Cash Management Issues for Direct Loan Schools

Chapter 10

Introduction

Cash management requirements in the Title IV General Provisions regulations, govern a school's management of most Title IV student financial aid program funds. These requirements establish rules and procedures that a school must follow in requesting, maintaining, disbursing, and otherwise managing Title IV federal student aid funds under the Pell Grant, FSEOG, Perkins Loan, FWS, Direct Loan, and FFEL Programs. ED publishes *The Blue Book*, which provides extensive guidance to schools about Title IV program cash management. This chapter focuses on maintaining and managing cash in the Direct Loan Program. Chapter 7 discusses in detail the cash management requirements related to disbursing Direct Loan funds.

Laws & Regulations

- 34 CFR 668, Subpart K

Reference

- *The Blue Book*

Take a Look

See Chapter 7 for more information about disbursements.

Purpose of Cash Management Requirements

Cash management requirements for Direct Loans are intended to:

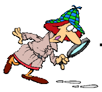
- promote sound cash management of Direct Loan funds by schools,
- minimize the government's cost of making Direct Loan funds available to students and schools, and
- minimize the costs that accrue to students who receive Direct Loans.

Laws & Regulations

- 34 CFR 668.161

Direct Loan funds received by a school are held in trust for ED for the intended student beneficiaries and ED.

- Program funds cannot be used as collateral or for any other purpose.
- These rules and procedures also apply to third-party servicers. For more information about third-party servicers, see the discussion in Chapter 4.

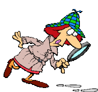


Take a Look

See Chapter 4 for more information about third-party servicers.

In addition to meeting other cash management requirements, a school must establish internal Direct Loan cash management standards and practices to ensure that:

- requests for federal funds take into account the school's available funds balance,
- the cash balance is no more than the minimum needed to cover immediate disbursements ("immediate need"),
- drawdowns and disbursements of funds are tracked, showing that for every drawdown there is an equal amount disbursed, and
- adequate controls are in place to ensure the school does not spend more funds than it has authority to spend.



Take a Look

See Chapter 7 for details about drawing down and disbursing Direct Loan funds.

Payment Methods

The U.S. Department of Education (ED) provides Title IV funds to a school using one of the following payment methods:

- advance,
- just-in-time,
- reimbursement, or
- cash monitoring.

ED determines the payment method each school uses.

Advance Payment Method

Under the advance payment method, a school submits a request for Direct Loan funds to ED before disbursing aid to eligible students and parents. If ED accepts a school's request for funds, it will make an electronic funds transfer of the amount requested to a bank account designated by the school. A school may not request more funds than it needs immediately to cover disbursements that it has made or will soon make to eligible students and parents. A school must disburse the funds within three business days of receiving them.

Laws & Regulations

- 34 CFR 668.162(b)

Just-in-Time Payment Method

A limited number of Direct Loan schools are participating in a pilot program under Access America for Students. These schools will be receiving Direct Loan funds by the just-in-time payment method. Under the just-in-time payment method pilot, a school submits a disbursement record no earlier than five days before the actual anticipated date of disbursement. For each request accepted by ED, the appropriate funds are deposited directly into the schools' bank account.

Schools participating in the pilot are exempt from certain regulatory requirements, including the "three-day use" rule required for the advance payment method and the excess cash rules.

Laws & Regulations

- 34 CFR 668.162(c)

For Your Information

ED, along with several other federal agencies, is developing and implementing Access America for Students. It provides electronic, Web-based access to government services and tests key concepts of the Modernization Blueprint (formerly Project EASI).

Reimbursement Payment Method

Under the reimbursement method, a school must disburse Direct Loan Program funds to eligible students and parents before requesting funds from ED.

- Generally, ED places a school on the reimbursement payment method if it determines that there is a need to strictly monitor the school's participation in the Title IV programs.

A school cannot request more cash than the amount that it has actually disbursed to these eligible students and parents. As part of the school's request, the school must identify the students and parents for whom it is seeking reimbursement and submit documentation demonstrating that each student and parent included in the request was eligible to receive and has received the Direct Loan funds for which reimbursement is requested.

Laws & Regulations

- 34 CFR 668.162(d)

Cash Monitoring Payment Method

Laws & Regulations

- 34 CFR 668.162(e)

Like the reimbursement method, under the cash monitoring payment method, a school must first make disbursements to eligible students and parents before it requests or receives funds from ED. Under this method, ED may provide funds to a school without the school providing specific documentation of each student to whom the school has made a disbursement. ED may tailor the documentation requirements on a case-by-case basis.

Maintaining and Accounting for Funds

Laws & Regulations

- 34 CFR 668.163(a)(1)

All Direct Loan schools must maintain a bank account into which ED transfers or the school deposits Direct Loan funds. The account must be federally insured or secured by collateral of value reasonably equivalent to the amount of Direct Loan funds in the account.

- A school is not required to maintain a separate account for Direct Loan funds unless ED specifies otherwise.
- Although Direct Loan funds may be kept in the same account with other Title IV funds, ED recommends that a separate account be established for Direct Loan funds. This separation of funds will help the school's cash management of Direct Loans.

Bank Account Notification Requirements

Laws & Regulations

- 34 CFR 668.163(a)(2)

For Your Information

The requirement that schools file a UCC-1 statement when the name of their bank account does not include the words "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.

A school receiving Direct Loan funds must notify its bank that the account contains federal funds and keep a record of this notice in the school's record-keeping system, or the school must ensure that the account's name includes the phrase "Federal Funds."

- Except for public institutions, schools must file a UCC-1 statement with their state or municipal governments disclosing that the account contains federal funds. Schools must keep a copy of the UCC-1.
  - Because public institutions generally do not seek to obtain credit in the same manner as private institutions, they are exempt from this requirement.

However, ED may require that Direct Loan funds be maintained in a separate account. Such a requirement may be imposed if ED determines that:

- Direct Loan cash balances are not readily identifiable,
- interest or investment income earned from Direct Loan funds is not identified,
- financial records are not maintained on a current basis,
- Direct Loan transactions are not accurately reflected and reconciled at least monthly, or
- the school fails to comply with federal record-keeping and reporting requirements.

Laws & Regulations

- 34 CFR 668.163(b)

Interest-Bearing or Investment Account

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

Any interest earned on Direct Loan program funds maintained in an interest-bearing account or an investment account that exceeds $250 a year must be remitted to ED at least once a year. A school may keep up to $250 a year of the interest or investment revenue earned to pay for the administrative expense of maintaining an interest-bearing account.

A school is not required to maintain Direct Loan Program funds in an interest-bearing account if one of the following situations applies:

- In the prior award year, the school received less than $3 million in Title IV funds and anticipates that it will not receive more than that amount in the current award year.
- The school demonstrates by its cash management practices that it will not earn over $250 in interest by maintaining the total amount of Title IV funds received during the award year in an interest-bearing account.

Laws & Regulations

- 34 CFR 668.163(c)

- The school requests these funds under the just-in-time payment method.
  - Schools that request funds under the just-in-time payment method are exempt because this method ensures the expeditious accounting and disbursement of program funds. Therefore, little or no interest is earned on funds provided to the school.

If a school is not required and does not choose to maintain a separate account for Direct Loan funds, it must maintain accounting and internal control systems that:

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

Laws & Regulations

- 34 CFR 668.24

A school must maintain its financial records in accordance with the record-keeping requirements in the Title IV General Provision regulations.

Any differences among these records should be resolved.

Excess Cash

Laws & Regulations

- 34 CFR 668.166

Excess cash is any amount of Direct Loan funds that a school does not disburse to students or parents by the end of the third business day after the school received the funds from ED. Except as described in the next section on tolerances, a school must promptly return to ED any amount of excess cash in its bank account.

Tolerances

Laws & Regulations

- 34 CFR 668.166(b)

If a school draws down Direct Loan funds in excess of its immediate cash needs, the school may maintain the excess cash balance in its bank account only under the following situations:

- During peak enrollment periods, a school may maintain excess cash in amounts of less than 3 percent of the school's total prior-year drawdowns.

- For periods other than peak enrollment, a school may maintain excess cash in amounts of less than 1 percent of the school's total prior-year drawdowns.

For both these tolerances, a school must the eliminate excess cash balance by disbursing funds to students or parents within seven calendar days.

- This means the school has a minimum of 10 calendar days to eliminate excess cash that qualifies under tolerance rules—the three business days plus the seven calendar days.

Note: Standard Origination schools and Origination Option 1 schools receive funds that are borrower specific. These schools cannot disburse funds to any borrower other than the borrower for whom the funds were intended.

A period of peak enrollment occurs when at least 25 percent of a school's students start classes during a given 30-day period. Schools use the following steps to calculate the percentage of students who start classes within such a 30-day period:

Laws & Regulations

- 34 CFR 668.166(b)(2) & (3)

Step 1. Determine the number of students who started classes during the 30-day period in the prior award year.

Step 2. Determine the total number of students who started classes during the entire prior award year.

Step 3. Divide the number in Step 1 by the number in Step 2.

Step 4. Multiply the result in Step 3 by 100.

To determine total prior-year drawdowns, a school considers all Title IV funds, including Direct Loans. Direct Loan schools may also include prior year FFEL Program loans in their calculations.

Liabilities

ED uses two types of sanctions against a school that maintains excess cash in its account.

Laws & Regulations

- 34 CFR 668.166(c)

- ED may require the school to reimburse the government for costs incurred by having excess funds held by the school.

- ED may take action to fine, limit, suspend, or terminate the school's participation in one or more Title IV programs.

If there is a finding that a school has maintained excess cash, ED examines a school's disbursement practices. ED considers a school to have issued a check on the date it cleared the bank, unless the school demonstrates that it issued the check shortly after it wrote the check.

ED has established procedures for calculating institutional liability in excess cash situations. Under these procedures, institutional liability is equal to the difference between the earnings any excess cash would have generated if invested under the applicable current value of funds rate and the actual interest earned on those funds. The current value of funds rate is an annual percentage rate, published in a Treasury Financial Manual (TFM) bulletin that reflects the current value of funds to the U.S. Department of Treasury.

Reference

- Treasury Financial Manual (TFM) bulletin

Idle Cash

Cash that has been disbursed becomes idle cash if and when it is returned to the school's Title IV account(s). This return may be due to a refund or other circumstances. For example, a student might receive a disbursement but later decide to return all or a portion of the loan and return the funds to the school.

A school may maintain idle cash in its federal bank account for up to seven calendar days to disburse it to, or on behalf of, the student. An Origination Option 2 school also may disburse idle cash to other borrowers. Provisions concerning excess cash in 34 CFR 668.166(b) do not apply to idle cash.

Laws & Regulations

- 34 CFR 668.166(b)

Returning Direct Loan Funds

The procedures that a Direct Loan school uses to return funds depend on whether the funds are returned by the school:

- to comply with the HEA or applicable regulations (for example, dealing with excess cash or a refund) or
- as a payment on the borrower's account for any other reason (for example, they are being returned by the school at the request of a borrower).

In general, when loan funds are returned by a school to comply with the HEA or applicable regulations, the loan fee and any interest that has accrued on all or the appropriate portion of the funds is returned. When funds are returned as a payment by a school, and it is more than 120 days after they were disbursed, the borrower still must pay the loan fee and interest on the amount.

Take a Look

See page 10-11 for timelines for cash returns to the Direct Loan Program.

Returning Funds to Comply with Regulations

A school returning funds to comply with Title IV regulations may return the funds by ACH or FEDWIRE or by check.

- If the funds are returned by ACH or FEDWIRE, the beneficiary section of the wire includes the school's Direct Loan school code, the program year, and the words "Excess Cash" (for example, "G00000 Year 4 Excess Cash"). Funds are sent electronically to Compass Bank in Birmingham, Alabama, at:

  ABA Number: 062001186
  Account Number: 70726726

- If the funds are returned by check, the check should be made payable to the U.S. Department of Education. It should be accompanied by a completed "Excess Cash/Borrower Payment Transmittal" (or comparable information) and sent to:

  Loan Origination Center
  Attn: Excess Cash
  P.O. Box 2011
  Montgomery, AL 36102-2011

When idle cash is returned to comply with the HEA or applicable regulations (or because a borrower is returning loan money 120 days or less after the disbursement date), the school also makes an electronic adjustment to the borrower's disbursement records.

Returning Funds as a Payment

When a school returns funds as a payment for a borrower 120 days or less after the disbursement date, it follows the same procedure used to return funds to comply with regulations, which is described in the previous section. In all other cases, when sending payments to borrowers' accounts, schools should mail checks to:

Direct Loan Servicing Center
ATTN: Payment Center
P.O. Box 746000
Atlanta, GA 30374-6000

It's important that schools write borrowers' loan ID numbers on checks and include the "Excess Cash/Regular Payment Transmittal" (or comparable information).

Reference

- Direct Loan Bulletins 97-33 and 98-01

See Direct Loan Bulletins 97-33 and 98-01 for additional guidance on returning funds to ED.

Cash Return Timelines

(The guidance below generally applies to Direct Loan, Pell, FSEOG, Perkins, and FWS funds. FFEL timelines for disbursing funds are slightly different; they are described at 34 CFR 668.167.)

The cash must be returned...

Promptly* | **In 7 days** | **In 30 days**

EXCESS CASH. Excess cash is "any amount of Title IV, HEA program funds that an institution does not disburse to students or parents ***by the end of the third business day*** following the date the institution received those funds from the Secretary." [34 CFR 668.166(a)(1)]

Excess cash must be returned "promptly" unless excess cash tolerance applies.

If a school qualifies for an excess cash tolerance under 34 CFR 668.166(b), it may maintain the excess cash in its federal bank account for up to seven calendar days to disburse it to, or on behalf of, the student or other students.

A REFUND. A refund occurs when a school "makes a refund of unearned tuition, fees, room and board, and other charges to a student who received Title IV, HEA program assistance, or whose parent received a Federal PLUS Loan or Federal Direct PLUS Loan on behalf of the student if the student—(i) Does not register for the period of enrollment for which the student was charged; or (ii) Withdraws, drops out, is expelled from the institution, or otherwise fails to complete the program on or after his or her first day of class of the period of enrollment for which he or she was charged." [See 34 CFR 668.22(a)(1)].

Money must be returned to the appropriate program account(s), under regulations at 34 CFR 668.22(b)(2), within 30 days after the date that the institution determines the refund situation occurred. The return may be made to ED or to the school's Title IV account or accounts.

IF RETURNED TO A SCHOOL'S TITLE IV ACCOUNT(S), the return must be reflected in the school's general or subsidiary ledger. The funds are then considered "idle cash" and subject to that timeline.

IF RETURNED TO ED, the school's responsibilities have been met.

IDLE CASH. Cash that has been disbursed becomes idle cash if and when it is returned to the school's Title IV account(s). This return may be due to a refund or may be due to other circumstances. For example, a student might receive a disbursement but later decide to return all or a portion of the loan and return the funds to the school.

A school may maintain idle cash in its federal bank account for up to seven calendar days to disburse to, or on behalf of, the student or other students. Note that provisions concerning the amount of an excess cash balance, at 34 CFR 668.166(b), do not apply to idle cash.

*A "prompt" return of excess cash is one that is made in a timely manner. The timetable for returning cash "promptly" may vary slightly from school to school, but a school is generally expected to return the excess cash within two or three days.