deposit Insurance Corporation (FDIC) or National Credit Union Share Insurance Fund (NCUSIF) insured. This means that there has to be an individual account for each student that is FDIC or NCUSAIF insured. | <p style="margin-left: 20px;">A bank may wish to use its relationship with a student to offer other banking services such as checking accounts, savings accounts, or credit cards, but those should not link to the stored-value card account.</p> <ol style="list-style-type: none"> 8. A school must inform a student of any terms and conditions associated with accepting and using the stored-value card. 9. A school must ensure that its stored-value card process meets all regulatory timeframes. (For example, a student must have access via the card to any credit balance within the 14-day time frames in 34 CFR 668.164, or to any FWS wages at least once per month.)¹ 10. A student's access to the funds on the stored-value card should not be conditioned upon the student's continued enrollment, academic status or financial standing with the institution. |

1. If a school fails to obtain a student's authorization, the school must have an alternative means of ensuring the student has access to his or her FSA credit balance within the time allowed by regulations, and at no cost to the student.

When a school uses third-party servicers¹ to disburse FSA funds

In response to current trends, companies are now offering services that include:

- obtaining the student’s authorization to perform electronic transfers;
- transferring the funds electronically to the student’s bank account;
- opening a bank account for the student; and
- issuing debit cards in conjunction with a participating bank.

Companies that contract with schools to provide these types of services in some instances become third-party servicers (servicer).

So long as a school cannot recall or receive a payment from an student or parent account, the Department considers the electronic transfer of funds to a bank account a servicer opens on behalf of a student to be the equivalent of a school’s transfer of funds to a student’s account and the equivalent of making a direct payment to a student.

A school that enters into a contract with a servicer to provide debit, demand or smart cards through which FSA credit balances are paid to students must have a system to ensure compliance with all regulatory timeframes including having access to any credit balance within the 14-days, and to any FWS wages at least once per month.

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1. A third-party servicer is an entity that contracts with a school to administer any aspect of its FSA programs. Thus, if a school contracts with a company to perform activities that are the school’s responsibilities under the FSA regulations, the company is a third-party servicer.

In the contract between the school and the servicer, both parties must agree to comply with all statutory and regulatory provisions governing the FSA programs, and agree to be jointly and severally liable for any violation by the servicer of these provisions. Also, unless a third-party servicer has only one client, the servicer must submit an annual audit of the activities it performs on behalf of the school to the Department. (See Volume 2 for more information about Third-Party Servicers.)

Cites

34 CFR 668.25(c)

34 CFR 668.23(c)

ED may prohibit holding credit balance

If the Department has placed a school on reimbursement or determines that the school has failed to meet financial responsibility standards, it may choose to prohibit the school from holding a credit balance for any student.

Holding credit balances

A school is permitted to hold credit balances if it obtains a voluntary authorization from the student (or parent, in the case of PLUS). If your school has the authorization to hold the credit balance, it must identify the amount of funds that it holds for the student or parent in a subsidiary ledger account designated for that purpose. Your school also must maintain, at all times, cash in its bank account at least equal to the amount that it holds for students. The school is permitted to retain any interest earned on the student's credit balance funds.

Because FSA funds are awarded to students to pay current year charges, notwithstanding any authorization from the student or parent, you must pay:

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

If your school has lost contact with a student who is due a credit balance, you must use all reasonable means to locate the student. If you still cannot find the student, your school must return the credit balance to the appropriate FSA program(s) and/or lender. The FSA regulations do not set specific rules for determining which funds created a credit balance. However, we encourage schools to return FSA funds to loan programs first to reduce the borrower's loan balance.

Important

School-issued stored-value cards

When a school pays an FSA credit balance to a student by making those funds available through a **school-issued stored-value card over which the school exercises control**, the school is, in effect, holding a student's FSA credit balance. Therefore, **all of the conditions on holding credit balances apply**.

Reminder

POWER OF ATTORNEY

Power of attorney in disbursing FWS and Perkins

A school may not obtain a student's power of attorney to authorize FWS disbursements unless the Department has granted prior approval (contact your School Participation Team). Your school must be able to demonstrate that there is no one else (such as a relative, landlord or member of the clergy, for example) who could act on behalf of the student.

Similarly, a school official may not use a student's power of attorney to endorse any Perkins Loan disbursement check or to sign for any Perkins loan advance unless the Department has granted prior approval. Approval may be granted only if:

- the student is not available to sign the promissory note and there is no one else (such as a relative, landlord or member of the clergy) who could act on behalf of the student,
- the school shows that the funds cannot be directly deposited or electronically transferred,
- the power of attorney is not granted to a school official or any other official who has an interest in the loan, and
- the power of attorney meets all legal requirements under the law of the state in which the school is located and the school retains the original document granting power of attorney in its files.

Power of attorney for foreign study (Stafford/PLUS)

If a student who is enrolled at a foreign school requests it, the lender may disburse Stafford and PLUS funds directly to an eligible foreign school, or to a domestic (home) school in the case of a study-abroad arrangement. The borrower (the student or the parent, in the case of PLUS) must provide power-of-attorney to an individual not affiliated with the school to endorse the check or complete an electronic funds transfer authorization.

Power of attorney

Perkins: 34 CFR 674.16(h)

FWS: 34 CFR 675.16(d)

FFEL: 34 CFR 682.207(b)(1)(v)(C)(2) and (D)(2)

Interim disbursements to students selected for verification

A school can make an interim disbursement of certain types of FSA funds to a student who is selected for verification (including a student selected for verification by the school rather than the CPS). If the school has any conflicting documentation or other reason to believe that it does not have a valid output document, it may not make such a disbursement. See the current version of the *Application and Verification Guide*, for more details.

Disbursements to students on leave of absence

A school **may** disburse Pell, FSEOG, Perkins funds to a student on a leave of absence. However, a school must not disburse FFEL/Direct funds to a student on a leave of absence.

Because FSA credit balance funds are funds that have already been disbursed, a school must pay an FSA credit balance to a student on leave of absence.

Liability for incorrect payments

A school is liable for any incorrect payments made to the student due to school error. A school official is subject to a \$10,000 fine, a prison sentence, or both if he or she knowingly makes false or misleading statements.

TEACH Grant Counseling

A student must complete TEACH Grant Initial Counseling prior to receiving the first disbursement of the student's first TEACH Grant. If the student receives more than one TEACH Grant, the student must complete TEACH Grant Subsequent counseling prior to receiving the first disbursement of each subsequent TEACH Grant. Students can complete the required counseling on the TEACH Grant Website at:

<https://teach-ats.ed.gov/ats/index.action>

If you have questions about TEACH Grant Initial and Subsequent counseling, contact the COD School Relations Center at 800/848-0978. You may also email CODSupport@acs-inc.com.

CHECKING ELIGIBILITY AT THE TIME OF DISBURSEMENT

Before you awarded funds to a student, you confirmed that he or she was an eligible student and was making satisfactory academic progress (See *Volume 1, Student Eligibility*). However, before disbursing FSA funds, you must determine and document that a student remains eligible to receive them. That is, you must confirm that:

- the student is enrolled for classes for the period;
- a student enrolled in a non-term program has completed the previous period (credits and weeks or clock hours and weeks of instruction);
- if the disbursement occurs on or after the first day of classes, that the student has begun attendance;
- for FFEL and DL loans, the student is enrolled at least half time;
- first-time FSA borrowers have completed entrance counseling and/or received the required disclosures;
- for all ACG/National SMART Grants, the student is enrolled at least half time, and meets the applicable GPA requirements;
- for second year AC Grants, at the end of the first academic year, the student has at least a 3.0 cumulative GPA on a 4.0 scale, and
- for National SMART Grants, the student –
 - a) is enrolled at least half time;
 - b) has at least a 3.0 cumulative GPA on a 4.0 scale **through the most recently completed payment period**, and
 - c) is enrolled and taking at least one course in an eligible major.
- for TEACH Grants, the student has, for that award year –
 - a) completed the relevant initial or subsequent counseling;
 - b) signed an “Agreement to Serve” and
 - c) the appropriate GPA, has otherwise met the performance standard through testing, or is a retiree or a current or former teacher (See Volume 1.)

The most common change that would make a student ineligible for a Stafford or PLUS disbursement is if the student has dropped below half time, so it is important that your office have a system to check the student's enrollment status at the time of disbursement.

If the student has dropped below half time temporarily, you may still make a Stafford or PLUS disbursement after the student resumes at least half time enrollment.

RECEIVING FSA FUNDS THROUGH THE G5 SYSTEM

Schools to which ED pushes cash do not request funds directly through G5. The COD system pushes funds (automatically sends electronic payments) through G5 to these schools based on disbursement records submitted and accepted by COD. Similarly, schools on Reimbursement or Heightened Cash Monitoring do not request funds directly through G5. These schools receive funds based on disbursement records accepted by COD and approved by a reimbursement analyst (see Chapter 2).

Schools that receive funds through the Advanced Payment method must request funds directly through G5. Advance Pay schools are not required to submit disbursements prior to requesting funds. These schools receive an initial Current Funding Level (CFL) against which they can draw funds. As these schools submit disbursement records that substantiate the school's drawdowns in a timely manner (within 30 days of the disbursement date) the school's CFL will increase to a level that should allow the school to request the funds it needs to make its scheduled FSA disbursements.

In order to comply with the excess cash regulations, when requesting funds with which to make FSA disbursements, schools must ensure they do not draw down more cash than they can disburse over the next three days.

Pushed cash schools must return funds

In general, a school using the Advanced Payment method may use the federal cash it draws down for any eligible student. However, all cash that ED sends to a school through the pushed cash method are student specific. They are intended solely for disbursement to the students specified on the *Funded Disbursement Listing* report.

If you do not disburse the funds to the intended recipients (on the *Funded Disbursement Listing Report*), you must return those funds as excess cash to ED.

Submitting Disbursement Records

An institution must submit Federal Pell Grant, ACG, National SMART Grant, TTEACH Grant and Direct Loan disbursement records no later than 30 days after making a disbursement or becoming aware of the need to adjust a student's disbursement.

An institution's failure to submit disbursement records within the required 30-day timeframe may result in an audit or program review finding. In addition, the Department may initiate an adverse action, such as a fine or other penalty for such failure.

PROMPT DISBURSEMENT RULES

In general, schools that are not receiving federal cash from the Department through one of the heightened cash monitoring payment methods must make disbursements as soon as administratively feasible but no later than 3 business days after receiving funds from the Department. (For a discussion of payment methods, see *Chapter 2*.) The disbursements may be credited to the student's account or made directly to the student or parent, as discussed earlier. There is a similar requirement for schools receiving FFEL funds.

Note that these timeframes for disbursing to the student's account (or directly to the student/parent) are different than those for paying FSA credit balances to the student or parent. As we discussed earlier, a school generally has 14 days to pay an FSA credit balance to the student or parent, unless it has written permission to hold the credit balance.

Note: Excess cash is discussed in Chapter 2.

DISBURSING FWS WAGES

Your school may use any type of payroll period it chooses, provided students are paid at least monthly. It is a good idea to have the FWS payroll correspond to other similar payrolls at the school. Unless you are paying the student with noncash contributions (see below), you must pay the nonfederal share to the student at the same time you pay the federal share.

FWS wages are earned when the student performs the work. A school may pay the student after the last day of attendance for FWS wages earned while he or she was still in school. However, when a student has withdrawn from school and is not planning to return, FWS funds may not be used to pay for work performed after the student withdrew. A correspondence student must submit the first completed lesson before receiving a disbursement under the FWS Program.

Crossover payment periods

When a payment period is in two award years (that is, when it begins before and ends after July 1), the student is paid for compensation earned through June 30 with funds allocated for the first award year and for compensation earned beginning July 1 with funds allocated for the following award year. (See *Volume 6* for a discussion of carrying back funds for summer employment.)

Disbursing to students from the correct award year is important; schools have been held liable when students were paid from the wrong FWS authorization. For audit and program review purposes, your school must have documentation (e.g., canceled checks, bank statements) showing that students received disbursements in the amount charged to the FWS Program.

Holding FWS funds on behalf of the student

With written authorization from a student, a school may hold, on behalf of the student, FWS funds that would otherwise be paid directly to the student (unless this is prohibited by the terms of a reimbursement payment method). The restrictions for such an authorization are the same as those that apply to written authorizations for disbursements to student accounts. If your school holds FWS funds on behalf of students, it must:

- identify the amount of FWS funds held for each student in a designated subsidiary ledger account,
- maintain cash in its bank account that is always at a minimum equal to the FWS funds being held for students, and
- disburse any remaining balance by the end of the school's final FWS payroll period for the award period.

FWS Disbursements

34 CFR 675.16.

Direct payments

34 CFR 668.164(c)

Noncash contribution

Your school also has the option of paying its share of a student's FWS wages in the form of a noncash contribution of services or equipment — for example, tuition and fees, room and board, and books and supplies. However, you may not count forgiveness of a charge such as a parking fine or library fine against a student who is employed under FWS as part of the school's noncash contribution to the student.

Noncash payments (tuition, fees, services or equipment) must be made before the student's final payroll period of the award period. If the school pays its share for a forthcoming academic period in the form of prepaid tuition, fees, services or equipment, it must give the student — again, before the end of the student's final payroll period — a statement of the amount of the noncash contribution earned.

Late disbursements

34 CFR 668.164(g)

Obtaining SAR/ISIR with earlier process date

In some cases a school may have a SAR/ISIR with an official EFC processed while the student was enrolled, but before the student listed the school on the FAFSA or ISIR. Subsequently, the school may have received a SAR/ISIR for the student with a processed date after the student ceased to be eligible. In this case, you need to obtain a copy of the earlier SAR/ISIR to document eligibility for the late disbursement.

Processed Date

For purposes of determining eligibility for a late disbursement use the processing date on the SAR/ISIR. For an ISIR, use the field labeled *Processed Date*. For a SAR, use the date above the EFC on the first page. For a SAR Acknowledgment, use the date labeled “transaction process date” in the School Use box.

Pell and ACG/SMART disbursements

If a school receives a valid SAR or ISIR within the applicable deadlines, it must disburse the student’s Pell, ACG National SMART Grant.

Cite

34 CFR 690.61(a) & 34 CFR 691.61(a)

Late disbursement of a PLUS loan

A school does not have to rely upon a SAR/ISIR to determine if a parent qualifies for a late disbursement of a PLUS loan. However, in cases where a school does not have a SAR/ISIR, it may not certify or originate a PLUS loan until it documents that the student for whom the loan is intended meets all the applicable eligibility requirements (e.g., the student is not in default, does not owe an overpayment, is a citizen or eligible noncitizen, etc.).

LATE DISBURSEMENTS

Generally, an otherwise eligible student or parent becomes ineligible to receive FSA funds on the date that the student:

- for a loan made under the FFEL or Direct Loan program, is no longer enrolled at least half time; or
- for purposes of the Pell Grant, ACG/SMART Grant, FSEOG, and TEACH grant and the Perkins Loan programs, the student is no longer enrolled at the school for the *award year*.

However, if certain conditions are met, students must be considered for a disbursement after the date they became ineligible. These disbursements are called “late disbursements.”

Conditions for a late disbursement

A student must be considered for a late disbursement if the Department processed a SAR/ISIR with an official EFC before the student became ineligible. Therefore, a school must review its records to see if a student who did not receive a disbursement of FSA funds before becoming ineligible is eligible for a late disbursement (Check the “processed date” as described in the sidebar.) In addition, for an FFEL or Direct Loan program loan, the loan must be certified or originated, as applicable, prior to the date the student became ineligible. For an FSEOG or a Federal Perkins Loan, the school must have made the award to the student prior to the date the student became ineligible. *For a TEACH Grant, the school must have originated the award.*

Late disbursements that must be made vs. late disbursements that may be made

If a student who qualifies for a late disbursement completes the payment period or period of enrollment, or withdraws during the payment period or period of enrollment, a school **must** make or offer as appropriate, the late disbursement. A late disbursement for a student who has withdrawn during the payment period or period of enrollment is called a Post-withdrawal disbursement.

If a student did not withdraw or fail to complete the payment period or period of enrollment but ceased to be enrolled as at least a half-time student, a school **may** make a late disbursement of a loan under the FFEL or Direct Loan programs. So long as a school has previously confirmed that a student started the loan period enrolled at least half time, a school is not required to re-confirm a student’s attendance before making a late disbursement of a FSA loan.

A student who withdraws and subsequently signs a promissory note in time for the school to include the loan funds in the Return of Title IV Aid calculation may receive a late (Post-withdrawal) disbursement of the applicable amount of his or her loan funds (see *Volume 5* for more information). In addition, a student who loses eligibility for a reason other than his or her withdrawal and subsequently signs a promissory note may receive a late disbursement of the applicable amount of his or her loan funds.

If a student's enrollment status for an ACG/National SMART Grant was half-time on the date the student ceased to be enrolled, the school may make a late disbursement.

Limitations on making a late disbursement

The regulations prohibit a school from making a late disbursement in certain situations, even if a student otherwise meets the conditions for a late disbursement. A school is prohibited from making:

- a late second or subsequent disbursement of FFEL or Direct Loan funds unless the student has graduated or successfully completed the loan period;
- a late disbursement of FFEL or Direct Loan funds to a first-year, first-time borrower who withdraws before the 30th day of the student's program of study (unless the school meets the requirements for a waiver based on low default rates (See Volume 1) and
- a late disbursement of Pell, ACG/SMART, or **TEACH** Grant funds to a student for whom the school did not have a valid SAR/ISIR by the deadline established by ED.
- a late disbursement of an ACG/SMART Grant if a student's enrollment status for an ACG/SMART Grant was not half-time on the date the student ceased to be enrolled.

In addition, a school may not make a late disbursement later than 180 days after the date the student becomes ineligible. (Note that for an FFEL that was certified prior to the student becoming ineligible, the funds would have to be disbursed to the school by the lender in sufficient time for the school to deliver the funds to the student within 180 days of the date the student became ineligible.)

Late disbursements may be declined

Though a school must make or offer late disbursements, a student or parent is never required to accept it. For example, a student may decline a late disbursement of a loan to avoid taking on debt.

Post-withdrawal disbursements

A Post-withdrawal disbursement, a type of late disbursement, is FSA funds that were not disbursed before a student withdrew, but which the student has earned based on a Return of Title IV Funds calculation. The conditions and limitations for a Post-withdrawal disbursement are the same as for all other late disbursements. However, there are additional requirements for late disbursements made at Post-withdrawal disbursements.

Cite 34 CFR 668.22(a)(4).

Enrollment Status for ACG/SMART Grants

To be considered half-time at the time a student ceases to be enrolled, the student must have begun attendance in all the classes necessary to qualify as a half-time student and be considered half time in accordance with the school's enrollment status policies for the PellGrant, and ACG/National SMART Grant programs.

Cite 34 CFR 691.80(b)

Paying a Post-withdrawal disbursement

For a Post-withdrawal disbursement to a student who withdrew during a payment period or period of enrollment, a school must follow the rules for paying and/or offering a Post-withdrawal disbursement in regulations governing the Return of Title IV Funds (see *Volume 5*).

Conditions and Limitations on Late Disbursements
These Conditions Must Be Met Before a Student Loses Eligibility in Order for the Student to Receive a Late Disbursement (34 CFR 668.164(g)(2))

Program		
Pell Grant ¹	For all Programs, the Department processed a SAR/ISIR with an Official EFC.	No additional requirements.
FSEOG		Student is awarded a grant.
FFEL		A loan application is certified.
Direct Loans		A loan record is originated.
Perkins Loans		Student is awarded the loan.
TEACH Grants		The grant is originated

These Additional Limitations Must Be Satisfied Before a School May Make a Late Disbursement (34 CFR 668.164(g)(4))²

Program	
Pell Grant ¹	School received a valid SAR/ISIR by the date established by ED.
FSEOG	No additional limitations.
FFEL	1 For a first-time, first-year borrower, student completed 30 days of the program. (Subject to waivers discussed earlier under <i>Timing of Disbursements</i> .)
Direct Loans	2 For a second disbursement, student graduated or completed the period for which the loan was intended.
Perkins Loans	No additional limitations.
TEACH Grants	School received a valid SAR/ISIR by the date established by ED.

¹ Within this chart, Pell Grant also apply to ACG/SMART Grants.

² For all programs, the late disbursement is made no later than 180 days after the date of the institution's determination that the student withdrew. Or, for a student who did not withdraw, 180 days after the student became ineligible.

Paying a late disbursement

If a school chooses to make a late disbursement of an FFEL or Direct Loan to a student who ceases to be enrolled as at least a half-time student, the school determines the amount of the late disbursement of the FFEL or Direct Loan it will offer the student by determining the educational costs the student incurred for the period of instruction during which the student was enrolled at least half time.

A school must contact a student prior to making ANY late disbursement of FSA loan funds, and explain to the student his or her obligation to repay the loan funds if they are disbursed. The information provided in this notification must include the information necessary for the student or parent to make an informed decision about whether the student or parent would like to accept any disbursement of the loan funds. In addition, the school must confirm that the loan funds are still needed by the student, and that the student wishes the school to make the disbursement.

Your school may credit a student's account with a late disbursement of FSA grant funds without the student's permission for any current allowable charges. An institution must obtain a student's authorization to credit a student's account with Title IV grant funds for charges other than current charges.

If grant funds remain to be disbursed from a late disbursement after the outstanding charges on the student's account have been satisfied, the school must pay the grant funds directly to the student within 14 days.

If a student had a FSA credit balance before becoming ineligible and that credit balance consists of FSA loan funds, the school must offer the funds in writing to the student, and may not disburse the funds directly to the student without first having obtained the student's authorization.

Flexibility in contacting students

In order to avoid having to contact a student multiple times, a school may use one contact to –

- counsel a borrower about his or her loan repayment obligations;
- obtain permission to credit loan funds to a student's account to cover unpaid institutional charges;
- obtain permission to make a late disbursement of grant or loan funds for other than institutional charges;
- obtain permission to make a late disbursement of grant or loan funds directly to a student; and
- confirm that a student wishes the school to receive as a direct disbursement any grant or loan funds the student is due as a late disbursement.

A student's response to an offer of FSA funds from late disbursement does not have to be in writing. However, a school must document the student's response.

Requesting & Managing FSA Funds

CHAPTER 2

Except for funds received as an administrative cost allowance (ACA), FSA program funds received by a school are held in trust by the school for students, the Department and, in the case of FFEL Program funds, for lenders and guaranty agencies. The cash management regulations discussed in this chapter establish rules and procedures that a school must follow in requesting and managing FSA Program funds. These rules and procedures also apply to third-party servicers.

DRAWING DOWN FSA FUNDS

Current Funding Level & G5

A school's Authorization (Current Funding Level (CFL) in Pell, ACG/SMART Grant, and Cash Control Account (CCA) in DL and **TEACH**,) is the amount of program funds a school is eligible for in the year and program in question.

Schools operating under the advance payment method receive an initial CFL in Pell and Direct Loan funds against which they can make drawdowns. Schools operating under reimbursement do not receive an initial CFL. Schools do not receive an initial CFL for the ACG, SMART, and TEACH Grant programs. For the ACG, SMART, and TEACH Grant programs, only when a school submits actual disbursements to COD and they are accepted will the school receive an initial or increase in its CFL or CCA.

G5 is a delivery system that supports program award and payment administration. Schools may use G5 to request payments, adjust drawdowns and report expenditures. G5 also provides continuous access to current grant and payment information, such as authorized amounts, cumulative drawdowns, current award balances and payment histories.

A school's *available balance* is the amount of cash available for a school to draw down from the Grants Administration and Payments System through G5. A separate Authorization is maintained for each program by award year.

The Advance Payment method

Under the advance payment method, a school may submit a request for Pell Grant, Direct Loan and Campus-Based program funds through G5 at any time — prior to or after disbursing aid to eligible students and parents. If G5 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.

Chapter 2 Highlights

- » Drawing down funds
- » Maintaining & accounting for funds
- » Excess cash
- » Administrative Cost Allowance
- » Fiduciary responsibility; escheating & garnishing prohibited
- » Returning funds

Funding methods

Currently, there are three funding methods under which a school requests funds from the Department:

- the advance payment method;
- the reimbursement payment method; and
- the cash monitoring payment method.

The Department has sole discretion in determining the funding method a school uses to request FSA program funds.

Cite: 34 CFR 668.162, except as noted.

Self-assessment tool for fiscal management procedures

You can evaluate your school's procedures by referring to "Fiscal Management" in the *Managing Funds* module of FSA Assessments at:

<http://ifap.ed.gov/qahome/qaassessments/fiscalmanagement.html>

Advance requests for Perkins funds

Before requesting funds from its Perkins FCC, a school should compare its anticipated available Perkins funds (cash on hand + expected collections + expected interest + expected reimbursements for cancellations) against its anticipated Perkins disbursements. A school should take into account all sources of Perkins funds when determining whether it needs to draw down any additional amounts to cover disbursements.

Just-in Time Payment Method

Since the 1999-2000 Award Year, the Department has administered the Pell Grant Just-In-Time (JIT) Pilot Project as a method through which schools received funds more quickly than through the advanced funding method. Over the last few years, advancements to the Common Origination and Disbursement System and G5 have resulted in a 24-hour turn around time from a school submits disbursement records to the funds being available to be drawdown. Since there is no longer a need for the JIT program, it is being discontinued with the start of the 2009-2010 Award Year.

A school may not request more funds than it 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.

G5 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.

Within Advance Payment is a system called *Pushed Cash* through which Some Direct Loan Schools receive funds. In Pushed Cash the Department automatically deposits (pushes) cash in a Direct Loan school's bank account based on disbursements that are submitted timely and accepted. Under the Pushed Cash method, the Department accepts a disbursement for a student only after accepting an origination and Master Promissory Note for that student. For further information see the 2009-2010 Common Origination and Disbursement (COD) Technical Reference. For the time being, ED will continue to offer Pushed Cash in the Direct Loan Program.

Reimbursement & Cash Monitoring payment methods

Under these payment methods the Department releases funds to the school after the school has made the disbursement to the student (or parent borrower). Since relatively few schools are required to use these methods, we'll discuss them separately (see boxed text).

Reimbursement payment method

The Department places a school on reimbursement if it determines there is a need to monitor strictly the school's participation in the FSA programs. The school must first disburse FSA program funds to eligible students and parents before it can request those funds from the Department. As part of its 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 received, FSA program funds.

The school's reimbursement request is approved if the Department determines that each student and parent included in the request was eligible for, and received, the proper type and amount of FSA program funds. After the reimbursement request is approved, the Department transfers electronically the appropriate amount of FSA funds to the bank account in which the school maintains its federal funds.

Cash monitoring payment method

The cash monitoring payment method works the same way as the reimbursement payment method – a school must first make disbursements to eligible students and parents before requesting FSA funds – but has less onerous documentation requirements. Unlike the reimbursement payment method where a school must provide detailed documentation for each student to whom it made a disbursement, the Department may relax the documentation requirements and provide funds to a school in one of two ways:

1. **Heightened Cash Monitoring 1 (HCM1).** After a school makes disbursements to eligible students, it draws down FSA funds to cover those disbursements in the same way as a school on the advance payment method.
2. **Heightened Cash Monitoring 2 (HCM2).** After a school makes disbursements to eligible students, it submits only the documentation specified by the Department. The Department may tailor the documentation requirements for schools on a case-by-case basis.

If the Department determines that a school should be placed on reimbursement, HCM1 or HCM2, it notifies the school. In the notice, the Department explains why it is taking this action, describes how the payment method works, identifies the documentation (if any) that the school must submit, and may provide other instructions to the school.

In addition, if a school is placed on reimbursement, HCM1 or HCM2 either because it is not financially responsible, or qualifies as a financially responsible school under the Zone Alternative in 34 CFR 668.175(d), its administration of the reimbursement or cash monitoring payment method must be audited every year. The independent auditor engaged by the school to conduct its annual compliance audit must express an opinion in the audit report regarding the school's compliance with the reimbursement or cash monitoring requirements, as applicable.

Limitations on the use of FFEL funds for schools on reimbursement or cash monitoring

A school that is placed on reimbursement or cash monitoring:

- may not disburse FFEL Program funds to a borrower until the Department approves a request from the school to disburse funds to that borrower, and
- if prohibited by the Department, may not certify a loan for a borrower until the Department approves a request from the school 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 loans).

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 this 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.

Because of the additional time it takes the Department to review documentation submitted by the school, the school may delay returning for 30 days FFEL Program funds that were provided by a lender via EFT or master check.

Note: This delay provision is applicable only in the FFEL Programs, see 34 CFR 668.167(c) and (d).

MAINTAINING AND ACCOUNTING FOR FUNDS

All schools must maintain a bank account into which the Department transfers, or the school deposits, FSA funds. The account must be federally insured or secured by collateral of value reasonably equivalent to the amount of FSA funds in the account. A school generally is not required to maintain a separate account for each FSA program unless the Department imposes this requirement as a result of a program review or other action.

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 FSA program funds.

When a school does not maintain a separate account

A school has a fiduciary responsibility to segregate federal funds from all other funds and to ensure that federal funds are used only for the benefit of eligible students. Absent a separate bank account, the school must ensure that its accounting records clearly reflect that it segregates FSA funds. Under no circumstances may the school use federal funds for any other purpose, such as paying operating expenses, collateralizing or otherwise securing a loan, or earning interest or generating revenue in a manner that risks the loss of FSA funds or subjects FSA funds to liens or other attachments (such as would be the case with certain overnight investment arrangements or sweeps). Clearly, carrying out these fiduciary duties limits the ways the school can otherwise manage cash in an operating account, when that account contains FSA funds.

If a school does not maintain a separate account for FSA program funds, its accounting and internal control systems must:

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

A school must maintain its financial records in accordance with the recordkeeping requirements described in *Volume 2, chapter 9*.

Bank account notification requirements

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

- including the phrase *federal funds* in the name of the account, or

Maintaining & accounting for funds

34 CFR 668.163

Recordkeeping requirements

34 CFR 668.24

Not applicable to some programs

The cash management requirements are not applicable to the state grant and scholarship programs. The Leveraging Educational Assistance Partnership Program (LEAP—formerly the State Student Incentive Grant [SSIG] Program), the Special Leveraging Educational Assistance Partnership (SLEAP), the Robert C. Byrd Honors Scholarship (Byrd) Program and, if a State is the grantee, the Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR UP) are administered under rules established by the states.

Timely return of funds

Schools are required to make a timely return of any unearned funds after a student withdraws, as discussed in *Volume 5, chapter 2*. This discussion also defines **timely return of funds** for a school that maintains FSA program funds and general operating funds in the same bank account.

Bank notification via UCC-1 form

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.

Remitting Interest

The fastest, most efficient way to remit interest is through the G5 Web site at

<http://www.g5.gov>

A school with a user ID and password can go to the main menu and select "Refunds" then "Interest." They will be taken to the screens through which they can send ED interest.

Schools can also return excess interest income to ED by check. The check should be sent to:

**U.S. Department of Education
P.O. Box 979053
St. Louis, Missouri 63197-9000**

The school should note on the check the school's DUNS number and Document Award Number, and it should also indicate that the remittance is for interest earned.

- notifying the bank or investment company of the accounts that contain FSA funds and keeping a copy of this notice in its records and, except for public institutions, filing a Uniform Commercial Code Form (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.

Interest-bearing or investment account

FSA program funds must be maintained in an interest-bearing account or an investment account unless:

- the school drew down less than \$3 million of these funds in the prior award year and anticipates that it will not draw down more than \$3 million in the current award year, or
- the school can demonstrate that it would not earn over \$250 in interest on the funds it will draw down during the award year.

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 FSA funds maintained in an interest-bearing account or an investment account that exceeds \$250 per award year must be remitted to the Department by June 30 of that award year (see sidebar). 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 the account.

Additional Requirements for Perkins Loan funds

A school that participates in the Perkins Loan Program must always maintain an interest-bearing account or an investment account for Perkins Loan funds. The school must maintain sufficient liquidity in its Perkins fund to make all required distributions.

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 amount of any interest earned on the Perkins Loan funds and retain those funds for use in the Perkins program. The interest earned on the school's Perkins funds is not included in the \$250 maximum award year interest the school is permitted to retain.

A school may deduct from the interest earned any bank or service charges incurred as a result of maintaining the fund assets in an interest-bearing account, and deposit only the net earnings.

If a collection agency or third-party servicer receives funds directly from Perkins borrowers, it must immediately deposit those funds in a school trust account. The agency or servicer may open and maintain the account, but the funds in it belong to the school. If the funds will be held for more than 45 days, the account must be interest bearing.

EXCESS CASH

As mentioned earlier, under the advanced payment method a school must disburse funds no later than three business days following the date the school receives them. The Department considers excess cash to be any amount of FSA funds, other than Perkins Loan funds, a school does not disburse to students or parents by the end of the third business day following the date the school –

- received those funds from the Department; or
- deposited or transferred to its Federal funds account previously disbursed FSA funds received from the Department, such as those resulting from award adjustments, recoveries, or cancellations.

Sometimes a school cannot disburse funds in the required 3 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. In view of these circumstances, a school may maintain some excess cash for up to seven additional days.

Three-day rule

A school must disburse FSA funds as soon as administratively feasible but no later than three business days following the date the school received those funds.

Cite

34 CFR 668.162(b)(3)

Excess cash rules

In general, excess cash is any FSA funds other than Perkins that are not disbursed by the end of the 3rd business day after funds are received from the Department.

Cite

34 CFR 668.166

The cash management regulations allow a school to hold FFEL funds for up to 10 days if the student is expected to become eligible in that time

Cite

(34 CFR 668.167(b) and (c)).

The verification regulations provide a 45-day exception for holding FFEL loan funds.

Cite

34 CFR 668.58(c)

Excess cash

34 CFR 668.166

The excess cash regulations do not apply to the FSA funds that a school receives under the Just-in-Time payment method.

Excess cash tolerances

34 CFR 668.166(b)

Allowable excess cash tolerances

A school may retain for up to seven days an amount of excess cash that does not exceed one percent of the total amount of funds the school drew down in the prior award year. The school must return immediately to the Department any amount of excess cash over the 1% tolerance and any amount remaining in its account after the seven-day tolerance period.

The Department reviews schools to determine where excess cash balances have been improperly maintained. 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 or where they represent a continuing problem with the school's ability to responsibly administer the FSA programs, the Department may initiate a proceeding to fine, limit, suspend or terminate the school's participation in one or more of the FSA programs. For more on fines and other actions against schools, see *Volume 2 – School Eligibility and Operations*.

Generally, a check is issued when the school releases a check provided by the lender, mails the check to the student or parent, or notifies the student or parent that a check is available for immediate pickup. However, upon 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.

Holding FFEL funds if student is temporarily ineligible

Once guaranty agency approval is obtained and the lender has determined that it has an active MPN for the borrower, the lender will send Stafford loan funds to your school in the appropriate amount for each disbursement to the borrower or parent. At the request of the borrower, the lender will send the funds directly to the borrower if he or she is enrolled in a foreign school. For a PLUS, loan funds are sent in at least two disbursements to the school by EFT or by a check made copayable to the school and the parent borrower.

When a school receives FFEL Program funds from the lender by EFT or master check, it usually must disburse the funds within 3 business days. If the FFEL lender provided the loan funds through a check requiring the endorsement of the student or parent, the school must credit the student's account or issue a direct disbursement to the eligible student (or parent borrower) no later than 30 calendar days after the school receives the funds.

FFEL three-day rule

34 CFR 668.167(b)(2)

Returning FFEL funds promptly

For purposes of the cash management regulations and this discussion, returning funds promptly means that a school may not delay its normal process for returning FFEL Program funds to lenders.

Cite

FFEL: 34 CFR 668.167

In some cases, your school may receive the loan funds at a point when the student is temporarily not eligible for a disbursement—for instance, if the student needs to complete the clock hours or credit hours in the first half of the loan period (for an academic program without terms). If you expect such a student to become eligible for disbursement in the immediate future, your school has an additional 10 business days to disburse the funds. In effect, this means that your school can wait 13 days after receipt of the EFT or master check (40 days for a check requiring endorsement) to make a disbursement to a student who is expected to regain eligibility during this 10-day window.

A school must return FFEL Program funds that it does not disburse by the end of the initial or conditional period, as applicable, promptly but no later than 10 business days from the last day allowed for disbursement. However, if a student becomes eligible to receive FFEL Program funds during the return period, the school may disburse those funds provided that the disbursement is made on or before the last day of the return period.

The requirement that a school return funds no later than a certain number of days means that a school must mail a check or initiate an EFT of FFEL funds to the lender by the close of business on the last day of that period.

Holding FFEL Stafford loan funds for verification

If you have certified an FFEL Stafford Loan for a student who was selected for verification, and the loan funds arrive before verification is completed, your school may hold the loan proceeds for up to 45 days. If the applicant does not complete the verification process within the 45-day period, your school must return the loan funds to the lender.

If the student's eligibility was reduced as a result of verification, you may make the full disbursement if any overpayment can be eliminated by reducing subsequent disbursements for the applicable loan period. (You must advise the lender to reduce the subsequent disbursements.) If the overpayment cannot be eliminated in subsequent disbursements for the applicable loan period, your school must return the overpayment to the lender.

ADMINISTRATIVE COST ALLOWANCE (ACA)

The ACA is an annual payment calculated by ED and automatically deposited in the school's account to help offset the costs of administering the FSA programs. The Department reimburses schools participating in the Pell Grant \$5 per award year for unduplicated recipients at the school who receive a Pell Grant. For the Campus-Based Program, the ACA is taken from the school's federal allocation and the maximum amount permissible is up to 5 percent of the sum of the loans advanced in Perkins, the total earned compensation in FWS, and the total awards to recipients in FSEOG.

Holding and returning FFEL funds

- Basic requirement to return FFEL funds
34 CFR 668.167(b)(1)
- Additional 10 days
34 CFR 668.167(b)(2)
- If the borrow did not complete the number of clock hours or credits in the previous payment period
34 CFR 668.167(c)(1)(i)(A)&(B)
- If the student has not met all the FFEL eligibility requirements and the school expects the student to meet them within the 10 days
(34 CFR 668.167(c)(1)(ii)(A)&(B))
- If the school is on heightened cash monitoring
34 CFR 668.167(d)&(f)
- Verification delay
34 CFR 668.58(c)

Administrative Cost Allowance

34 CFR 690.10(b) and 34 CFR 673.7

For the Campus-Based Programs the ACA is not a separate allowance sent to the school. Rather, the school has the option of taking its Campus-Based ACA out of the annual authorizations the school receives for the FSEOG and FWS Programs and/or from the available cash on hand in its Perkins Loan fund. A school may draw its allowance from any combination of Campus-Based programs, or it may take the total allowance from only one program provided there are sufficient funds in that program and as long as the school has disbursed funds to students from that program during the award year.

If a school charges any ACA against its Perkins Loan fund, it must charge these costs during the same award year in which the expenditures for these costs were made.

A school must use its administrative costs allowance to offset its cost of administering the Pell Grant, FWS, FSEOG, and Federal Perkins Loan Programs. Administrative costs may include the expenses incurred in carrying out a school's student consumer information services requirements. In addition, a school may use up to 10 percent of its ACA that is attributable to the school's expenditures under the FWS Program to pay the administrative costs of conducting community service programs.

FIDUCIARY RESPONSIBILITY

Except for funds received by a school for administrative expenses and for funds used for the Job Location and Development Program, funds received by a school under the FSA programs are held in trust for the intended student beneficiaries. As a trustee of those funds, a school may not use (or use as collateral) FSA funds for any other purpose.

Reminder

Schools' fiduciary responsibilities

34 CFR 668.14(b)(1) and 34 CFR 668.161(b)

FSA funds are awarded to a student to pay current year charges. Notwithstanding any authorization obtained by a school from a student or parent, the school must pay:

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

A school that fails to disburse funds by those dates is in violation of the Department's cash management regulations.

In addition, a school has a fiduciary responsibility to –

- safeguard FSA funds,
- ensure FSA funds are used only for the purposes intended,
- act on the student's behalf to repay a student's FSA education loan debt when the school is unable to pay a credit balance directly to the student, and
- return to the Department any FSA funds that cannot be used as intended.

RECOVERY OF UNCLAIMED FSA FUNDS (PROHIBITION ON ESCHEATING)

A school must return to the Department, lender, or guaranty agency, any FSA program funds, except FWS Program funds, that it attempts to disburse directly to a student or parent if the student or parent does not receive or negotiate those funds. (For FWS Program funds, a school is required to return only the Federal portion of the payroll disbursement.)

A school must have a process that ensures FSA funds never escheat to a state, or revert to the school or any other third party. A failure to have such a process in place would call into question a school's administrative capability, its fiscal responsibility and its system of internal controls required under the FSA regulations.

Timeframe for returning unclaimed funds

If a school attempts to disburse the credit balance by check or EFT and the check is not cashed or the EFT is rejected, the school must return the funds no later than 240 days after the date it issued that check or made the EFT.

However, if a check is returned to a school, or an EFT is rejected, the school may make additional attempts to disburse the funds, provided that those attempts are made not later than 45 days after the funds were returned or rejected.

In cases where the school does not make another attempt, the funds must be returned before the end of the initial 45-day period.

The school must cease all attempts to disburse the funds and return them no later than 240 days after the date it issued the first check.

GARNISHMENT OF FSA FUNDS PROHIBITED

No FSA grant, loan, or work assistance (or property traceable to that assistance) is subject to garnishment or attachment except to satisfy a debt owed to the Department.

A student's FWS wages may be garnished only to pay any costs of attendance that the student owes the school or that will become due and payable during the period of the award. Schools must oppose any garnishment order they receive for any other type of debt.

By law, FSA funds may only be used for educational purposes. If your school is not the employer in an off-campus employment arrangement, it must have an effective procedure to notify off-campus employers that garnishment of FWS wages for any debt other than a cost of attendance is not permissible.

Example of a policy to prevent escheating

Typically, each state establishes the useful life of a check or bank draft used to disburse FSA program funds. After this established date, the check cannot be negotiated and the proceeds of an uncashed check normally escheat to an unintended third-party (the state or the institution).

In state A, a bank check has a useful life of 180 days. In order to prevent FSA funds from escheating to a third-party, the Business Office at School A, at the end of each month, identifies all outstanding uncashed checks containing FSA funds. Prior to the 180th day, the Business Office voids the uncashed checks and restores the funds back to the applicable FSA program.

Timeframe for returning unclaimed funds

34 CFR 668.164(h)

Undelivered Perkins funds

If a portion of the undelivered credit balance consists of Perkins funds, the school must reimburse its Perkins Loan fund for that amount and report those funds as other income in Part III, Section A of the FISAP.

Garnishment/Attachment Prohibited

HEA 488A(d)

Reminder

Unpaid FWS Wages

If a school cannot locate a student to whom it owes FWS funds the student has earned, the federal portion must be returned to the school's FWS account.

If the student comes back or the school later locates the student, the school can recover the FWS funds as long as the account for that year is still open. If the account is closed, the school must pay the student (under the wage and hour laws) using its own funds.

RETURNING FUNDS

There are a number of reasons why a school may have to return funds to the Department including –

- the return of FSA funds required when a school must correct an overaward or an overpayment, and the return of funds required when a student withdraws or otherwise ceases attendance during a payment period or period of enrollment (The return of funds under these circumstances is discussed in Volume 5.);
- having FSA funds on hand with no expectation they can be disbursed to other eligible students within three days (excess cash);
- owing the Department for expenditures disallowed during a program review or audit;
- having earned interest on its federal funds (other than in its Perkins account) in excess of \$250.00; and
- holding large Federal Perkins Loan cash balances on hand ((COH) balances on the FISAP).

Schools can return money to the Department (including excess interest) using the Electronic Refund Functionality in G5 for up to 10 years following the end of the award year. For complete instructions on returning funds through G5, see The Blue Book and the G5 Refund Manual.

Only in exceptional circumstances should a school return funds by sending a check instead of using the electronic refund functionality in G5.

Returning funds by depositing them in a federal funds account

For funds obtained from the Department, a school meets the Return requirement if it deposits or transfers the funds into its federal account no later than 45 days after the school determined that a student withdrew or received an overpayment the school was responsible for returning (See Volume 5 — *Overawards, Overpayments and Withdrawal Calculations.*)

If a school has not drawn down federal funds or has made disbursements that exceed the amount the school has drawn, the school does not need to be deposit funds in its federal account. Of course, the school's accounting records must show that school funds were used to credit the student's account.

Returning funds by depositing them

34 CFR 668.173(b)

Downward adjustment of Pell, ACG/SMART, TEACH Grant, and Direct Loan required

All Pell, ACG/SMART, TEACH Grant, and Direct Loan funds, other than funds that are being returned to stay in compliance with the excess cash requirements, must be offset by downward reductions in students records in COD. Likewise, all Direct Loan funds, other than funds that are being returned to stay in compliance with the excess cash requirements, must be offset by downward reductions in borrowers' loans in COD.

All returns of Pell funds previously disbursed (unclaimed credit balances) must be offset by reductions in COD.

Returning funds from an audit or program review

If, as a result of a program review or audit, a school is required to repay FSA funds, a copy of its Final Audit Determination Letter (FADL) or Final Program Review Determination (FPRD) letter is sent to ED's Receivables and Cash Receipts Team (RCRT) where an account receivable is established for the school. The Department will then, through its billing agent, bill the school for the disallowed expenditures, accrued interest, and penalties, if any. Payment instructions will be included with the bill.

- If a school owes ED \$100,000 or more, it must remit payment through its financial institution by FEDWIRE.
- If a school owes ED less than \$100,000 it must remit payment by check to ED's billing agent.

A school may not reduce amounts reported as net drawdowns on its G5 Activity Reports to account for expenditures disallowed as a result of an audit or program review. Any FSA funds returned for this purpose will not be credited to a school's G5 account.

Unless otherwise directed by the FADL or FPRD letter, a school may not adjust its prior-year FISAPs or Federal Pell Grant processed payment information to reflect expenditures disallowed as a result of an audit or program review. Also, the school should send Stafford/PLUS repayments directly to the appropriate FFEL Program lender(s), or to the Direct Loan Servicing Center.

Returning DL funds that can't be disbursed within three days

A school that has drawn down more funds than it can disburse due to changes in students' status between the drawdown and disbursement date would need to return the funds if they could not disburse them within the allowed time-frame. However, such returns would not be offset by reductions in the students' records in COD.

Returning Funds by Check

(These instructions do not apply to returning funds from an audit or program review.)

If exceptional circumstances require that you return Pell or Campus-Based funds by check you must –

1. use a separate check for each award year; and
2. note the school's D-U-N-S number and the appropriate Program Award Number (Pell Grant Award Number) on the check.

The G5 lockbox address for Pell and Campus-Based funds is:

U.S. Department of Education
P.O. Box 979053
St. Louis, Missouri 63197-9000

If exceptional circumstances require that you return Direct Loan funds by check, you must –

1. use a separate check for each award year;
2. note the school's D-U-N-S number, Direct Loan school code, and award year on each check; and
3. provide the information included on the **Direct Loans Return of Cash** (found on the next page) with each check.

The address for returning Direct Loan funds by check is:

U.S. Department of Education
Attention Refunds of Cash
P.O. Box 9001
Niagra Falls, New York 14302



Direct Loan Refunds of Cash

1. Enter the required information. Failure to provide the required information may prevent your check (or checks) from being processed correctly.

School Name: _____ Direct Loan (G/E) Code: _____
Name/Title: _____ Telephone #: _____
E-mail Address: _____ Servicer (if applicable): _____
Check Date: _____ Check #: _____ Amount: _____

2. Check (✓) the award year for which you are returning Direct Loan Refunds of Cash. If you are returning funds for more than one award year, you must enclose a separate form and a separate check for each award year.

2009/2010	_____
2008/2009	_____
2007/2008	_____
2006/2007	_____
2005/2006	_____
2004/2005	_____
2003/2004	_____
2002/2003	_____

3. Sign and date the form.

Contact's Signature: _____ Date: _____

4. Mail this completed form and your Direct Loan Refunds of Cash check (or checks) to:

U.S. Department of Education
Attention: Refunds of Cash
P.O. Box 9001
Niagara Falls, NY 14302

Revised January 2009

Returning funds after 240 days

In all cases, a school will have to request permission to make a change to the FISAP after December 15 following the close of the award year.

If Pell Grant funds must be returned after 240 days, a school must:

- enter the student's revised Pell Grant award in COD;
- return the funds to the Department through G5, if applicable; and
- make the appropriate change to the FISAP.

Note that for Pell Grant funds from a prior award year, a school may not use the funds for an eligible student in the current year.

If FSEOG funds must be returned after 240 days, a school must:

- enter the student's revised FSEOG award both in the individual student's account and the school's FSEOG ledger;
- either return the funds to the Department through G5, OR carry them forward to the next award year; and
- make the appropriate change to the FISAP.

If Perkins Loan funds from a prior award year must be returned after 240 days, a school must:

- reimburse its Perkins Loan fund;
- report those funds as income in Part III, Section A of the FISAP; and
- reduce the student's Perkins Loan balance and make an accounting entry to tie that reduction to the journal entry for the aforementioned reimbursement of its Perkins Loan fund.

The school should not make any changes to the student's Perkins promissory note.

If a school cannot locate a student to whom it owes FWS funds the student has earned, the federal portion must be returned to the school's FWS account. If the student comes back or the school later locates the student, the school can recover the FWS funds as long as the account for that year is still open. If the account is closed, the school must pay the student (under the wage and hour laws) using its own funds.

Important

If you cannot use the electronic process preferred by the loan's servicer and must return the funds with a paper check, together with your check for the funds you are returning, you must include, **on school letterhead**, the following information:

1. The borrower's name,
2. The borrower's social security number,
3. The loan's unique CommonLine ID,
4. The type of loan (subsidized, unsubsidized, PLUS, etc.),
5. The period for which the loan was certified,
6. The scheduled & actual date of the disbursement,
7. The amount of the disbursement,
8. The amount being returned,
9. The reason the funds are being returned (cancellation, overpayment, withdrawal, or failed to begin class),
10. The school OPEID, and
11. The name and phone number of the school official returning the funds.

Important

This information is for school use only.

Returning funds on Direct Loans and FFEL loans purchased/serviced by the Department

The Department has implemented programs through which it purchases Federal Family Education Loan (FFEL) Program loans from FFEL loan holders. When these purchases occur, the Department becomes the owner and servicer of the loans. Both the prior FFEL loan holder and the Department correspond with an affected borrower upon purchase of a loan.

There are several avenues available to schools that need to return funds on loans that have been purchased by the Department. The first is through the lender that originated the student's loan. Many organizations offer a service to their schools where you can use their website to return the funds and then the originator/lender will forward the payments to the appropriate Department servicer. Explore this option first. A second method is to access NSLDS directly and determine which of several servicer managing FFEL loans purchased by and Direct Loans originated by the Department is servicing the loans for which you are returning funds. You can then forward the funds directly to the servicer yourself.

Once your in NSLDS, select "Aid," then identify the student and select "Loan History." Under Loan History, the current loan will be listed at the top. Use the field "Servicer" to identify the organization to which you will be returning funds.

Contact Information for Loan Servicers

Servicer Name:	SALLIE MAE
Servicer Code:	700578
GA Code:	578
Payment Address:	*Department of Education P.O. Box 740194 Atlanta, GA 30374-0194
Correspondence Address:	*Sallie Mae PO Box 59008 Panama City, FL 32412-9008
Website:	www.SallieMae.com
Phone Number:	888-272-4665
Email:	collegeserv@salliemae.com

*If a school prefers to utilize ACH or Auto-debit for a return funding method and/or an electronic data transmission (e.g., web/CTSF), please contact the phone number or email address provided for details.

Servicer Name: ACS
Servicer Code: 700577
GA Code: 577
Address for Payments and Correspondence:
 U.S. Department of Education
 P.O. Box 7063
 Utica, NY 13504-7063
Phone: 866-938-4750
email: emailsupport@ed-servicing.com
website: www.ed-servicing.com

Servicer Name: PHEAA
Servicer Code: 700579
GA Code: 579
Payment Address: School Payments, Department of ED
 Federal Loan Servicing
 P.O. Box 530264
 Atlanta, GA 30353-0210
Correspondence Address: Federal Loan Servicing
 Attn: Education Services Group
 1200 North 7th Street
 Harrisburg, PA 17102
Phone: 800.655.3813
email: schoolsupport@myfedloan.org
website: www.myfedloan.org

Servicer Name: Great Lakes Educational Loan Services
Servicer Code: 700581
GA Code: 581
Address for Correspondence: 115 1st Avenue SW
 Aberdeen, SD 57401
Address for Payments: Department of Education
 P.O. Box 740199
 Atlanta, GA 30374-0199
email: FSALoanServicing@glhec.org
Phone Number: 888-536-0384

Servicer: NELNET
Servicer Code: 700580
GA Code: 580
Address for Payments and Correspondence:
 Nelnet School Service Center
 PO Box 82596
 Lincoln, NE 68501-2596
Website: www.nelnet.com
email: ssc@nelnet.net
Phone Number: 866-463-5638

Important
This information is for school use only.

Address for NELNET Overnight Delivery:
 Nelnet School Service Center
 121 South 13th Street, Suite 201
 Lincoln, NE 68508